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Direct taxes: rates and allowances 2016/17

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Summary

This paper sets out the main changes to direct tax rates and allowances announced in the Budget on 16 March 2016. It lists the principal personal allowances which will be available against income tax in the tax year 2016/17, and it outlines the conditions necessary for eligibility for these allowances. The paper provides a summary of the general tax position in straightforward cases only. It should be noted that it deals just with tax allowances. No reference is made to cash benefits provided under the social security system, or to child tax credit and working tax credit.

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate. For 2016/17 these three rates are 20%, 40% and 45% respectively. Tax is charged on taxable income at the basic rate up to the basic rate limit, set at £32,000. 'Taxable income' excludes personal allowances, which represent the amount of money someone may receive free of tax. Tax is charged at the higher rate on taxable income between the basic rate limit and the higher rate limit, set at £150,000. The additional rate is charged on taxable income over £150,000. All three tax rates are unchanged from 2015/16.

The **personal allowance** is increased by £400 to £11,000 for 2016/17. The basic rate limit is increased by £215, so that the higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – is £43,000.

In the 2012 Budget the Coalition Government announced it would phase out the two **age-related personal allowances**, claimed by individuals aged 65-74, and those aged 75 and over. From April 2013 these allowances would be frozen – at £10,500 and £10,660 respectively – until they became aligned with the personal allowance. In addition, only *existing* recipients would be entitled to claim either allowance. Both allowances have now been overtaken by the personal allowance and withdrawn.

In the 2015 Budget the Coalition Government confirmed the introduction of a new **marriage allowance**. From April 2015 individuals whose income is insufficient to make full use of their personal allowance have been entitled to transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of this allowance if their spouse or partner pays more than the basic rate of tax. For 2016/17 the maximum that can be transferred is £1,100.

All married couples used to be entitled to claim the **married couple's allowance**, which was withdrawn from April 2000 for all couples under 65 at that time. Taxpayers may still make a claim, if one or both partners were born on or before 5 April 1935. For 2016/17 this allowance is set at £8,355. The allowance is 'restricted' to 10 per cent; in effect, taxpayers receive a credit worth 10% of the married couple's allowance to set against their final tax bill.

The rates of **National Insurance contributions** (NICs) for both employees and employers are unchanged for 2016/17. For employees, the rate of NICs is set at 12% on all earnings between the primary threshold and the upper earnings limit, and at 2% on earnings above the upper earnings limit. For employers, the rate of NICs is set at 13.8% on earnings above the secondary threshold. Both the primary and secondary thresholds are unchanged, set at £155 & £156 per week, respectively. The upper earnings limit is increased to £827 per week for 2016/17, so that it remains aligned with the higher rate threshold.

This paper deals only with tax allowances and 'wasteable' tax credits: those which are limited to the amount of the tax liability and therefore cannot give rise to a payment by the authorities to the taxpayer. Details of 'non-wasteable' tax credits – such as the child tax credit and the working tax credit – along with other tax rates and allowances for the 2016/17 year are set out in Annex B to HM Treasury, *Overview of Tax Legislation and Rates*, March 2016, which was published alongside the 2016 Budget report.

1. Rates and thresholds

1.1 Income tax

Earned income

For 2016/17 income tax on earned income is charged at three rates: the basic rate of 20%, the higher rate of 40% and the additional rate of 45%. All three rates are unchanged from 2015/16.

The 20% basic rate applies to taxable income up to a threshold of £32,000. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. (Personal allowances are discussed in more detail in section 2 of this paper.)

Taxable income in excess of the threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 45%.

2015/16		2016/17	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
£0 - £31,785	**20%**	**£0 - £32,000**	**20%**
£31,786 - £150,000	**40%**	**£32,001 - £150,000**	**40%**
Over £150,000	**45%**	**Over £150,000**	**45%**

This rate structure covers all non-savings income: earnings, pensions, taxable social security benefits, trading profits and income from property. A 10% starting rate of tax used to apply on non-savings income, but was withdrawn in April 2008.

Savings and dividend income

For 2016/17 savings income is charged at 0% for income up to £5,000. Above this limit savings income is charged tax at the basic rate of 20%, up to the basic rate limit of £32,000. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £150,000. Savings income above this limit is charged at the 45% additional rate.

The 0% rate replaces a 10% rate which had applied for the first £2,880 of savings income in 2014/15. When the 10% starting rate of income tax was withdrawn in 2008/09, a 10% rate was retained for savings income only.

