



Transferable tax allowances for married couples and civil partners

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

This measure will allow a spouse or civil partner who is not liable to income tax above the basic rate to transfer up to £1,050 of their personal allowance to their spouse/civil partner, provided that the recipient of the transfer is not liable to income tax above the basic rate.

Policy objective

This measure recognises marriage and civil partnerships in the income tax system. Taking the tax liabilities of a couple together, it can provide a financial benefit where one spouse or civil partner has an income less than their personal allowance.

Background to the measure

This measure was confirmed on 5 December 2013.

This Tax Information and Impact Note (TIIN) updates and replaces the TIIN published on 10 December 2013.

Detailed proposal

Operative date

This measure will have effect from the 2015-16 tax year.

HM Revenue & Customs (HMRC) is developing the process by which the married couple or civil partners will transfer their personal allowance. HMRC will ensure that the process is as straightforward as possible for customers. The lead option is that one party will apply on-line to transfer the allowance to their spouse or civil partner and HMRC will notify the recipient about the subsequent change to their tax code. HMRC recognises that some customers may need additional support to apply to transfer the allowance.

Current law

Sections 35, 36 and 37 of the Income Tax Act 2007 (ITA) provide a personal allowance for people according to their date of birth and their income. These personal allowances provide an amount of tax-free income for a tax year.

These allowances cannot be transferred to another individual.

Sections 45 and 46 ITA provide married couple's allowance to married couples or civil partnerships where one or both spouses or civil partners were born before 6 April 1935. The allowance is given effect as a reduction to an individual's income tax liability (for 2014-15, up to £816.50 and a minimum of £314). Sections 47 to 52 ITA provide for the transfer of married couple's allowance between spouses or civil partners including the transfer of unused relief.

Section 6 ITA provides the main rates of income tax (basic rate, higher rate and additional rate). Section 10 provides the basic rate limit. Section 13 ITA provides alternative rates of income tax for dividends otherwise taxable at the main rates. Dividends otherwise taxable at the basic rate of income tax are taxable at the dividend ordinary rate. Section 12 provides a starting rate for savings, which is an alternative rate of income tax available in limited circumstances.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to provide that from the 2015-16 tax year, a spouse or civil partner who is not liable to income tax because their income is below their personal allowance or who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will be able to elect to transfer £1,050 of their personal allowance to their spouse or civil partner. There will be a corresponding reduction to the transferring spouse's personal allowance.

A spouse or civil partner who is liable to income tax at the basic rate, dividend ordinary rate or the starting rate for savings will receive the transferred personal allowance. The transferred allowance will be given effect as a reduction to the recipient's income tax liability at the basic rate of tax.

From 2016-17 the transferable amount will be 10 per cent of the basic personal allowance.

Further provisions will account for changes to individuals' marital or civil partnership status such as divorce, dissolution and death.

Married couples or civil partnerships entitled to claim the married couple's allowance will not be entitled to make a transfer.

Summary of impacts

Exchequer impact (£m)		2014-15	2015-16	2016-17	2017-18	2018-19
	Transferable amount of £1,000	nil	-490	-590	-655	-780
	Increase in the transferable amount to £1,050	nil	-25	-30	-35	-40
	<p>These figures are set out in Table 2.2 of Budget 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2013.</p> <p>The Exchequer impact of the increase in the value of the allowance from £1,000 to £1,050 is set out in table 2.1 at Budget 2014.</p>					
Economic impact	This measure is expected to increase real household disposable incomes. This might feed through to higher consumption or savings in the household sector.					
Impact on individuals and households	4.2 million non-taxpayer/basic-rate taxpayer married couples stand to gain an average £197 between them; most non-taxpayers will be no worse off while the basic rate taxpayer will gain.					

	<p>Of the 4.2 million potential gaining couples, around 310,000 individuals may lose by an average of £104 in 2015-16, where their reduced allowance brings them into tax. However in these cases they will gain as a couple.</p> <p>Couples where both partners are basic-rate taxpayers will in almost all cases see no gain or loss.</p>																																							
Equalities impacts	<p>Couples will benefit as a unit, but the majority (84 per cent) of individual gainers will be male. This reflects earning patterns in the population more generally.</p> <p>35 per cent of couples who stand to gain will be above state pension age.</p> <p>No other equalities impacts are expected.</p> <p>HMRC recognises that some customers will need additional support to apply to transfer the allowance, and will ensure that processes are in place to ensure that everyone entitled to transfer the allowance can do so.</p>																																							
Impact on business including civil society organisations	<p>In line with the current Pay As You Earn (PAYE) process, where the transfer of allowances is given effect via individuals' PAYE tax codes, employers and pension providers will need to process and operate revised codes at the time of the initial claim or when circumstances change. Generally speaking, changes to individuals' tax codes are a routine annual event for employers and pension providers and ad hoc changes to tax codes occur regularly throughout the year.</p> <p>However, it is estimated that in 2015-16, the cost across 1.6 million employers and pension providers of processing PAYE tax codes to reflect transferred allowances may be up to £5.8 million. In subsequent years, the additional cost across employers and pension providers may be up to £0.8 million. There are also likely to be negligible one-off costs in 2015-16 due to employers and pension providers familiarising themselves with the change to the legislation.</p> <table border="1"> <thead> <tr> <th></th> <th>Cost</th> <th>Time period (years)</th> </tr> </thead> <tbody> <tr> <td colspan="3">Compliance Costs</td> </tr> <tr> <td>One-off Costs</td> <td>Negligible</td> <td>N/a</td> </tr> <tr> <td>Average annual costs</td> <td>£1.7m</td> <td>5</td> </tr> <tr> <td>Total Costs (PV)</td> <td>£8.7m</td> <td>N/a</td> </tr> <tr> <td colspan="3">Compliance Benefits</td> </tr> <tr> <td>One-off benefit</td> <td>N/a</td> <td>N/a</td> </tr> <tr> <td>Average Annual Benefit</td> <td>N/a</td> <td>N/a</td> </tr> <tr> <td>Total Benefit (PV)</td> <td>N/a</td> <td>N/a</td> </tr> <tr> <td>Total Benefit (NPV)</td> <td>-£8.7m</td> <td></td> </tr> <tr> <td colspan="3">Impact on Administrative Burden (included in Net Benefit)</td> </tr> <tr> <td>Increase</td> <td>Decrease</td> <td>Net Impact</td> </tr> <tr> <td>£5.8m</td> <td>£0</td> <td>£5.8m</td> </tr> </tbody> </table>		Cost	Time period (years)	Compliance Costs			One-off Costs	Negligible	N/a	Average annual costs	£1.7m	5	Total Costs (PV)	£8.7m	N/a	Compliance Benefits			One-off benefit	N/a	N/a	Average Annual Benefit	N/a	N/a	Total Benefit (PV)	N/a	N/a	Total Benefit (NPV)	-£8.7m		Impact on Administrative Burden (included in Net Benefit)			Increase	Decrease	Net Impact	£5.8m	£0	£5.8m
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	Note: The impact on administrative burden (included in net benefit) represents the expected cost for the first year. The £1.7 million included in compliance costs represents the average amount over five years.
Operational impact (£m) (HMRC or other)	HMRC will incur additional costs on the introduction and administration of the transferable allowance. The highest expenditure will be in 2015-16, when HMRC will introduce the application processes to enable everyone who is entitled to benefit from the transfer. During 2014-15, HMRC will refine its costs as part of its work on the new IT to provide on-line services for customers, other customer support and the new internal IT to link spouses and civil partners' income tax records.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC and HM Treasury will monitor take-up.

Further advice

If you have any questions about this change, please contact Paul Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).