

Budget 2021 income tax thresholds frozen.

The Chancellor committed to the triple lock manifesto promises but froze income tax thresholds in the Budget for five years.

The income tax personal allowance and higher rate threshold will be uprated in line with CPI as planned in April 2021, then maintained at that level until April 2026. This decision will not reduce take-home pay and the highest income households will continue to contribute more. This will take effect in April 2022.

This will see the basic rate personal allowance rise as planned to £12,570 from the new tax year in April 2021 and will remain at this level until April 2026. The income tax higher rate threshold will rise to £50,270 from April 2021 and again this will be frozen until April 2026.

In 2021-22 NICs thresholds will rise with CPI, bringing the NICs primary threshold/lower profits limit to £9,568 and the upper earnings limit (UEL)/upper profits limit (UPL) to £50,270, in line with the income tax higher rate threshold. The UEL/UPL will then remain aligned with the higher rate threshold at £50,270 until April 2026.

Robert Pullen, partner at Blick Rothenberg said: 'With the confirmation that the personal allowance and higher rate threshold will be frozen until April 2026, the point at which someone pays 40% income tax will have only increased by £6,395 in 15 years (or just over £400 per year). With the effect of wage inflation, more people and families than ever will be dragged into 40% taxation.

'The Chancellor deciding to freeze the personal allowance and basic rate band for the next five years will incur a charge of £8,180m per year by 2025-26. Whilst this will mean an individual's net pay remains unaffected by tax, the corroding effect of inflation over the next five years will be left to run rampant.

'More individuals than ever before will find themselves paying tax or suffering higher rates of tax.

'This also ignores the effect that keeping the child benefit clawback threshold (at £50,000) and the personal allowance restriction (at £100,000) fixed will have on this impacted. This is a tax increase by another name and when compounded over five years, will be a very costly one for the average taxpayer.'