



Income tax personal allowance for those born after 5 April 1948 and basic rate limit for 2015-16

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

For 2015-16, the personal allowance for those born after 5 April 1948 will be increased to £10,500, and the basic rate limit will be reduced to £31,785.

Policy objective

The increase to the personal allowance delivers the government's stated objective to support those on low and middle incomes and reward work.

The change to the basic rate limit for 2015-16 reflects the government's announcement at Autumn Statement 2012 that the 'higher rate threshold' for 2015-16 will be increased by 1 per cent.

Background to the measure

The government committed in the coalition agreement *Coalition: our programme for government*, "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".

Legislation will be introduced in Finance Bill 2014 to increase the personal allowance by £560 in 2014-15, meeting the Government's commitment to increase it to £10,000. Finance Bill 2014 will also introduce legislation to reduce the basic rate limit by £145 to £31,865 in 2014-15, to increase the personal allowance by a further £500 in 2015-16, and for a £80 reduction in the basic rate limit in 2015-16.

As announced at Autumn Statement 2012, for 2014-15 and 2015-16, 'the higher rate threshold', the level of income after which taxpayers begin to pay the 40 per cent higher rate of tax, will increase by 1 per cent to £41,865 and £42,285 respectively. The higher rate threshold is the sum of the personal allowance and the basic rate limit. The higher rate threshold of £41,865 for 2014-15 will be made up of a personal allowance of £10,000 and a basic rate limit of £31,865. For 2015-16, the higher rate threshold of £42,285 will be made up of a personal allowance of £10,500 and a basic rate limit of £31,785.

Taking into account the changes set out by this measure, the table below shows the changes to the personal allowance, basic rate limit and higher rate threshold over the lifetime of the Parliament.

£	2010-11	2011-12	2012-3	2013-4	2014-15	2015-16
Personal Allowance	6,475	7,475	8,105	9,440	10,000	10,500
Basic Rate Limit	37,400	35,000	34,370	32,010	31,865	31,785
Higher Rate Threshold	43,875	42,475	42,475	41,450	41,865	42,285

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2015.

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 2013 provides for income tax for 2013-14 and sets the main rates.

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 2013 sets the basic rate limit at £32,010 for 2013-14.

Section 4, FA 2012 made changes to the main income tax personal allowances, detailed in Sections 35, 36 and 37 of ITA (2007). From 2013-14, there are still three main personal allowances, but availability is 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, the £100,000 personal allowance income limit and since 2013-14 the personal allowances for people born before 6 April 1948) by the annual percentage increase in the Retail Prices Index (RPI) for the year to September preceding the new tax year (indexation). The government made the Order for 2014-15 on 5 December 2013. Legislation to be introduced in Finance Bill 2014 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 2014-15.

At Budget 2011, the government announced its intention to move the underlying indexation assumption for all direct taxes to the Consumer Prices Index (CPI). This transition began in April 2012. The CPI change for income tax allowances and limits will be made in Finance Bill 2014. The annual percentage increase that will provide the basis for indexation for 2015-16 will be published in late 2014.

Proposed revisions

Legislation will be introduced in Finance Bill 2014 to set for 2015-16, the personal allowance for those born after 5 April 1948 at £10,500, and the basic rate limit at £31,785.

Prospective amendments will also be made at Finance Bill 2014 to remove references to section 36 (the personal allowance for those born after 5 April 1938 and before 6 April 1948) with effect from 2015-16, as the two levels of the personal allowance will be the same.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19
	-	-1410	-1770	-1875	-1895
	These figures are set out in Table 2.1 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 the Budget.				
Economic impact	This measure will reduce income tax for 25.4 million income tax payers, including 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	<p>The increase in the personal allowance to £10,500 will take 288,000 individuals out of income tax altogether in 2015-16.</p> <p>In 2015-16, the increase will provide 25.4 million individuals with a real terms gain (over and above that from normal indexation) averaging £61. Of these, 20.9 million will be basic rate taxpayers and 4.45 million higher rate taxpayers (figures may not sum due to rounding).</p> <p>584,000 individuals will have an average loss of £62 in 2015-16. All of these have incomes above the breakeven level near £121,000 at which the personal allowance is tapered to zero and so no benefit is derived from the personal allowance increase.</p>				
Equalities impacts	<p>Income tax changes apply regardless of personal circumstances or protected characteristics such as gender, race or disability. Of the categories, HM Revenue & Customs (HMRC) only hold taxpayer data on age and gender.</p> <p>In 2015-16, females are projected to account for 42 per cent of all taxpayers and males 58 per cent.</p> <p>From this measure, 2015-16 estimated impacts are:</p> <ul style="list-style-type: none"> • 288,000 individuals taken out of tax altogether, of which 120,000 (42 per cent) are male and 168,000 (58 per cent) are female, and all of which are under 68 years old. • 25.4 million individuals gain an average of £61, of which 14.4 million (57 per cent) are male and 11.0 million (43 per cent) are female. 24.4 million (96 per cent) are under 68 years old and 0.95 million (4 per cent) are 68 years old or over. Average gains do not differ significantly by gender or between those under and over 68 year olds. • 584,000 individuals lose an average of £62, of which 0.48 million (83 per cent) are male and 0.10 million (17 per cent) are female. 0.54 million (93 per cent) are under 68 years old and 0.04 million (7 per cent) are 68 years old or over. Average losses do not differ significantly by gender or between those under and over 68 year olds. 				

Impact on business including civil society organisations	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.
Operational impact (£m) (HMRC or other)	The impact on HMRC will be negligible. Changes to the amounts of personal allowances and rate limits are an annual requirement.
Other impacts	<u>Small and micro business assessment</u> : this measure will have a minimal impact on small businesses. 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. Other impacts have been considered and none have been identified.

Monitoring and evaluation

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 Roopal Pujara on 03000 586462 (email: roopal.pujara@hmrc.gsi.gov.uk).