In addition a new Personal Savings Allowance (PSA) has been introduced from 6 April 2016. This applies a 0% rate for up to £1,000 of savings income for basic rate taxpayers. The allowance applies a 0% rate for up to £500 of savings income for higher rate taxpayers. Additional rate taxpayers are not eligible for the allowance.

Historically savings income has been taxed at source by banks and building societies at 20%. Alongside the introduction of the PSA, automatic deduction of tax at source will end.[1]

For 2016/17 dividend income is charged at 0% for income up to £5,000 – the Dividend Allowance. Above this limit dividend income is charged tax at a basic rate of 7.5%, up to the basic rate limit. Dividend income above this limit is charged at a higher rate of 32.5%, up to the higher rate limit. Dividend income above this limit is charged at an additional rate of 38.1%.

From April 2016 the Dividend Allowance replaces the Dividend Tax Credit, which in the past individuals have been entitled to claim on dividend income. For basic rate taxpayers payment of the credit meant that, in effect, dividends were taxed at 0%. In the Summer 2015 Budget the Government announced the credit would be scrapped, and the rates of tax on dividend income would be amended accordingly.[2]

In calculating tax liability, dividend and savings income are regarded as the 'top slice' of income, with dividends the highest.[3]

1.2 National Insurance contributions

Employees pay National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL), which is set at £112 per week for 2016/17.

A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £155 per week. A notional primary Class 1 NIC is deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement.

Earnings above the PT are charged NICs at a rate of 12%, subject to a cap at the upper earnings limit (UEL), which is set at £827 per week. Earnings *above* the UEL are charged NICs at a rate of 2%.

Prior to 6 April 2016 employees were charged a reduced rate of NICs if they had contracted out of the state second pension (S2P). These arrangements have ended with the introduction of the 'single-tier' state pension, and the closure of the additional state pension, from this date.[4]

Employers pay NICs on employee earnings at a rate of 13.8% on earnings above the secondary threshold (ST), set at £156 a week for 2016/17.

1 For more details see, HMRC, *Personal Savings Allowance*, February 2016
2 *Summer Budget 2015*, HC264, July 2015 para 1.185-9. For more details see, HMRC, *Dividend Allowance Factsheet*, August 2015.
3 The Low Incomes Tax Reform Group publishes guidance on the taxation of savings and dividend income on their site.
4 For details see, *The new 'single-tier' State Pension*, Commons Briefing paper SN6525, 1 December 2015.

The rates of NICs for employees and employers for 2016/17 are:[5]

Earnings[a] (secondary)	**Employee (primary) NIC rate (per cent)**	**Earnings £ per week**	**Employer NIC rate (per cent)**
Below £112 (LEL)	0%	Below £112 (LEL)	0%
£112 to £155 (PT)	0%	£112 to £156 (ST)	0%
£155 to £827 (UEL)	12%	Above £156	13.8%
Above £827	2%		

[a] *The limits are defined as LEL - lower earnings limit; PT - primary threshold; ST - secondary threshold; and UEL - upper earnings limit.*[6]

1.3 The 'tax lock'

In its 2015 General Election manifesto the Conservative Party stated that, in government, it would "not increase the rates of VAT, Income Tax or National Insurance in the next Parliament."[7] In a speech the Prime Minister David Cameron confirmed that this 'tax lock' also meant that there would not be any extension to the scope of VAT, or an increase in the ceiling set for the main rate of NICs by employees - the 'Upper Earnings Limit' (UEL) – above the income tax higher rate threshold.[8]

Following the General Election, the Chancellor George Osborne presented the Conservative Government's first Budget on 8 July 2015. In his Budget speech Mr Osborne confirmed that the Government would legislate to "prohibit any increase in the main rates of income tax, national insurance and VAT for the next five years."[9] In the case of income tax and VAT, provision to this effect was made ss1-2 of the *Finance (No.2) Act 2015*. Separate legislation was introduced to apply the 'tax lock' to the primary and secondary rates of Class 1 National Insurance contributions. The *National Insurance Contributions (Rate Ceilings) Act 2015* also provides that the UEL cannot exceed the higher rate threshold - the sum of the personal allowance and the basic rate limit - as proposed by the Government in its pre-Budget proposals. It is common practice for NI thresholds to be set by secondary legislation, introduced before the start of the tax year, often before the Budget statement. By contrast, income tax thresholds for the tax year are set, definitively, in the Finance Bill, introduced after the Budget.[10]

5 Government Actuary's Department, *Report to Parliament on the 2016 re-rating and up-rating orders*, January 2016 pp22-23 These thresholds for 2016/17 were set by Order: SI 2016/343.

