

Income tax personal allowance for those born after 5 April 1948 and basic rate limit for 2013-14

Who is likely to be affected?

Income tax payers, employers and pension providers

General description of the measure

For 2013-14, legislation in Finance Bill 2013 will increase the personal allowance for those born after 5 April 1948 to £9,440 and reduce the basic rate limit to £32,010.

These amounts announced at Autumn Statement 2012 for the personal allowance and the basic rate limit for 2013-14 supersede the amounts of £9,205 and £32,245 respectively, announced at Budget 2012.

Policy objective

The additional increase to the basic personal allowance, which from 2013-14 will be available to those born after 5 April 1948, furthers the Government's stated objectives to make the tax system fairer; to support those on low and middle incomes; and to reward work by making the first £10,000 of income free from income tax.

Background to the measure

The Government's coalition agreement (*Coalition: our programme for government*) committed, "to announce in the first Budget a substantial increase in the personal allowance from April 2011", with, "a longer term policy objective of further increasing the personal allowance to £10,000, making further real terms steps each year towards this objective".

For 2011-12, the personal allowance was increased by £1,000 to £7,475. For 2012-13, the personal allowance was increased by £630 to £8,105. The cash increase of £1,335 to £9,440 in 2013-14, is the next step towards the Government's longer term commitment to increase the personal allowance to £10,000.

Up to 2012-13, an individual's personal allowance depends on their age. From 2013-14, income tax personal allowances will be available by reference to an individual's date of birth. The personal allowance of £9,440 will be available to people born after 5 April 1948. The higher personal allowance of £10,500 will be available to people born after 5 April 1938 but before 6 April 1948. The higher personal allowance of £10,660 will be available to people born before 6 April 1938.

For 2012-13, the basic rate limit was reduced by £630 to £34,370. As announced at Autumn Statement 2012, for 2013-14, the basic rate limit will be reduced by £2,360 to £32,010.

Detailed proposal

Operative date

The measure will take effect on and after 6 April 2013.

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (the basic rate, the higher rate and the additional rate). Section 1 of FA 2012 provides for income tax and sets the main rates for 2013-14.

Section 10 of the Income Tax Act 2007 (ITA 2007) provides that an individual's income is taxable at the basic rate of income tax up to a limit. Section 2 of FA 2012 sets the basic rate limit at £34,370 for 2012-13.

Section 35 of ITA 2007 provides an individual aged under 65 with a personal allowance and the amount of the allowance. Section 3 of FA 2012 sets the amount of the allowance for those aged under 65 at £8,105 for 2012-13.

Section 4, FA 2012 made changes to the main income tax personal allowances. From 2013-14, there are still three main personal allowances, but availability will be by reference to date of birth rather than age in the tax year. The higher allowances for those born before 6 April 1948 will not be increased, and in the long term they will be removed from the statute book when the personal allowance for those born after 5 April 1948 catches up.

Existing legislation within ITA 2007 requires the Government to increase personal allowances and rate limits (except the £150,000 higher rate limit and the £100,000 personal allowance income limit) by the annual percentage increase in the Retail Prices Index (RPI) for the year to September preceding the new tax year (indexation). The Government will make an Indexation Order to declare the indexed amounts for 2013-14 before the start of the tax year. The legislation to be introduced in Finance Bill 2013 will over-ride the amounts set in the Indexation Order for the personal allowance for those born after 5 April 1948, and the basic rate limit for tax year 2013-14.

Proposed revisions

Legislation will be introduced in Finance Bill 2013 to over-ride the amounts in the Indexation Order, to set the personal allowance for those born after 5 April 1948 at £9,440 and the basic rate limit at £32,010 for 2013-14.

