

Personal tax allowance: What is the personal tax allowance 2020?

THE END of the tax year is a couple of months away and is always a good time to get your finances in order. What is the personal tax allowance?

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What is the personal tax allowance?

The personal allowance is the amount of income you do not have to pay tax on.

That amount for the 2019/20 tax year is £12,500 and it's not expected to change for the 2020/21 tax year.

The basic rate of income tax is 20 percent for those earning between £12,501 to £50,000.

That percentage increases to 40 percent for people making £50,001 to £150,000 year.

People in the additional tax rate pay 45 percent tax on their earnings over £150,000.

Your personal allowance decreases by £1 for every £2 that your adjusted net income is above £100,000.

That means there is no personal allowance on taxable income over £125,000.

The standard personal allowance from April 6, 2018 to April 5, 2019 was £11,850.

Those rates are different in Scotland where income tax is paid to the Scottish Government.

The £12,500 personal allowance is the same in Scotland but there are five tax rates instead of three.

The starter rate sees Scots pay 19 percent tax on earnings between £12,501 and £14,549. Scots pay 20 percent tax on incomes from £14,550 to £24,944, 21 percent on £24,945 to £43,430 earnings, 41 percent if they make £43,431 to £150,000 and those earning over £150,00 the rate is 46 percent.

Most people pay income tax through PAYE, which appears on payslips.

It is the system your employer or pension provider uses to take income tax and National Insurance contributions before they pay your wages or pension.

Your tax code tells your employer how much to deduct, and the code can take account of taxable state benefits, so if you owe tax on them – like the state pension – it's usually taken automatically from your other income.

If the state pension is your only income, HMRC will contact you if you owe income tax and you may need to fill in a Self Assessment tax return.

In 2018 the Government announced it was raising the personal allowance to £12,500 and the basic rate of tax would be calculated based on the Consumer Price Index.

Explaining the impact of the change, the HMRC website states: “In 2020 to 2021, this measure will benefit 30.7million individuals, of whom 26.1million will be basic rate taxpayers and 4.1million higher rate taxpayers.

“A basic rate taxpayer will have an average gain of £20.

“A higher rate taxpayer will have an average real gain of £228.

“An additional rate taxpayer will have an average real gain of £169.

“148,000 fewer individuals are expected to pay Income Tax, and 314,000 fewer are expected to pay higher rate income tax, in 2020 to 2021 compared to previously announced policy.”