



Income tax personal allowance for those born after 5 April 1938 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 1938 will be further increased from £10,500 announced at Budget 2014 to £10,600. The 'higher rate threshold' for 2015-16 will also be increased to £42,385.

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 Autumn Statement 2014.

The Coalition Government objective of increasing the personal allowance to £10,000 was achieved one year ahead of schedule in 2014-15. Budget 2014 announced that the personal allowance would be increased to £10,500 for 2015-16. This measure goes further by increasing the personal allowance to £10,600 for 2015-16.

Legislation will be introduced in Finance Bill 2015 to increase the personal allowance by £100 for 2015-16. Finance Bill 2015 will also set the amount of the transferable allowance for married couples and civil partners at £1,060 (10 per cent of the personal allowance) for 2015-16.

There is no change to the basic rate limit for 2015-16 set out at Budget 2014 (£31,785).

Taking into account the changes set out by this measure, the table below shows the changes to the personal allowance over the lifetime of the Parliament.

£	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Personal allowance	6,475	7,475	8,105	9,440	10,000	10,600
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	42,385

Detailed proposal

Operative date

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

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 (FA14) sets the income tax personal allowance for those born after 5 April 1948 at £10,500 and the basic rate limit at £31,785. From 2015-16, the allowance for section 35 and section 36 of ITA are the same amount. So, section 2 of FA14 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.

Without this new measure, the effect is that for 2015-16 there would be two personal allowances available by reference to an individual's date of birth:

For those born after 5 April 1938	£10,500
For those born before 6 April 1938	£10,660

Sections 55A to 55E of ITA provides the transferable tax allowance for married couples and civil partners applicable from 2015-16. Section 55B(4) of ITA sets the transferable amount at £1,050.

Proposed revisions

Legislation will be introduced in Finance Bill 2015 to set for 2015-16 the personal allowance for those born after 5 April 1938 at £10,600 and increase the amount of the transferable tax allowance for married couples and civil partners to £1,060.

Summary of impacts

Exchequer impact (£m)	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
	-	-530	-635	-640	-655	-655
	These figures are set out in Table 2.1 of Autumn Statement 2014 and have been certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Autumn Statement 2014.					
Economic impact	This measure will reduce income tax for 27 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 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 2015-16, this measure (the £100 increase to that announced at Budget) will provide 27 million individuals with a real terms gain (over and above that from normal indexation) averaging £22. Of these, 22.5 million will be basic rate taxpayers and 4.52 million higher rate taxpayers.</p> <p>All taxpayers with income of £121,200 or above have their personal allowance tapered to zero and so derive no benefit from the personal allowance increase. Those with earnings around or above this level will then lose due to the alignment of the Upper Earnings Limit/Upper Profits Limit for Class 1 and Class 4 National Insurance contributions with the higher rate threshold for income tax. 442,000 of these individuals will have an average loss of £9 from higher National Insurance contributions in 2015-16.</p> <p>This measure will take 122,000 individuals out of income tax altogether.</p> <p>This measure is not expected to impact on family formation, stability or breakdown.</p>					

	<p>The combined effect of the personal allowance increase to £10,500 announced at Budget 2014, plus the further £100 increase in this measure, is to:</p> <ul style="list-style-type: none"> • provide real terms gains of £94 and £104 for typical basic rate and higher rate taxpayers respectively; • take 430,000 individuals out of income tax altogether.
Equalities impacts	<p>Equalities impacts will reflect the composition of the income tax-paying population.</p> <p>In 2015-16, women are projected to account for 42 per cent of all taxpayers and men 58 per cent.</p> <p>From the additional £100 increase, the estimated impacts for 2015-16 are:</p> <ul style="list-style-type: none"> • 122,000 individuals will be taken out of tax altogether, of which 44,000 (36 per cent) are men and 79,000 (64 per cent) are women. 95,000 individuals (78 per cent) are under 68 years old, with 27,000 individuals (22 per cent) being aged over 68. • 27 million individuals gain an average of £22, of which 15.7 million (58 per cent) are men and 11.4 million (42 per cent) are women. 24.1 million (89 per cent) are under 68 years old and 2.96 million (11 per cent) are 68 years old or over. Average gains do not differ significantly by gender or between those aged under or over 68 years old. • 442,000 individuals lose an average of £9, of which 374,000 (85 per cent) are men and 68,000 (15 per cent) are women under 68 years old. Average losses do not differ significantly by gender or between those under or over 68 years old.
Impact on business including civil society organisations	<p>Impacts on administrative and compliance costs for businesses, employer, pension providers or civil society organisations will be negligible. An individual's personal allowance is reflected in their PAYE tax code. 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>
Operational impact (£m) (HMRC or other)	<p>The impact on HMRC will be negligible. Changes to the amounts of personal allowances are an annual requirement.</p>
Other impacts	<p><u>Small and micro business assessment:</u> this measure will have a negligible impact on small business. To minimise the impact of the requirements on firms employing up to and including nine employees, there is an HMRC P11 calculator on the business link website.</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 Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).

1 Personal allowances for 2015-16

- (1) Section 2 of FA 2014 (basic rate limit for 2015-16 and personal allowances from 2015) is amended as set out in subsections (2) and (3)
- (2) In subsection (1)(b) (amount specified for 2015-16 in section 35(1) of ITA 2007 (personal allowance for those born after 5 April 1938)), for “£10,500” substitute “£10,600”.
- (3) In subsection (8) (amendments of section 57 of ITA 2007), omit the “and” at the end of paragraph (a) and after that paragraph insert –
“(aa) in subsection (1)(h), omit “36(2),”, and”.
- (4) In section 55B(4)(a) of ITA 2007 (transferable tax allowance for married couples and civil partners: entitlement to tax reduction), for “£1050” substitute “£1060”.
- (5) The amendments made by subsections (3) and (4) have effect for the tax year 2015-16 and subsequent tax years.

EXPLANATORY NOTE

PERSONAL ALLOWANCES FOR 2015-16

SUMMARY

1. This clause sets the income tax personal allowance for 2015-16 for those born after 5 April 1938 at £10,600 and the amount of the transferable allowance for married couples and civil partners at £1,060.

DETAILS OF THE CLAUSE

2. Subsection 2 sets the amount of the personal allowance for those born after 5 April 1938 at £10,600.

3. Subsection 3 makes an amendment to the indexation provisions on the omission of the personal allowance for those born after 5 April 1938 but before 6 April 1948 with effect from 2015-16.

4. Subsection 4 sets the amount of the transferable tax allowance for married couples and civil partners at £1,060

5. Subsection 5 provides that the amendments made by subsections 3 and 4 have effect for the 2015-16 tax year.

BACKGROUND NOTE

6. Finance Act 2014 provides that from 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. It also set the amount of the personal allowance for those born after 5 April 1938 at £10,500 for 2015-16, which this clause increases to £10,600.

7. Finance Act 2014 inserted sections 55A to 55E into the Income Tax Act 2007 which provide for the transferable tax allowance for married couples and civil partners, effective from 2015-16. These provisions set the transferable amount at £1,050 for 2015-16 and 10 per cent of the personal allowance for those born after 5 April 1938 thereafter. This clause substitutes £1,060 for £1,050 for the transferable amount for 2015-16.

8. If you have any questions about this change, or comments on the legislation, please contact Paul Thomas on 03000 586524 (email: paul.thomas@hmrc.gsi.gov.uk).