



Income tax: personal allowance and basic rate limit for 2016-17 and 2017-18

Who is likely to be affected?

Income tax payers, employers and pension providers.

General description of the measure

The personal allowance will be increased to £10,800 for 2016-17 and £11,000 for 2017-18. The basic rate limit will be increased to £31,900 for 2016-17 and £32,300 for 2017-18. As a result, the higher rate threshold will be £42,700 in 2016-17 and £43,300 in 2017-18.

From 2016-17, there will be one income tax personal allowance regardless of an individual's date of birth.

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.

Background to the measure

This measure was announced at Budget 2015.

The coalition government objective of increasing the personal allowance to £10,000 was achieved one year ahead of schedule in 2014-15. Autumn Statement 2014 announced the personal allowance would be increased to £10,600 for 2015-16. Budget 2015 announced that the personal allowance will increase to £10,800 for 2016-17 and £11,000 2017-18.

The basic rate limit for 2016-17 will be increased to £31,900 for 2016-17 and £32,300 for 2017-18 providing the full gain of the increases to the personal allowance to typical higher rate taxpayers.

Taking into account the changes from this measure, the table below shows the changes to the personal allowance, basic rate limit and higher rate threshold since the start of this Parliament through to 2017-18.

£	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Personal Allowance	6,475	7,475	8,105	9,440	10,000	10,600	10,800	11,000
Basic Rate Limit	37,400	35,000	34,370	32,010	31,865	31,785	31,900	32,300
Higher Rate Threshold	43,875	42,475	42,475	41,450	41,865	42,385	42,700	43,300

Detailed proposal

Operative date

This measure will have effect on and after 6 April 2016.

Current law

Section 35 of the Income Tax Act 2007 (ITA) provides the income tax personal allowance for those born after 5 April 1948. Section 36 of ITA provides the income tax personal allowance for those born after 5 April 1938 but before 6 April 1948. Section 37 of ITA provides the income tax personal allowance for those born before 6 April 1938.

For 2015-16, section 2 of the Finance Act 2014 (FA 2014) sets the income tax personal allowance for those born after 5 April 1948 at £10,500. From 2015-16, the allowance for section 35 and section 36 of ITA are the same amount. So, section 2 of FA 2014 also prospectively amends section 35 of ITA so that the allowance is available to people born after 5 April 1938 and removes section 36 from 2015-16.

The amount of the allowance for those born before 6 April 1938 is £10,600 and is included in section 37 of ITA.

Finance Bill 2015 over-rides section 2 of FA 2014 to set the personal allowance for those born after 5 April 1938 to £10,600.

Section 10 of ITA provides the basic rate limit. For 2015-16, section 2 of FA 2014 sets the basic rate limit for 2015-16 at £31,785.

Sections 55A to 55E of ITA provides the transferable tax allowance for married couples and civil partners applicable from 2015-16. Section 55B provides the amount of the transferable allowance. Finance Bill 2015 sets the transferable amount at £1,060 for 2015-16. Finance Bill 2015 prospectively amends section 55B so that from 2016-17, the amount of the transferable allowance is 10% of the personal allowance for those born after 5 April 1938.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to set the personal allowance for 2016-17 at £10,800 and for 2017-18 at £11,000. Finance Bill 2015 will also remove references to section 37 of ITA so that there is a single personal allowance regardless of an individual's date of birth.

Legislation will also be introduced in Finance Bill 2015 to set the basic rate limit at £31,900 for 2016-17 and £32,300 for 2017-18.

Summary of impacts

Exchequer impact (£m)	2015-16	2016-17	2017-18	2018-19	2019-20
	nil	-960	-1480	-1585	-1680
Economic impact	<p>These figures are set out in table 2.1 of Budget 2015 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2015.</p> <p>This measure will reduce income tax for 29.1 million income tax payers in 2016-17 and 29.6 million in 2017-18, 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 upon other measures announced as well as aggregate labour demand and the performance of the wider economy.</p>				
Impact on individuals, households and families	<p>In 2016-17, this measure will benefit 29.1 million individuals of whom 24.3 million will be basic rate taxpayers and 4.8 million higher rate taxpayers. A typical basic rate taxpayer will have an overall cash gain of £40 and a real terms gain of £34. A typical higher rate will have an overall cash gain of £72 and a real terms gain of £51.</p> <p>In 2017-18, this measure will benefit 29.6 million individuals of whom 24.5 million will be basic rate taxpayers and 5.0 million higher rate taxpayers. A typical basic rate taxpayer will have further overall gains of £40 in cash terms and £17 in real terms. A typical higher rate taxpayer will have further overall gains of £100 in cash terms and £18 in real terms.</p> <p>These above inflation increases will take an additional 247,000 individuals out of income tax altogether in 2016-17 and a total of 341,000 in 2017-18 compared to the position with normal CPI indexation from 2015-16.</p> <p>All taxpayers with income of £121,600 or above in 2016-17 and £122,000 or above in 2017-18 have their personal allowance tapered to zero. Therefore they derive no benefit from the personal allowance increase. 528,000 individuals will have an average loss of £13 in 2016-17, rising to 557,000 with an average loss of £19 in 2017-18, the majority of which have incomes above these levels.</p> <p>Actual gains for individual taxpayers will vary according to individual circumstances.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>				

<p>Equalities impacts</p>	<p>Income tax changes apply regardless of personal circumstances or protected characteristics such as gender, race or disability. Equalities impacts will reflect the composition of the income tax-paying population.</p> <p>From 2016-17, there will be one personal allowance for all individuals regardless of an individual's date of birth.</p> <p>In 2016-17, women are projected to account for 42% of all taxpayers and men 58%.</p> <p>In 2017-18, women are projected to account for 42% of all taxpayers and men 58%.</p> <p>From this measure, 2016-17 estimated impacts are:</p> <p>247,000 individuals are taken out of tax altogether, of which 102,000 (41.2%) are men and 145,000 (58.8%) are women,</p> <p>29.1 million individuals will benefit. Of these, 12.4 million (42.5%) are women and 16.7 million (57.5%) are men.</p> <p>528,000 individuals lose an average of £13, of which 109,000 (20.7%) are women and 419,000 (79.3%) are men. Average losses do not differ significantly by gender.</p> <p>2017-18 estimated impacts are:</p> <p>341,000 individuals taken out of tax altogether, of which 144,000 (42.1%) are men and 197,000 (57.9%) are women,</p> <p>29.6 million individuals will benefit. Of which 12.6 million (42.6%) are women and 17.0 million (57.4%) are men.</p> <p>558,000 individuals lose an average of £19, of which 115,000 (20.6%) are women and 442,000 (79.4%) are men. Average losses do not differ significantly by gender.</p>
<p>Impact on business including civil society organisations</p>	<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 HM Revenue & Customs (HMRC).</p>
<p>Operational impact (£m) (HMRC or other)</p>	<p>HMRC will need to make changes to its IT systems to deliver this change, at an estimated cost of £418,000.</p>
<p>Other impacts</p>	<p><u>Small and micro business assessment:</u> the impact on small and micro businesses is expected to be negligible because changes to tax thresholds are a routine annual event. HMRC publishes a PAYE tax calculator on the gov.uk website to help micro businesses to calculate their payroll deductions.</p> <p>Other impacts have been considered and none have been identified.</p>

Withdrawn - do not use

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 Paul Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).

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