

Explanatory Note

Clause 3: Personal Allowance and the National Minimum Wage

Clause 4: Personal Allowance and the National Minimum Wage: Chancellor's statement

Summary

1. Clause 3 is amended so that the income tax personal allowance is linked to an annual equivalent of an individual aged 21 working 30 hours per week at the national minimum wage (NMW) at either the hourly rate prescribed under section 3(2)(b) of the National Minimum Wage Act 1998, or the single hourly rate prescribed under section 1(3) of that Act for a person of that age.
2. Clause 4 is amended so that until the personal allowance reaches £12,500, before the Chancellor announces any proposal to increase the personal allowance he must consider the financial effect of the increase on an individual aged 21 working 30 hours per week at the hourly rate prescribed under section 3(2)(b) of the National Minimum Wage Act 1998, or the single hourly rate prescribed under section 1(3) of that Act for a person of that age.

Details of the amendments

Clause 3: Personal allowance and the national minimum wage

3. 'adult' is replaced by 'relevant' in relation to the hourly rate of national minimum wage.
4. Subsection (6), is amended to set out the relevant national minimum wage is the hourly rate as prescribed under section 3(2)(b) of the National Minimum Wage Act 1998 in relation to an individual aged 21, or the single hourly rate prescribed under section 1(3) of that Act for an individual aged 21.

Clause 4: Personal Allowance and the national minimum wage: Chancellor's statement

5. 'adult' is replaced by 'relevant' in relation to the hourly rate of national minimum wage.
6. Subsection (4) is amended to set out the relevant national minimum wage is the hourly rate as prescribed under section 3(2)(b) of the National Minimum Wage Act 1998 in relation to an individual aged 21, or the single hourly rate prescribed under section 1(3) of that Act for an individual aged 21.

Background note

7. The amendment to Clause 3 sets out that the relevant national minimum wage is the hourly rate as prescribed under section 3(2)(b) of the National Minimum Wage Act 1998 in relation to an individual aged 21, or the single hourly rate prescribed under section 1(3) of that Act for an individual aged 21. This will take place once the personal allowance has reached £12,500.
8. The amendment to Clause 4 sets out that, the relevant national minimum wage is the hourly rate as prescribed under section 3(2)(b) of the National Minimum Wage Act 1998 in relation to an individual aged 21, or the single hourly rate prescribed under section 1(3) of that Act for an individual aged 21.
9. Clause 4 sets out that before the start of each tax year where the personal allowance is less than £12,500, the Chancellor must consider the impact of the level of personal allowance on an individual working 30 hours per week on the national minimum wage in relation to an individual aged 21, or the single hourly rate prescribed under section 1(3) of that Act for an individual aged 21, and make a statement.
10. This change reflects the government's objective to support and rewards individuals in work. It also provides additional certainty about the level of personal allowances.
11. Finance Act 2014 changed the basis of indexation for income tax allowances and limits from the retail prices index (RPI) to the consumer prices index (CPI). Income tax personal allowances, the basic rate limit, the starting rate limit for savings and the adjusted net income limit are currently increased each year by the annual percentage increase in the CPI ("indexation").
12. The Summer Budget announced that the amount of the personal allowance will be set at £11,000 for the 2016-17 tax year and £11,200 for 2017-18.