

1 Indexation of limits and allowances under ITA 2007

- (1) ITA 2007 is amended as follows.
- (2) In section 21 (indexation of the basic rate limit and starting rate limit for savings) –
 - (a) in each of subsections (1), (3) and (3A), for “retail prices index” substitute “consumer prices index”, and
 - (b) after subsection (5) insert –
 - “(6) In this section “consumer prices index” means the all items consumer prices index published by the Statistics Board.”
- (3) In section 57 (indexation of allowances) –
 - (a) in each of subsections (2), (3) and (4), for “retail prices index” substitute “consumer prices index”, and
 - (b) after subsection (6) insert –
 - “(7) In this section “consumer prices index” means the all items consumer prices index published by the Statistics Board.”
- (4) The amendments made by subsections (2) and (3) have effect for the tax year 2015-16 and subsequent tax years.

EXPLANATORY NOTE

INDEXATION FOR INCOME TAX ALLOWANCES AND LIMITS

SUMMARY

1. Clause [X] changes the basis of indexation for income tax allowances and limits from the retail prices index (RPI) to the consumer prices index (CPI).

DETAILS OF THE CLAUSE

2. Subsection (2) replaces ‘retail prices index’ with ‘consumer prices index’ in section 21(1), (3) and (3A), and inserts a definition for ‘consumer prices index’ after Section 21(5), as a new subsection (6).

3. Subsection (3) replaces ‘retail prices index’ with ‘consumer prices index’ in section 57(2), (3) and (4), and inserts a definition for ‘consumer prices index’ after Section 57(6), as a new subsection (7).

4. Subsection (4) sets out that the amendments made by subsections (2) and (3) have effect from 2015-16 and for subsequent tax years.

BACKGROUND NOTE

5. This change reflects the Government’s intention to move the underlying indexation assumption for direct taxes to the CPI.

6. Income tax personal allowances, the basic rate limit, the starting rate limit for savings and the adjusted net income limit are increased each year by the annual percentage increase in the RPI (“indexation”). This clause will change the basis of indexation from the RPI to the CPI.

7. Section 21 of the Income Tax Act 2007 (ITA) applies where the RPI for the September before the start of the tax year is higher than it was for the previous tax year. Where section 21 applies, the amount of the basic rate limit and the starting rate limit for savings are increased by the annual percentage increase in the RPI (subject to rounding).

8. Section 57 of ITA applies where the RPI for the September before the start of the tax year is higher than it was for the previous September. Where section 57 applies, the amount of the personal allowance for people born after 5 April 1948; the married couple’s allowance; the minimum amount of married couple’s allowance; the income limit that applies to the

higher personal allowances and the married couple's allowance; and the blind person's allowance are increased by the annual percentage increase in the RPI (subject to rounding).

9. Where sections 21 and 57 apply, the increased amounts must be set in a Treasury Order before the start of the tax year.

10. The changes made by this clause mean that, with effect from the tax year 2015-16, the calculations made under section 21 and 57 will be made by reference to the percentage increase in the CPI rather than the percentage increase in the RPI.

11. If you have any questions about this change, or comments on the legislation, please contact Roopal Pujara on 03000 586462 (email: roopal.pujara@hmrc.gsi.gov.uk).