



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

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 £11,000 for 2016-17 and to £11,200 in 2017-18. The basic rate limit will be increased to £32,000 for 2016-17 and to £32,400 for 2017-18. As a result, the higher rate threshold will be £43,000 in 2016-17 and £43,600 in 2017-18.

Policy objective

This delivers the government's objective to support and rewards individuals in work.

Background to the measure

This measure was announced at Summer Budget 2015.

The government has an objective to raise the personal allowance to £12,500 and the higher rate threshold to £50,000 by the end of this parliament.

At Budget 2015, the coalition government announced that the personal allowance will increase to £10,800 for 2016-17 and £11,000 for 2017-18. This measure will increase the personal allowance to £11,000 for 2016-17 and £11,200 for 2017-18.

The basic rate limit for 2016-17 will be increased to £32,000 for 2016-17 and £32,400 for 2017-18.

The table below sets out the thresholds from 2015-16 to include the changes from this measure.

	2015-16	2016-17	2017-18
Personal allowance (PA)	10,600	11,000	11,200
Basic Rate Limit (BRL)	31,785	32,000	32,400
Higher Rate Threshold (HRT)	42,385	43,000	43,600

The NICs Upper Earnings/Profit Limits will remain aligned to the higher rate threshold and will therefore also increase for 2016-17 and 2017-18.

Detailed proposal

Operative date

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

Current law

In 2015-16 there are two personal allowances available by reference to an individual's date of birth: one for those born after 5 April 1938 and one for those born before 6 April 1938.

The amount of the personal allowance for those born before 6 April 1938 was fixed at £10,660.

Finance Act 2015 increased the personal allowance to £10,800 for 2016-17, so it removed the personal allowance for those born before 6 April 1938. The effect is that from 2016-17 everyone, regardless of their date of birth, will be entitled to the same personal allowance.

Finance Act 2015 set the basic rate limit at £31,900 for 2016-17, and £32,300 for 2017-18.

Proposed revisions

Legislation will be introduced in Summer Finance Bill 2015 to set the personal allowance for 2016-17 at £11,000 and for 2017-18 at £11,200, and the basic rate limit for 2016-17 at £32,000 and for 2017-18 at £32,400.

Summary of impacts

Exchequer impact (£m)	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	-	-1055	-1160	-1195	-1160	-1200
	These figures are set out in Table 2.1 of Summer Budget 2015 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Summer Budget 2015.					
Economic impact	This measure will reduce income tax for 29.0 million income tax payers in 2016-17 and 29.4 million income tax payers 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.					
Impact on individuals, households and families	<p>In 2016-17, this measure will benefit 29 million individuals of whom 24.1 million will be basic rate taxpayers with average real gains of £38 and 4.9 million higher/additional rate taxpayers with average real gains of £77.</p> <p>In 2017-18, this measure will benefit 29.4 million individuals of whom 24.2 million will be basic rate taxpayers with average real gains of £38 and 5.2 million higher/additional rate taxpayers with average real gains of £77.</p> <p>These above inflation increases will take an additional 277,000 individuals out of income tax altogether in 2016-17 and a total of 289,000 by 2017-18 compared to previously announced policy.</p>					

	<p>All taxpayers with income of £122,000 or above in 2016-17 and £122,400 or above in 2017-18 have their personal allowance tapered to zero. Therefore they derive no benefit from the personal allowance increase. 520,000 individuals will have an average real loss of £8 in 2016-17, rising to 550,000 with an average real loss of £7 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>Cumulative increases to the personal allowance and higher rate threshold between 2015-16 and 2016-17 mean a typical basic rate taxpayer will have an overall cash gain of £80 and a real terms gain of £78. A typical higher rate taxpayer will have an overall cash gain of £142 and a real terms gain of £127.</p> <p>Cumulative increases to the personal allowance and higher rate threshold between 2015-16 and 2017-18 mean a typical basic rate taxpayer will have an overall cash gain of £120 and a real terms gain of £92. A typical higher rate taxpayer will have an overall cash gain of £242 and a real terms gain of £148.</p> <p>Cumulative changes to the personal allowance and higher rate threshold since 2010-11 mean a typical basic rate taxpayer will have an overall cash gain of £905 in 2016-17 and £945 in 2017-18. A typical higher rate taxpayer will have an overall cash gain of £818 in 2016-17 and £918 in 2017-18.</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 and 2017-18, males are projected to account for 58% of all taxpayers and females 42%.</p> <p>From this measure, 2016-17 estimated impacts are:</p> <p>277,000 individuals are taken out of tax altogether, of which 105,000 (38%) are male and 172,000 (62%) are female. Average impacts do not differ significantly by gender.</p> <p>29 million individuals will benefit. Of these, 16.7 million (58%) are male and 12.3 million (42%) are female. Average gains are £46 for males and £43 for females.</p>

	<p>520,000 individuals lose, of which 412,000 (79%) are male and 108,000 (21%) are female. Average impacts do not differ significantly by gender.</p> <p>From this measure, 2017-18 estimated impacts are:</p> <p>289,000 individuals are taken out of tax altogether, of which 109,000 (38%) are male and 181,000 (62%) are female. Average impacts do not differ significantly by gender.</p> <p>29.4 million individuals will benefit. Of these, 16.9 million (58%) are male and 12.5 million (42%) are female. Average gains are £47 for males and £43 for females.</p> <p>550,000 individuals lose, of which 435,000 (79%) are male and 115,000 (21%) are female. Average impacts do not differ significantly by gender.</p>
Impact on business including civil society organisations	<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 HMRC.</p>
Operational impact (£m) (HMRC or other)	<p>There will be no significant operational impacts on HMRC. HMRC will need to make IT changes but this will be done at negligible costs.</p>
Other impacts	<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>

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 Phillips on 03000 586521 (email: paul.phillips1@hmrc.gsi.gov.uk).