



Personal Allowance: More cash, less tax

Each tax year, individuals are entitled to the UK personal allowance, which is an amount of income you can receive without paying Income Tax. The allowance is currently set at £12,570, and this has been frozen until 5 April 2031. Income over this is then generally taxed at the following rates:

- Income between £12,571 and £50,270 – 20% (10.75% for dividend income from 6 April 2026).
- Income between £50,271 to £125,140 – 40% (35.75% for dividend income from 6 April 2026).
- Income over £125,140 – 45% (39.35% for dividend income).

These bands can be extended for any gross pension contributions (excluding salary sacrifice) and charitable donations, under the gift aid scheme, made during the tax year.

In addition to the personal allowance, individuals are also entitled to the Personal Savings Allowance (PSA) and Dividend Allowance. For the PSA, the allowance is dependent on what tax bracket you fall into. For individuals who are basic rate, the allowance is £1,000, £500 for higher rate taxpayers and £Nil for additional rate taxpayers.

The Dividend Allowance is currently set at £500, and this is irrespective of what tax bracket you fall into.

As with the personal allowance, income covered by the above allowances are effectively tax-free.

For individual's whose income exceeds £100,000, the personal allowance is withdrawn by £1 for every £2 over the threshold. This means that individuals whose income is £125,140 or more, the personal allowance is completely withdrawn.

In addition, where a spouse's income is less than the personal allowance, it is possible to transfer up to 10% of their personal allowance, which can reduce the Income Tax exposure by up to £252 per year. However, in order to make this claim, you will need to be married or in a civil partnership and living together. The transferee must also not be a higher rate taxpayer.

If you are at all concerned about how this works in practice, do feel free to get in touch for a no obligation initial discussion. We are here to help.

Contact your team at **Galloways** today!

Just call us on 0800 012 9190 or [email us](#)