Summary of impacts

Exchequer impact (£m)	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
	-	-1000	-1110	-1110	-660	-580
	These figures are set out in Table 2.1 of the Autumn Statement and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside the Autumn Statement.					
Economic impact	This measure will reduce income tax for low and middle income individuals, improving incentives to enter employment and increasing real household disposable incomes. This might feed through to higher consumption or savings in the household sector. Overall employment outcomes will also depend on other measures announced relating to personal tax and national insurance contributions as well as aggregate labour demand and the performance of the wider economy.					
Impact on individuals and households	The further increase in the personal allowance will take 245,000 income taxpayers out of income tax altogether. By April 2013, the cumulative effect of this Government's increases in the personal allowance will lift 2.2 million people under 65 out of the income tax system.					

	<p>In 2013-14, 24.4 million individuals will gain an average of £47 (in cash terms) in addition to that already announced, of which 20.4 million are basic rate taxpayers (average gain £47) and four million higher rate taxpayers (average gain £47).</p> <p>In 2013-14, 531,000 individuals lose an average of £47, all of which are higher or additional rate taxpayers. These are all people who do not benefit from the Personal Allowance as they are above the taper range at which it is withdrawn. All will have incomes in excess of £118,410.</p> <p>In cash terms, the personal allowance increases by £1,335 in 2013-14, relative to 2012-13 - this is the largest ever cash increase.</p> <p>The increase in personal allowance announced at Autumn Statement 2012 overrides the increase that was announced at Budget 2012 for 2013-14, so the total impact on individuals in 2013-14 will be the combined effect of the two increases. Impacts of the Budget 2012 change were published in the tax information impact note at Budget 2012, and can be viewed on the HM Revenue & Customs (HMRC) and HM Treasury websites.</p>
Equalities impacts	<p>HMRC only holds administrative data about individuals' age and gender. In 2013-14, females are projected to account for 43 per cent of all taxpayers and males 57 per cent.</p> <p>From this measure, 2013-14 estimated impacts are:</p> <ul style="list-style-type: none"> • 24.4 million individuals gain an average of £47, of which 13.7m (56 per cent) are male and 10.7m (44 per cent) are female. Average gains do not differ between males and females. 23.5m (96 per cent) were born after 5 April 1948 (£47 average gain) and 0.93m (4 per cent) were born before 5 April 1948 (£45 average gain). • 245,000 individuals taken out of tax altogether, of which 102,000 (42 per cent) are male and 143,000 (58 per cent) are female, and all of which were born after 5 April 1948.
Impact on business including civil society organisations	<p>Impacts on administrative and compliance cost for businesses, employers, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. Any changes to individuals' tax codes are a routine annual event for employers and pension providers. Non-routine changes are handled by HMRC.</p>
Operational impact (£m) (HMRC or other)	<p>The impact on HMRC will be negligible because changes to the amounts of personal allowances and rate limits are an annual requirement.</p>
Other impacts	<p><u>Small firms impact test:</u> This measure will have a minimal impact on small firms. To minimise the impact of the requirements on firms employing up to and including nine employees, there is a HMRC P11 calculator on the business link website.</p> <p>Other impacts have been considered and none have been identified.</p>

Monitoring and evaluation

A key aim of this measure is to boost the rewards of employment and HMRC and HM Treasury will seek to assess the cumulative labour market effects of personal allowance increases in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk).

1 Charge for 2013-14

Income tax is charged for the tax year 2013-14.

2 Basic rate limit for 2013-14

- (1) For the tax year 2013-14 the amount specified in section 10(5) of ITA 2007 (basic rate limit) is replaced with “£32,010”.
- (2) Accordingly section 21 of that Act (indexation of limits), so far as relating to the basic rate limit, does not apply for that tax year.

3 Personal allowance for 2013-14 for those born after 5 April 1948

- (1) For the tax year 2013-14 the amount specified in section 35(1) of ITA 2007 (personal allowance for those born after 5 April 1948) is replaced with “£9,440”.
- (2) Accordingly section 57 of that Act (indexation of allowances), so far as relating to the amount specified in section 35(1) of that Act, does not apply for that tax year.

