



Budget 2012

50p top tax rate to be cut to 45p from April 2013

HM Revenue and Customs found the direct cost difference between a 45p and 50p rate was "only £100m" a year – and might have raised nothing after adjusting for the loss of other tax receipts.

Mr Osborne told MPs that he made the decision to cut the top rate from April 2013 in order to encourage wealth creators to return to Britain. 'The 50p tax rate has caused massive distortions,' he said. 'Self-assessment receipts this year are below forecast by some £3.6billion.'

The Treasury said cutting the top rate all the way back down to 40p again would have cost another £600 million.

The Chancellor George Osborne confirmed during his Budget 2012 speech that the 50p top tax rate would be cut to 45p from April 2013. Those earning £150,000 or more have been subject to the 50% rate since April 2010, when it was brought in by the Labour government.

Massive distortions

Mr Osborne said that the 50p tax rate would only be justified if it raised a significant amount of money but evidence from the HM Revenue and Customs (HMRC) showed that the rate caused 'massive distortions.'

He said: 'HMRC find that an astonishing £16 billion of income was deliberately shifted into the previous tax year – at a cost to the taxpayer of £1 billion, something that the previous government's figures made no allowance for.'

Mr Osborne also argued that the increase to 50p in 2010 raised about a third of the £3 billion the government hoped it would raise, and cutting it to 45p would only cost the government £100 million.

Scrapped altogether

There are currently around 300,000 people in the UK who earn £150,000 or more; of those 14,000 earn over £1 million a year.

It was widely predicted the tax would be reduced from 50p to 45p rather than being scrapped altogether but senior officials refused to say if the 45p band for those earning over £150,000 will be merely 'temporary.'

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