TAXES

UK Income Tax Rates 2019-20: What You Need to Know

Andre Spiteri

April 23, 2020

Updated: April 2020

If you need the tax rates for next year, click the link to get the current **2020-21 UK income tax rates**.

Below is a look at the UK income tax rates for 2019-20. We'll also explain how they will affect your tax bill.

How are income tax rates changing in 2019-20?

The government announces changes to income tax in the **autumn budget**. The most significant changes announced in the latest one — the **Autumn Budget 2018** — were:

- A higher tax-free personal allowance threshold
- An increase to the 'higher rate' income tax threshold
- Changes to the National Insurance lower and higher earnings limits
- A temporary increase in the **Annual Investment Allowance** for the next two years

What are the UK income tax rates and brackets for 2019-20?

The **income tax rates and thresholds for 2019-20** are:

- 0% on your first £12,500

- 20% on earnings between £12,501 and £50,000

- 40% on earnings between £50,001 and £150,000

- 45% on anything over £150,000

This means that the minimum income you have to earn in a year to start paying tax in the UK will now be £12,500. Similarly, the basic tax rate of 20 percent, which currently applies if you earn up to £46,350 a year, has been extended.

The government planned to make these increases in 2020-21 but decided to put them in place a year earlier. Chancellor Philip Hammond **explained** that the decision was a result of "the improvements we have delivered in the public finances."

On the downside, the income tax thresholds will stay the same in 2020-21. The next revisions are planned for 2021-22 when the thresholds will increase in line with inflation.

The new rates apply only in England, Wales and Northern Ireland. Scotland sets its own income tax rates and thresholds. We'll deal with Scotland's income tax rates for 2019-20 in a minute. First, let's have a look at how your tax bill will change from 6 April 2019 if you live in another part of the UK.

What are the current income tax rates and thresholds?

The **current tax brackets** in England, Wales and Northern Ireland are:

- 0% on your first £11,850

- 20% on earnings between £11,851 and £46,350

- 40% on earnings between £46,351 and £150,000

- 45% on anything over £150,000

In comparison, when the new income tax rates kick in on 6 April 2019:

- You'll be getting an additional £650 a year, tax-free
- You'll pay the basic rate of tax, that is 20 percent, on an additional £3,000 a year
- If you're on a low income, you'll pay less tax
- If you're a higher earner, you'll also pay less tax

All in all, the government reckons **32 million people** will have a lower tax bill as a result of these changes. Pretty good right?Let's crunch some numbers so you can get a better idea.

How much tax will I pay in 2019-20? [Example 1]

Let's say you're a **sole trader**. Your total income after deducting allowable expenses is £20,000 a year.

Here's how much tax you'd pay under the current income tax rules and how much you'll pay in 2019-20.

Under the current thresholds:

- £11,850 is tax-free.
- This leaves you with a taxable income of £8,150, which falls within the basic rate threshold.
- So, your total tax liability would be 20 percent of £8,150, that is £1,630.

Under the income tax thresholds for 2019-20:

- £12,500 is tax-free.
- This means your taxable income would be £7,500.
- At the basic rate of 20 percent, your total tax liability would be £1,500.

This means you'll be getting an extra £130 a year in your pocket in 2019-20.

How much tax will I pay in 2019-20? [Example 2]

Now, let's say your income after **deducting allowable expenses** is £50,000. Under the current income tax rates:

- £11,850 is tax-free.
- This leaves you with a taxable income of £38,150, of which:
- £34,500 falls within the basic rate and is taxed at 20 percent.
- The remaining £3,650 falls within the higher rate and is taxed at 40 percent.
- So, your total tax liability would be (34500 x 20%) + (3650 x 40%), that is £8,360.

Under the income tax thresholds for 2019-20:

- £12,500 is tax free.
- This means your total taxable income is £37,500.
- Since the basic rate threshold has gone up, all of your taxable income falls within the basic rate of 20 percent.
- So, you'd pay 20 percent of £37,500 in tax, which amounts to £7,500.

That's £860 less than you'd pay this year.

Download MileIQ to start tracking your drives

Get started

What are the new income tax rates and brackets if I live in Scotland?

