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Policy paper

Income Tax factsheet

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- The government has announced that the planned 1ppt cut to the Basic Rate is to be brought forward by 12 months to next April.
- To allow people to keep more of their money, the Basic Rate of Income Tax will now be cut from 20% to 19% from April 2023, rather than from April 2024.
- To incentivise enterprise and hard-work and simplify the tax system, the government has also abolished the Additional Rate of Income Tax.
- From April 2023, there will be a single higher rate of Income Tax of 40 per cent, rather than an additional 45% on annual income above £150,000.

Why has the government done this?

- The government is committed to cutting the overall tax burden, making the UK more competitive as well as an attractive place to start, finance and grow a business.
- Cutting personal tax rewards enterprise and work, and helps attract the best and brightest to innovate in the UK.
- The government is also committed to simplifying the tax system which also makes UK more competitive. Moving to three rates (0%, 20% and 40%) will result in one of the simpler rate structures in the OECD. In 2021, 25 of 38 OECD countries had four or more central government personal Income Tax rates.
- High tax rates damage UK competitiveness. They reduce the incentive to work, invest, and start a business.

Basic rate cut by 1ppt from April 2023 – from 20p to 19p

- This is the first cut to the basic rate of Income Tax in 15 years (the last cut to the basic rate was in 2008- 09).
- 19% is the lowest the basic rate has ever been in the modern Income Tax system.
- This is a tax cut worth over £5 billion for workers, savers and pensioners.
- 31 million taxpayers will benefit from this policy in 2023-24, with an average gain of £170.
- There will be a four-year transition period for Gift Aid relief to maintain the Income Tax basic rate relief at 20% until April 2027. This will support almost 70,000 charities and is worth over £300m.
- On average, basic rate taxpayers will be £130 better off, and higher rate taxpayers will be £360 better off, in 2023-24 thanks to the cut to the basic rate.
- The cut will apply to the basic rate which applies to non-savings, non-dividend income for taxpayers in England, Wales and Northern Ireland; the savings basic rate which applies to savings income for taxpayers across the UK; and the

default basic rate which applies to non-savings and non-dividend income of any taxpayer that is not subject to either the main rates or the Scottish rates of Income Tax.

Additional Rate (45p) of Income Tax abolished

- The government is also removing the additional 45% rate of Income Tax on annual income above £150,000 from 6 April 2023.
- This means that all annual income above £50,270 will be taxed at 40%, the current higher rate of Income Tax.
- Currently the 45% rate is higher than the top national rate of Income Tax for G7 countries like the US and Italy. And it is higher than social democracies like Norway.
- The Additional rate was reduced in 2013 to 45%. Pre-April 2010, the top rate of Income Tax was 40%. Removing the Income Tax Additional rate will cut tax for around 660,000 individuals from April.
- This will apply to the main rates which apply to non-savings, non-dividend (NSND) income for taxpayers in England, Wales and Northern Ireland; the savings rates which apply to savings income for taxpayers across the UK; and the default additional rate which applies to non-savings and non-dividend income of any taxpayer that is not subject to either the main rates or the Scottish rates of Income Tax.
- The dividend additional rate will also be removed to align with the dividend upper rate, which is being reduced to 32.5% from 6 April 2023.
- Those who would have otherwise been additional rate taxpayers will from April 2023 benefit from a Personal Savings Allowance of £500, in line with higher rate taxpayers. This was not previously available to them.

Further background on Income Tax rates in the UK

- Despite the reduction in the additional rate from 50% to 45% in April 2013, the share of total Income Tax liabilities accounted for by the top 1% of taxpayers by income rose from 25.1% (£39bn of £157bn total) in 2012-13 to 28.3% (£71bn of £251bn total) in 2022-23.
- Additional Rate taxpayers will account for 36% of all Income Tax liabilities in 22-23 (£89.2bn of £251bn). This has increased from 23% (£34.5bn of £152bn) in 2010-11. As the threshold has been frozen, at least some of the increase will be due to more people being captured as Additional Rate taxpayers rather than all being additional revenue raised at the Additional Rate.
- The rates and bands for Scottish Income Taxpayers for NSND income are set by the Scottish Government (SG) (except for the PA). The Income Tax rate cuts announced today do not apply to Scottish taxpayers. Under the agreed Fiscal

Framework, the Scottish Government is expected to have more than £460 million of additional funding across the Spending Review 2021 period as a result of these rate cuts to allocate as it sees fit.

- Welsh rates of Income Tax for NSND income for Welsh taxpayers are set by the Welsh Government (on top of reduced UK rates). The Income Tax rate cuts announced therefore apply to Welsh taxpayers rather than providing additional funding for the Welsh Government.

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