6 For more details on the way National Insurance works see, *National Insurance contributions: an introduction*, Commons Briefing paper SN4517, 21 December 2015

7 Conservative Party, *2015 General Election Manifesto*, April 2015 p27

8 "Cameron pledges to ban tax rises until 2020", *Financial Times*, 29 April 2015. Mr Cameron also publicised this commitment on Twitter.

9 HC Deb 8 July 2015 c336 see also, *Summer Budget 2015*, HC 264, March 2015 para 2.53, and, HMRC, *Tax lock: Income Tax, NICs and VAT: tax information & impact note*, 8 July 2015

10 For more details see, *National Insurance Contributions (Rate Ceilings) Bill 2015-16,* Commons Briefing Paper CBP7260, 29 February 2016.

2. Income tax allowances

All individuals receive a personal allowance which they can set against income tax. An allowance is also given to individuals who are blind.

Prior to 2013/14, individuals were entitled to claim one of two age-related additions to the personal allowance, if they were between 65 and 74 years of age, or were 75 or over. Both allowances have now been phased out.

2.1 Indexation

For many years income tax legislation has required the main allowances and thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of the *Finance Act 1977*.[11] The amendment was successfully made through the cross-party co-operation of Jeff Rooker, Audrey Wise and Nigel Lawson. All three argued that without indexation, inflation acted as an unauthorised, unintended and unknown increase in taxation. By requiring that any real changes in allowances would be voted on, the amendment ensured that changes in the income tax structure would be 'out in the open'. Indeed, for most years since then, allowances have either gone up in line with inflation - or by more than inflation.[12]

In the 2011 Budget the Coalition Government announced that from April 2012 the default indexation assumption for direct taxes would be the Consumer Price Index (CPI), though RPI would be retained for some allowances and thresholds for the duration of the 2010 Parliament.[13] This approach has been amended, following decisions to phase out the age-related allowances from April 2013, to increase the personal allowance in 'real terms' – by more than inflation – in both 2014/15 and 2015/16, and to increase the higher rate threshold by 1% in the first of those years. Any elements of the direct tax system that were indexed by reference to RPI are covered by CPI from 2016/17.[14] The threshold for the additional rate (£150,000), and the income limit for the tapered withdrawal of the personal allowance (£100,000), have not been included in these provisions, and are fixed in monetary value.

When uprating the main allowances and thresholds, the relevant inflation rate is the increase in inflation in the year to September, prior to the start of the following tax year.[15] When allowances and thresholds are increased in line with inflation, they are rounded up to the nearest £10 or £100. For personal allowances, this income limit is £10; for the basic rate limit, it is £100. For the year to September 2015

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11 The statutory requirement to uprate allowances and thresholds, is consolidated in sections 57 & 21 of the *Income Tax Act 2007*, as amended

12 HL Deb 7 January 2010 c121WA

13 *Budget 2011*, HC 836, March 2011 para 1.128. see also, Office of National Statistics, *Users and uses of consumer price inflation statistics*, October 2013

14 HM Treasury, *Budget 2016 : policy costings*, March 2015 pp73-4 (Annex A: Indexation in the public forecast baseline).

15 for details see, HM Treasury, *Tax benefit reference manual: 2009-2010 edition*, July 2009, paras 1.16-19. [HC DEP 2009-1987]

the rate of CPI was -0.1%,[16] so those income tax allowances and thresholds which have not been increased for 2016/17 have been left unchanged.

2.2 Personal allowance

Every taxpayer resident in the United Kingdom is entitled to a **personal allowance** that can be set against any type of income for tax purposes. For 2016/17 this allowance is £11,000.

In May 2010, the Coalition Government announced that over the 2010-15 Parliament it would substantially increase the personal allowance, set at £6,475 for 2010/11, up to £10,000. The allowance was increased each year, to reach £10,000 for 2014/15.[17] In the Conservative Government's first Budget after the 2015 General Election, the Chancellor George Osborne pledged to increase the allowance to £12,500 by the end of the Parliament. As a first step, the allowance would be increased by £400 to £11,000 for 2016/17. Mr Osborne also announced that over this period the higher rate threshold would be raised to £50,000.[18]

Since April 2010 the personal allowance has been withdrawn from individuals whose incomes exceed £100,000. The allowance is reduced by £1 for every £2 above this income limit, until completely withdrawn. This income limit is unchanged for 2016/17.