As we explained above, **Scotland's tax rates and thresholds** are slightly different to the rest of the UK. The rates for 2019-20 are:

- 0% on your first £12,500
- 19% on earnings between £12,501 and £14,549 (starter rate)
- 20% on earnings between £14,550 and £24,944 (basic rate)
- 21% on earnings between £24,945 and £43,430 (intermediate rate)
- 41% on earnings between £43,431 and £150,000 (higher rate)
- 46% on anything over £150,000 (top rate)

How have Scottish income tax rates changed from 2018-19?

The main changes to the Scottish income tax rates in 2019-20 are:

- As in the rest of the UK, the tax-free personal allowance has gone up to £12,500 — a £650 a year increase over the current personal allowance.
- The starter rate threshold has gone up **from £13,850 in 2018-19** to £14,549 in 2019-20.
- The basic rate threshold has also gone up, from £24,000 in 2018-19 to £24,944 in 2019-20.

How do the new Scottish income tax rates compare to the rates and brackets for the rest of the UK?

The main difference between Scotland's income tax rates and those in the rest of the UK is that Scotland has five tax bands to the rest of the UK's three.

The end result of this difference is that higher-income earners pay more tax in Scotland than they do in the rest of the UK.

By contrast, Scottish lower-income earners pay less tax.

How much tax does a low-income earner pay in Scotland? [Example]

In our first example above, an income of £20,000 a year in 2019-20 would result in a tax bill of £1,500 if you live in England, Wales or Northern Ireland. By contrast, under the Scottish tax system you'd pay tax as follows:

- £12,500 would be tax-free.
- Of the £7,500 of your taxable income:
- £2,049 would be taxed at the starter rate of 19 percent.
- £5,451 would be taxed at the basic rate of 20 percent.
- So, your total tax liability would be (2049 x 19%) + (5451 x 20%), that is £1479.51.

This is £20.49 a year less tax than you'd pay in England, Wales or Northern Ireland.

How much tax does a high-income earner pay in Scotland? [Example]

In our second example, an income of £50,000 a year would result in a tax liability of £7,500 in 2019-20.By contrast, in Scotland:

- £12,500 would be tax-free
- You'd have to pay tax on the remaining £37,500 as follows:
- 19 percent on £2,049
- 20 percent on £10,395
- 21 percent on £18,486
- 41 percent on £6,570
- This means your total tax bill would be £9,044.07

That's £1544.07 more than you'd pay in England, Wales or Northern Ireland.

What about National Insurance thresholds?

Like income tax rates, National Insurance thresholds are also changing as from 6 April 2019. And this will affect the way you **calculate your tax return**.Here's a look at the **new National Insurance thresholds and rates** for employees and the self-employed and how they compare with 2018-19 rates.

How National Insurance will change for employees:

- 12% on income between £8,632 to £50,000 (in 2018-19 the threshold was £8,424 to £46,384)

- 2% on income over £50,000 (in 2018-19 you paid 2% on income over £46,384)

If you're a higher-income earner, the widening of the National Insurance threshold means you'll pay more NI in 2019-20. And this might eat up some of the savings you'll make on income tax.

Case in point, if you have a yearly salary of £50,000, you'll pay £4,964.16. This is a £336.64 increase over your 2018-19 tax bill.That said, seeing as you'll save £860 on income tax, you'll still be better off.

How National Insurance will change for the self-employed:

- Class 2 NI has gone up from £2.95 per week to £3 per week

- Class 4 NI has gone up as follows:

  - 9% on profits between £8,632 to £50,000 (in 2018-19 the threshold was £8,424 to £46,384)

  - 2% on profits over £50,000

The government recently announced it has decided to scrap plans to **abolish Class 2 National Insurance**.

Instead, 2019-20 will see it rise by 5p a week. The government has also adjusted the Class 4 National Insurance thresholds to bring them in line with the new income tax bands.

What about the increase in the annual investment allowance?

Revised income tax and National Insurance rates aside, the government has also increased the Annual Investment Allowance from £200,000 to £1 million.

The Annual Investment Allowance allows you to **deduct** the full value of **plant and machinery** you use in your business from your income. Which means you pay less tax.

The increase is temporary. It'll only last for two years, after which the Annual Investment Allowance will go back down to £200,000. So if you were thinking of making a big investment to help your business grow, now's the time to do it.

And there you have it. That's a rundown of the most important income tax changes you should know about as we approach the 2019-20 tax year.

Here's to a successful 2019. One in which you reach new heights and, hopefully, pay less tax.