EXPLANATORY NOTE

CHARGE FOR 2013-14

SUMMARY

1. This clause provides for income tax for the tax year 2013-14.

DETAILS OF THE CLAUSE

2. Section 1 provides for income tax for 2013-14.

BACKGROUND

3. Income tax is an annual tax. It is for Parliament to impose income tax for a tax year.
4. This clause imposes a charge to income tax for the tax year 2013-14. Section 1(2) Finance Act 2012 provides the main rates of income tax for 2013-14: the 20 per cent basic rate, the 40 per cent higher rate and the 45 per cent additional rate.
5. If you have any questions about this change, or comments on the legislation, please contact Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk) or Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

EXPLANATORY NOTE

BASIC RATE LIMIT FOR 2013-14

SUMMARY

1. This clause sets the amount of the basic rate limit for income tax at £32,010 for 2013-14.

DETAILS OF THE CLAUSE

2. Subsection (1) replaces the existing amount of the basic rate limit in section 10(5) of the Income Tax Act 2007 (£34,370) with £32,010 for 2013-14.
3. Subsection (2) disapplies the indexation provisions for the basic rate limit at section 21 Income Tax Act 2007 as far as it applies to section 10(5), for 2013-14.

BACKGROUND

4. An individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit.
5. The basic rate limit is subject to indexation (an annual increase based upon the percentage increase to the retail prices index). Parliament can over-ride the indexed amounts by a provision in the Finance Bill.
6. Autumn statement 2012 announced that the basic rate limit will be set at £32,010 for 2013-14. This supersedes the corresponding amount announced at Budget 2012.
7. The table below sets out the amount of the basic rate limit for 2012-13, the indexed amount for 2013-14, and the amount specified by this clause for 2013-14.

2012-13	2013-14 indexed	2013-14 by this clause
£34,370	£35,300	£32,010

8. The effect of this clause is to override the indexed amount for the basic rate limit. This clause is part of a package of measures, together with a further clause that sets the personal allowance for 2013-14 for those born after 5 April 1948 by an amount above indexation.
9. If you have any questions about this change, or comments on the legislation, please contact Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk) or Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

EXPLANATORY NOTE

**PERSONAL ALLOWANCE FOR 2013-14 FOR THOSE BORN AFTER
5 APRIL 1948**

SUMMARY

1. This clause sets the amount of the personal allowance for those born after 5 April 1948.

DETAILS OF THE CLAUSE

2. Subsection (1) sets the amount of the personal allowance for those born after 5 April 1948 in section 35(1) of the Income Tax Act 2007 (£8,105) with £9,440 for 2013-14.
3. Subsection (2) disapplies the indexation provisions for the personal allowance, at section 57 of the Income Tax Act 2007, for those born after 5 April 1948 for 2013-14.

BACKGROUND

4. An individual is entitled to a personal allowance for income tax. The amount depends upon the individual's date of birth and income from 2013-14.
5. Up to 2012-13, an individual's personal allowance depends on their age. Finance Act 2012 made changes to the main income tax personal allowances. From 2013-14, there are still three main personal allowances, but availability will be by reference to date of birth. Section 4, Finance Act 2012 substitutes 'born after 5 April 1948' for 'aged under 65' in section 35 with effect from tax year 2013-14.
6. Income tax personal allowances are subject to indexation (an annual increase based upon the percentage increase to the retail prices index). Parliament can over-ride the indexed amounts by a provision in the Finance Bill.
7. Autumn Statement 2012 announced that the basic personal allowance will be increased to £9,440 in 2013-14. This supersedes the corresponding amount announced at Budget 2012.
8. The table below sets out the amount of the personal allowance for those aged under 65 for 2012-13, the indexed amount for 2013-14 and the amount specified for this clause for 2013-14 for those born after 5 April 1948:

FINANCE BILL

2012-13	2013-14 indexed	2013-14 by this clause
£8,105	£8,325	£9,440

9. The effect of this clause is to override the indexed amount for the personal allowance for those born after 5 April 1948. This clause is part of a package of measures together, with a further clause that sets the basic rate limit in an amount below indexation.
10. If you have any questions about this change, or comments on the legislation, please contact Roopal Pujara on 020 7147 3138 (email: roopal.pujara@hmrc.gsi.gov.uk) or Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).