

**Illustrative purposes only as the personal allowance is due to rise to £12,500, with the Higher Rate due to start at £50k by 2020**

Scenario 1		2016/17		2017/18		2018/19		2019/20		2020/21		If higher rate @ £50k			
Salary		40,000		40,000		40,000		40,000		40,000		40,000			
Interest		750		750		750		750		750		750			
Rental income		12,750		12,750		12,750		12,750		12,750		12,750			
Other costs		(2,500)		(2,500)		(2,500)		(2,500)		(2,500)		(2,500)			
Finance costs		100%	(8,000)	75%	(6,000)	50%	(4,000)	25%	(2,000)	0%	-	0%	-		
		2,250		4,250		6,250		8,250		10,250		10,250			
<b>Gross income</b>		<b>43,000</b>		<b>45,000</b>		<b>47,000</b>		<b>49,000</b>		<b>51,000</b>		<b>51,000</b>			
Personal allowance		(11,000)		(11,500)		(11,500)		(11,500)		(11,500)		(12,500)			
<b>Taxable income</b>		<b>32,000</b>		<b>33,500</b>		<b>35,500</b>		<b>37,500</b>		<b>39,500</b>		<b>38,500</b>			
Taxation															
Interest < £1,000	Basic rate	750	-	750	-	500	n/a	500	n/a	500	n/a	500	n/a		
Interest > £500	Higher rate	-	n/a	-	n/a	250	100	250	100	250	100	250	100		
Tax at 20%		31,250	6,250	32,750	6,550	33,250	6,650	33,250	6,650	33,250	6,650	33,250	6,650		
Tax at 40%		-	-	-	-	1,500	600	3,500	1,400	5,500	2,200	4,500	1,800		
Child benefit say 2 children = £1,800		-	-	-	-	-	-	-	-	10%	1,800	180	180		
Finance costs 20% tax reducer		0%	-	25%	(2,000)	(400)	50%	(4,000)	(800)	75%	(6,000)	(1,200)	100%	(8,000)	(1,600)
<b>Tax Liability</b>		<b>6,250</b>		<b>6,150</b>		<b>6,550</b>		<b>6,950</b>		<b>7,530</b>		<b>7,130</b>			

Scenario 2		2016/17		2017/18		2018/19		2019/20		2020/21		If higher rate @ £50k			
Salary		70,000		70,000		70,000		70,000		70,000		70,000			
Rental income		42,000		42,000		42,000		42,000		42,000		42,000			
Other costs		(10,000)		(10,000)		(10,000)		(10,000)		(10,000)		(10,000)			
Finance costs		100%	(20,000)	75%	(15,000)	50%	(10,000)	25%	(5,000)	0%	-	0%	-		
		12,000		17,000		22,000		27,000		32,000		32,000			
<b>Gross income</b>		<b>82,000</b>		<b>87,000</b>		<b>92,000</b>		<b>97,000</b>		<b>102,000</b>		<b>102,000</b>			
Personal allowance		(11,000)		(11,500)		(11,500)		(11,500)		restricted (10,500)		restricted (11,500)			
<b>Taxable income</b>		<b>71,000</b>		<b>75,500</b>		<b>80,500</b>		<b>85,500</b>		<b>91,500</b>		<b>90,500</b>			
Taxation															
Tax at 20%		32,000	6,400	33,500	6,700	33,500	6,700	33,500	6,700	33,500	6,700	37,500	7,500		
Tax at 40%		39,000	15,600	42,000	16,800	47,000	18,800	52,000	20,800	58,000	23,200	53,000	21,200		
Finance costs 20% tax reducer		0%	-	25%	(5,000)	(1,000)	50%	(10,000)	(2,000)	75%	(15,000)	(3,000)	100%	(20,000)	(4,000)
<b>Tax Liability</b>		<b>22,000</b>		<b>22,500</b>		<b>23,500</b>		<b>24,500</b>		<b>25,900</b>		<b>24,700</b>			

Bands based on 2017/18 with Personal Allowance £11,500, basic rate band £33,500

### Scenario 3

Adam decided as part of his pension planning he would invest in property. He has been running his own rental property business starting off with one property but over the last 13 years has slowly added to his portfolio. He took advantage of the increasing property valuations to borrow against them and now has 18 properties, which generate a net rental income (before finance costs) of £180,000. His annual finance costs amount to £135,000. He recently retired in 2016/17 and wants to know how the taxation changes will affect him.

The 2020/21 year tax bands have been assumed to be the same as those in 2016/17

	<u>2016/17</u>	<u>2020/21</u>
Pensions	11,000	11,000
Rental income after non financial costs	180,000	180,000
Finance costs	(135,000)	-
	<hr/> 45,000	<hr/> 180,000
<b>Gross income</b>	<b>56,000</b>	<b>191,000</b>
Personal allowance	(11,000)	Restricted -
	<hr/> 45,000	<hr/> 191,000
<b>Taxable income</b>	<b>45,000</b>	<b>191,000</b>
Tax	32,000 @ 20%    6,400	32,000 @ 20%    6,400
	13,000 @ 40%    5,200	118,000 @ 40%    47,200
		41,000 @ 45%    18,450
		Finance costs reducer @ 20%    (27,000)
	<hr/> 11,600	<hr/> 45,050
<b>Total tax liability</b>	<b>11,600</b>	<b>45,050</b>
<b>Net cash</b>	<b>44,400</b>	<b>10,950</b>

Having retired Adam used to have £44,400 to live off, but in 2020/21 his net cash is actually lower than his pension income.

However as the full effect of the restriction is being gradually introduced over 4 years, it gives Adam the opportunity to prepare for the increase in taxation either through tax planning or through selling properties to reduce the debt to income ratio.