2.3 Transferable allowance for married couples & civil partners

From April 2015 individuals whose income is insufficient to make full use of their personal allowance will be entitled to transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of the transferable tax allowance for married couples and civil partners – or, **marriage allowance**, as it is known – if their spouse or partner is liable to tax above the basic rate of tax. For 2016/17 the maximum that can be transferred is £1,100. As this extra allowance would be set against someone's liability to basic rate tax, it can be worth up to £220. Individuals who may wish to apply to have part of their allowance transferred in this way to their partner may register with HMRC either online or by phone. People can register at any point in the tax year and still receive the full benefit of the allowance.[19]

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16 Office of National Statistics, *Consumer Price Indices September 2015*, October 2015

17 For more details see, *Income tax : increases in the personal allowance (2010-2015)*, Commons Briefing paper SN6569, 17 June 2015.

18 HC Deb 8 July 2015 c336; *Summer Budget 2015*, HC246, July 2015 paras 1.130-4

19 HMRC, *Marriage allowance*, April 2016. HMRC's helpline is 0300 200 3300 (see, PQ14045, 3 November 2015).

2.4 Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,290 for 2016/17, unchanged from the previous tax year. The allowance is not restricted in value. If someone has insufficient income to make use of the allowance it can be transferred to a spouse.

2.5 Age-related allowances

Prior to 2013/14, individuals were entitled to claim one of two age-related additions to the personal allowance, if they were aged between 65 and 74 years of age, or were 75 or over. The allowance was withdrawn if an individual's income exceeded a set limit. This was done by cutting the allowance by £1 for every £2 by which an individual's income exceeded a set income limit.

In the 2012 Budget the Coalition Government announced that from April 2013 both allowances would be phased out: each allowance would be frozen in cash terms, until they became aligned with the personal allowance. In addition, only existing recipients would be entitled to claim either allowance. At this time these allowances were frozen at £10,500 (for taxpayers born after 5 April 1938 but before 6 April 1948), and £10,660 (for taxpayers born before 6 April 1938).[20]

From 2016/17 both age-related allowances have been overtaken by the personal allowance, set at £11,000, and have been withdrawn. Taxpayers that were claiming these allowances are now eligible for the 'basic' personal allowance.

2.6 Transitional allowances for older people

Four allowances were withdrawn from April 2000: the married couple's allowance (MCA) for couples aged under 65 at that time; the additional personal allowance; the maintenance allowance for separated or divorced couples under 65; and the widow's bereavement allowance.[21] The MCA and tax relief on maintenance payments were retained for individuals where either they, or their current or former spouse, had reached the age of 65 by the start of the tax year 2000/01; i.e., they were born on or before 5 April 1935.

Married couple's allowance

Married couples, in which at least one partner reached 65 by 6 April 2000, are still entitled to claim a **married couple's allowance**.[22] For

[20] For more details see, *Age-related personal allowance*, Commons Briefing Paper SN6158, 30 March 2015.

[21] The abolition of these allowances was announced in the March 1999 Budget; for further details see *Direct taxes: rates & allowances 2000/01*, Commons Briefing paper RP00/38, 29 March 2000 pp11-12.

[22] When a person born on or before 5 April 1935 newly gets married, that person or their spouse is entitled to claim the MCA.

2016/17, this allowance is set at £8,355, unchanged from the previous year. Tax relief for the allowance is 'restricted' to 10%. In effect taxpayers receive a credit worth 10% of the MCA to set against their final tax bill: ie, £840.

The value of the MCA is gradually reduced for taxpayers earning above an income limit, in the same way as the age-related personal allowances were (see above). The withdrawal of the MCA from older couples is subject to a minimum allowance set at £3,220 for 2016/17, restricted to 10%. No couple entitled to the allowance will receive less than this.

Where a couple marry during the tax year the allowance is reduced by one twelfth for each complete tax month pre-marriage. In the first instance the MCA is given to the husband, though if couples elect to do so, the minimum MCA can be transferred to the wife or split equally between spouses. In previous years, in line with the personal allowance, an age-related MCA was given to couples aged between 65 and 74, and a second, higher MCA to those 75 or over. Given that anyone born before 6 April 1935 will be 82 or over this tax year, it is only the second of these allowances that remains applicable.

Civil partners may also claim the MCA provided – as with married couples – at least one partner was born before 6 April 1935.[23]

Tax relief for maintenance payments

Generally, maintenance payments are made outside the tax system: those who make payments cannot claim them against tax, and those who receive them are not taxed on them. Separated or divorced individuals who pay maintenance direct to their ex-spouse under a legally binding agreement may qualify for a limited form of tax relief – often referred to as a '**maintenance allowance**' – provided that one or more of the parties reached 65 prior to 6 April 2000. This relief is set equal to the 'minimum' MCA that couples can receive if they are now 82 or over (which is £3,220 restricted to 10% for 2016/17). Individuals who make maintenance payments to a child, or to someone to whom they have not been married, do not qualify for this relief. Tax relief is withdrawn if the ex-spouse who receives maintenance remarries.

