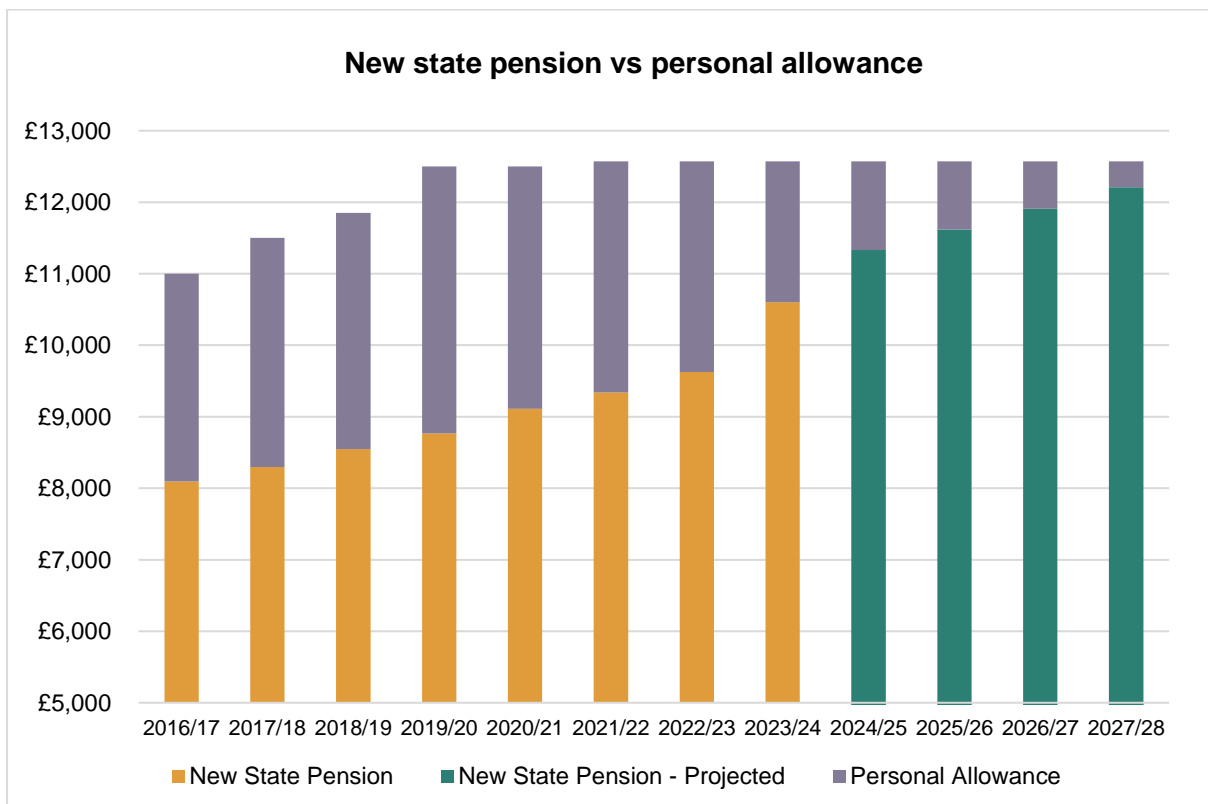## The frozen Personal Allowance

In the Autumn Statement 2022, the Chancellor announced the freezing of the Personal Allowance at £12,570 until 2027/28, which is a two-year extension to the freeze introduced in by the previous Chancellor, now Prime Minister, Rishi Sunak.

By doing this, more people will be pulled into the income tax system for the first time, or into higher tax bands (which will also be frozen) over the years, as wages increase under record inflationary pressures.

To demonstrate this, the chart below illustrates how the frozen Personal Allowance to 2027/28 may be overtaken by the Office for Budget Responsibility's (OBR) projections for the new state pension (green) in just a few years' time.



**New state pension vs personal allowance**

*Source: DWP, HMRC, OBR.*

As you can see from the above, the gap between the new state pension and the Personal Allowance was over £3,000 in 2019/20 but in 2027/28 it is projected to be just £350.

It is important to highlight that the above figures are based on OBR projections which might not prove to be accurate.  There will also be an election well before the end of 2027/28 and this could result in changes to UK income tax allowances.  It is also worth mentioning that the freeze could end up causing a potential headache for HMRC, because although the state pension is taxable, it is paid without the deduction of tax.

Despite the above, this analysis serves as a useful indicator that many people are moving towards paying more income tax and why income tax planning is more important than ever.

*If you would like to discuss your financial position in more detail, including income tax planning, please do get in touch by contacting the office on 0161 839 8229 or rob@mgp-financialplanning.com.*