

Don't Fall Into the Trap!

A little known aspect of the current income tax system is that, in certain cases, your income could be taxed at a rate equivalent to 30%, even if your taxable income remains within the 20% band.

Everyone is entitled to a certain level of income before they pay income tax. Under age 65, the current limit is £6,475. Over 65 the limit rises to £9,490 and after 75 it rises again to £9,640. (2009/2010 tax year.)

There is a sting in the tail, however. If your income is over £22,900, your age-related allowance is reduced by £1 for every £2 of income above this figure. At £28,930, the age-related allowance is reduced to nil and only the basic personal allowance of £6,475 remains as an entitlement.

If you are over 75, the Age Allowance is reduced to nil at £29,230.

This means that anyone over 65 whose income is over £22,900, will find that some of their income above this amount is reduced at a rate equivalent to being taxed at 33%.

We frequently come across clients whose pensions are a little below the £22,900 threshold, but who have other income, such as building society interest, or share dividends, which then pushes their income up to the level that sees them fall into this Age Allowance Trap. We are able to suggest ways to reduce their *taxable* income, but increase their tax-free income, to avoid the Age Allowance Trap but maintain their spending power.

If you think you may be in danger of falling into the Age Allowance Trap, give your RT adviser a call.

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