[23] More guidance is given on Gov.uk. In March 2005 the then Labour Government announced that civil partners would be treated the same as married couples for tax purposes, when the *Civil Partnership Act 2004* came into force on 5 December 2005.

3. Income tax – other allowances & reliefs

3.1 Company cars & free fuel

Generally individuals are taxed on the cash value of any 'fringe benefit' they enjoy by virtue of their employment.[24]

Special rules apply in evaluating the cash value of a company car. This is calculated as a percentage of the car's price – the 'appropriate percentage' – set by reference to the car's CO_2 emissions level, which is expressed in grams per kilometre (g/km). For 2016/17 a rate of 16% applies for cars with an emissions level of 95g/km. This rises by 1 per cent for every 5g/km over that level to a maximum of 37% (emissions of 200g/km). Three lower bands apply for cars with emissions under 95g/km. For 2016/17 these are 7% (0-50g/km), 11% (51-75g/km), and 15% (76-94g/km).[25] In recent years the percentage charges for company cars have been announced some time in advance. *Budget 2016* confirmed rates up to 2019/20.[26]

The taxable benefit of free fuel provided for private motoring in a company car is also related to the level of CO_2 emissions. The same 'appropriate percentage' charge is used as for company cars. To calculate the benefit charge the percentage figure is multiplied against a set figure for the year; for 2016/17 this is £22,200.[27]

3.2 Pensions

Contributions to pensions are exempt from tax when made, but taxed when they are paid out to the individual. Pension contributions made by individual employees are usually paid out of pre-salary, so tax relief is received at the individual's marginal tax rate. The main limits to this are:

- The annual allowance (AA) - which limits the amount of annual pension savings that benefit from tax relief.[28]
- The lifetime allowance (LTA) - which limits the amount of pension saving over an individual's lifetime that can benefit from tax relief.[29]

Both limits were introduced in April 2006 under the *Finance Act 2004.* At introduction in 2006, the AA was set at £215,000 and the LTA at £1.5 million.[30] Both allowances were set to increase in stages, with the

[24] The cash value is added to their taxable income, and taxed accordingly; i.e., taxed at the same rate as the rest of their income (20%, 40% or 45% depending on their circumstances). Some basic guidance on these rules is given on Gov.uk.

[25] HMRC, *Expenses & benefits: a tax guide*, Notice 480, 2016 edition p99

[26] HMRC, *Setting Company Car Tax (CCT) rates for the 3 years to 2019 to 2020: tax information & impact note*, 6 April 2016

[27] HMT, *Tax and tax credit rates and thresholds for 2016-17*, 25 November 2015. This multiplier is set by Order: SI 2015/1979.

[28] *Finance Act (FA) 2004*, s227; HMRC, Registered Pension Schemes Manual, RPSM06100000

[29] *FA 2004*, s216; RPSM11200000

[30] *FA 2004* s218, s218 and 228

LTA reaching £1.8m and the AA £255,000 by 2010.[31] Since 2010, both allowances have been reduced on a number of occasions.

- In October 2010, the Government announced that the AA would reduce from £255,000 to £50,000 from 2011 and the LTA from £1.8m to £1.5m from 2012.[32] This was legislated for in the *Finance Act 2011*.[33]

- In the Autumn Statement 2012, the Government announced that from 2014/15, the LTA would be cut from £1.5 million to £1.25 million and the AA would be cut £50,000 to £40,000.[34] This was legislated for in the *Finance Act 2013*.[35]

- In the March 2015 Budget, the Government announced a reduction in the LTA from £1.25 million to £1 million from April 2016.[36] Provision for this is made in the *Finance (No.2) Bill 2016*.[37]

- In the Summer 2015 Budget, the Government announced that it would introduce a taper to the Annual Allowance for those with adjusted incomes, including their own and employer's pension contributions, over £150,000 from April 2016.[38] This was legislated for in the *Finance (No. 2) Act 2015.*[39]

