

## Extension Activity

1. What would the allowance be for the person in the payslip?
2. Work out the income tax contribution for the month (in 2007-2008) using the following information.

(from <http://www.hmrc.gov.uk/rates/it.htm>)

### Income Tax Allowances

The Chancellor announces the rates of allowances at the Pre-Budget Report which precedes the start of the tax year to which they relate. Generally speaking, Pre-Budget Report takes place in November or December.

#### Income Tax Allowances table

Income tax allowances	2007-08 (£)	2008-09 (£)
Personal allowance	5,225	5,435
Personal allowance for people aged 65-74 (1)	7,550	9,030
Personal allowance for people aged 75 and over (1)	7,690	9,180
Married couple's allowance (born before 6th April 1935 but aged under 75) (1) (2)	6,285	6,535
Married couple's allowance - aged 75 and over (1) (2)	6,365	6,625
Income limit for age-related allowances	20,900	21,800
Minimum amount of married couple's allowance	2,440	2,540
Blind person's allowance	1,730	1,800

(1) - These allowances reduce where the income is above the income limit by £1 for every £2 of income above the limit. They will never be less than the basic Personal allowance or minimum amount of Married Couple's allowance.

(2) - Tax relief for the Married Couple's allowance is given at the rate of 10 per cent.

### Taxable Bands

The Chancellor announces the taxable bands and the rates of tax at the Budget Report which precedes the start of the tax year to which they relate. Generally speaking, Budget takes place in March.

#### Income Tax: taxable bands

2007-08	£ per year	2008-09	£ per year
Starting rate: 10%	£0-£2,230		
Basic rate: 22%	£2,231-£34,600	Basic rate: 20%*	£0-£36,000
Higher rate: 40%	Over £34,600	Higher rate: 40%*	Over £36,000

\* There will be a new 10% starting rate for savings income only, with a limit of £2320. If an individual's taxable non-savings income is above this limit then the 10% savings rate will not be applicable. There are no changes to the 10% dividend ordinary rate or the 32.5% dividend upper rate.