Major changes to options on retirement for people with defined contribution (DC) pension savings were introduced from 6 April 2015.[40] Before this, roughly three-quarters of people with DC pension savings used them to purchase an annuity.[41] This was strongly encouraged by pension tax legislation, which applied a 55% tax charge on lump sum withdrawals, except in limited circumstances. The advantage of annuities is that they provide a guaranteed income throughout retirement. However, their popularity had declined in recent years, in part due to falling annuity rates, but also because of emerging evidence that parts of the market did not work well for consumers.[42]

In Budget 2014, the Coalition Government announced that from 6 April 2015 it would allow people aged 55 and over more flexibility about when and how to draw their DC pension savings, and allow them to do so at their marginal rate of income tax, rather than the 55% rate. Chancellor of the Exchequer, George Osborne, said that people "should be trusted with their own finances."[43] The relevant changes to pension tax legislation were made in the *Taxation of Pensions Act 2014.*

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31 *Budget 2004*, HC301, March 2004 para 5.45
32 *Restricting pensions tax relief through existing allowances: a summary of the discussion document responses*, October 2010, para 2.6 to 2.7
33 specifically, ss66-7 and Sch 17 & 18 of *FA2011*.
34 *Autumn Statement 2012*, Cm 8480, December 2012 para 1.179
35 specifically Chapter 4 of FA2013.
36 *Budget 2015*, HC1093, March 2015, para 1.232
37 specifically clause 19 and Sch 4 of the Bill (Bill 155-EN, March 2016).
38 *Summer Budget 2015*, HC 264, July 2015, para 1.223
39 specifically s23 and Sch 4 of *F(No.2)A2015*. For more detail, see *Restricting pension tax relief*, Commons Briefing paper SN5901, April 2016.
40 A DC pension is one to which contributions are made, which are invested, and then used to provide an income at retirement
41 HM Treasury, *Freedom and choice in pensions,* Cm 8835, March 2014, Diagram 3A
42 FSCP, *Annuities: Time for Regulatory Reform*, December 2013
43 HC Deb 19 March 2014 c794

To help people navigate the expanded range of options, a guidance service – Pension Wise – was established.[44]

Under current legislation, the purchase of a lifetime annuity is a one-off and generally irreversible purchase.[45] In its March 2015 Budget the Coalition Government proposed allowing people in receipt of an annuity to sell that income to a third party from April 2016.[46] Following the election, the current Government announced that implementation would be delayed to 2017. This was to "ensure there is an in-depth package to support consumers in making their decision."[47] There are provisions in the *Bank of England and Financial Services Bill 2015/16* to enable annuity holders to have access to the guidance service Pension Wise and for some to be required to take advice.[48] A consultation on the relevant tax changes was published on 20 April 2016.[49]

In July 2015 the Government launched a consultation on whether fundamental changes should be made to the system of pension tax relief to improve incentives to save. This referred to a number of options for reform, including the possibility of moving to a 'TEE' model (in which contributions are taxable and pension income is exempt) and that of providing relief on contributions at a flat-rate rather than the individual's marginal rate.[50] However, in Budget 2016, the Chancellor did not announce any changes to pension tax relief on the grounds that there had been "no consensus."[51]

3.3 Charities

There is no general tax exemption or relief granted to taxpayers who make gifts to charities. Tax relief is provided through two schemes which cover regular donations made out of one's salary (Payroll Giving) and one-off cash gifts (Gift Aid).

Under the **Payroll Giving** scheme charitable donations are wholly deductible for income tax purposes, the relief being given through the PAYE system. The employer deducts the appropriate sum from a participating employee's pay, and passes it to an agency which distributes it to the charity or charities of the employee's choice. There are no minimum or maximum limits for donations under the scheme.[52]

Gift Aid allows income tax relief for single donations by individuals. When this relief was introduced in 1990, a minimum limit on donations was set at £600. Subsequently this limit was cut to £250 before being abolished entirely from 6 April 2000. As a consequence, tax relief

44 specifically by the *Pension Schemes Act 2015*
45 Financial Conduct Authority, *Retirement income market study: Interim Report*, Executive Summary
46 *Budget 2015*, HC 1093,18 March 2015, paras 1.229-31
47 *Summer Budget 2015*, HC 264, July 2015
48 For more detail, see *Bank of England and Financial Services Bill* Commons Briefing paper CBP7476, 28 January 2016 (section 4)
49 HM Treasury, Creating a secondary annuity market: tax framework, 20 April 2016
50 HM Treasury, *Strengthening the incentive to save: reforming pension tax relief*, Cm 9102, July 2015
51 HC Deb 16 March 2016 c966; *Budget 2016*, HC901, March 2016 para 1.108-9
52 A maximum limit of £1,200 a year applied prior to 6 April 2000.

applies to a donation of any size.[53] Under the scheme charities claim repayment of basic rate tax on donations. Higher rate taxpayers claim higher rate tax relief on their gifts.

In April 2013 the Government launched a new scheme which allows charities to claim Gift Aid on small donations without a Gift Aid declaration. Under the **Gift Aid Small Donations Scheme** (GASDS) individual donations must be made in cash and be worth no more than £20. Charities may claim a top-up payment, equivalent to Gift Aid relief, on an annual maximum of donations. Initially this limit was set at £5,000 per year, but has been increased to £8,000 from April 2016.[54]

53 Guidance for taxpayers on both payroll giving and Gift Aid is published on Gov.uk.
54 This change was made by Order: SI 2015/2027.

4. Other direct taxes

4.1 Capital gains tax

Capital gains tax (CGT) is charged on gains in excess of the annual exempt amount, which is set at £11,100 for 2016/17. Individuals may realise gains up to this threshold free of tax. Generally the tax is charged at a rate of 10%, and at 20% on gains realised by individuals paying income tax at the higher or additional rates.[55]

The structure of CGT rates was reformed by the Coalition Government in its first Budget in June 2010. Prior to this, gains had been subject to a single rate set at 18%, introduced as part of a series of reforms to CGT by the Labour Government in its 2008 Budget.[56] The new Government introduced a 28% rate for higher rate and additional rate taxpayers, with effect from Budget day (22 June 2010).

In the 2016 Budget the Chancellor George Osborne announced that both rates of CGT would be cut, from 18% and 28%, to 10% and 20% respectively. This change would take effect from 6 April 2016. The rates of tax are unchanged for two types of capital gains: gains from residential property that are not eligible for private residence relief, and gains from carried interest.

Gains qualifying for entrepreneur's relief are charged a rate of 10%, which is unchanged for 2016/17. A £10m lifetime limit applies to capital gains qualifying for this relief. This limit is also unchanged. In the 2016 Budget the Chancellor announced that entrepreneurs' relief would be extended to long term investors in unlisted companies, subject to a separate lifetime limit of £10m of gains.[57]

4.2 Inheritance tax

Inheritance tax is levied on the value of a person's estate at the time of their death. Most large gifts made out of someone's estate within seven years of their death are treated as part of their estate for tax purposes. The tax is charged at 40% above the tax-free allowance. This allowance is frozen at £325,000 for 2016/17.[58]

Gifts made to one's spouse or civil partner are exempt from tax irrespective of their size, and irrespective of whether they are made during one's life, or made under the terms of one's will. In addition, widows, widowers and civil partners are entitled to use the share, if any, of their partner's tax-free allowance which was unused when they died, to set against tax on their own estate. This transferable allowance is available to all survivors of a marriage or civil partnership who die on or after 9 October 2007 – whenever their first partner died.

[55] Guidance on CGT is published on Gov.uk.
[56] Prior to this capital gains were treated in the same way as the top slice of income, and the tax was charged at the same rates of tax as savings income.
[57] *Budget 2016*, HC901, March 2016 para 1.171-2
[58] Guidance on inheritance tax is published on Gov.uk.

In the Summer 2015 Budget the Chancellor George Osborne announced that from April 2017 an additional nil-rate band would apply on death to transfers of a main residence to a direct descendant.[59] In this context a direct descendant is "a child (including a step-child, adopted child or foster child) of the deceased and their lineal descendants." Initially the band is to be set at £100,000.

The additional band will be subject to a taper, for any estate with a net value of more than £2m: the band will be withdrawn by £1 for every £2 the estate exceeds this threshold by. If someone downsizes or ceases to own a home before they die, the additional band may still be claimed on assets of an equivalent value, if passed on death to direct descendants. This is to apply if someone downsizes or ceases to own a home on or after 8 July 2015.[60]

In addition, Mr Osborne confirmed that the *existing* nil-rate band would be frozen at £325,000 at least until 2020/21, while the main residence nil-rate band would rise by £25,000 each year, to reach £175,000 in 2020/21.[61] As with the existing nil-rate band, any unused fraction of the main residence nil-rate band may be transferred to a surviving spouse or civil partner.

59 *Summer Budget 2015*, HC264, July 2015 paras 1.217-221; para 2.89
60 For details see, HMRC, *Inheritance tax: main residence nil-rate band and the existing nil-rate band: tax information & impact note*, 8 July 2015
61 In 2013 the Coalition Government had proposed that the threshold should be frozen until April 2018 (*Budget 2013*, HC1033, March 2013 para 2.76.)

5. Budget 2016 announcements for 2017/18

In his 2016 Budget the Chancellor, George Osborne, announced a number of proposals for personal tax changes to be introduced for 2017/18:

- The **personal allowance** will be increased by £500 to £11,500 for 2017/18.[62]
- The **basic rate limit** will be increased by £1,500 to £33,500 for 2017/18. As a consequence the higher rate threshold will be £45,000 for 2017/18.[63]
- From 6 April 2017 two new **allowances for income from property and from trading** will be introduced. Individuals with property income or trading income below the level of the allowance will no longer need to declare or pay tax on that income. Both allowances are to be set at £1,000 for 2017/18.[64] The Low Incomes Tax Reform Group has noted that strictly speaking these allowances are nil-rate bands of tax which will apply to these categories of income.[65]

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62 *Budget 2016*, HC901, March 2016 para 1.83
63 *Budget 2016*, HC901, March 2016 para 1.85; para 2.20-21; *Overview of Tax Legislation & Rates*, March 2016 para 2.14
64 *Budget 2016*, HC901, March 2016 para 1.170
65 LITRG press notice, *Property and trading income allowances could simplify some individuals' tax position*, 16 March 2016

6. Main personal income tax rates & allowances since 1990/91

Table 1

Main income tax rates and allowances: 1990/91-2017/18

	Allowances/Limits (£ per annum)			Rates			
	Personal allowance	Lower/ Starting Rate Limit	Basic Rate Limit	Lower/ Starting	Basic	Higher	Additional
1990/91	3,005	n/a	20,700	n/a	25%	40%	n/a
1991/92	3,295	n/a	23,700	n/a	25%	40%	n/a
1992/93	3,445	2,000	23,700	20%	25%	40%	n/a
1993/94	3,445	2,500	23,700	20%	25%	40%	n/a
1994/95	3,445	3,000	23,700	20%	25%	40%	n/a
1995/96	3,525	3,200	24,300	20%	25%	40%	n/a
1996/97	3,765	3,900	25,500	20%	24%	40%	n/a
1997/98	4,045	4,100	26,100	20%	23%	40%	n/a
1998/99	4,195	4,300	27,100	20%	23%	40%	n/a
1999/00	4,335	1,500	28,000	10%	23%	40%	n/a
2000/01	4,385	1,520	28,400	10%	22%	40%	n/a
2001/02	4,535	1,880	29,400	10%	22%	40%	n/a
2002/03	4,615	1,920	29,900	10%	22%	40%	n/a
2003/04	4,615	1,960	30,500	10%	22%	40%	n/a
2004/05	4,745	2,020	31,400	10%	22%	40%	n/a
2005/06	4,895	2,090	32,400	10%	22%	40%	n/a
2006/07	5,035	2,150	33,300	10%	22%	40%	n/a
2007/08	5,225	2,230	34,600	10%	22%	40%	n/a
2008/09	6,035	n/a	34,800	n/a	20%	40%	n/a
2009/10	6,475	n/a	37,400	n/a	20%	40%	n/a
2010/11	6,475	n/a	37,400	n/a	20%	40%	50%
2011/12	7,475	n/a	35,000	n/a	20%	40%	50%
2012/13	8,105	n/a	34,370	n/a	20%	40%	50%
2013/14	9,440	n/a	32,010	n/a	20%	40%	45%
2014/15	10,000	n/a	31,865	n/a	20%	40%	45%
2015/16	10,600	n/a	31,785	n/a	20%	40%	45%
2016/17	11,000	n/a	32,000	n/a	20%	40%	45%
2017/18*	11,500	n/a	33,500	n/a	20%	40%	45%

Notes (a) From 2008/09, a 10 per cent starting rate of income tax is retained for savings income. See text for further details.

* as announced at Budget 2016. These are not yet set out in legislation.

Sources: HM Treasury, Budgets 2010 - 16

Tax Benefit Reference Manual 2009-10,

Table 2

Age-related allowances: 1990/91 to 2017/18

£ per annum

	Personal (a)		Married couple's (b)	
	65-74	75+	65-74	75+
1990/91	3,670	3,820	2,145	2,185
1991/92	4,020	4,180	2,355	2,395
1992/93	4,200	4,370	2,465	2,505
1993/94	4,200	4,370	2,465	2,505
1994/95	4,200	4,370	2,665	2,705
1995/96	4,630	4,800	2,995	3,035
1996/97	4,910	5,090	3,115	3,155
1997/98	5,220	5,400	3,185	3,225
1998/99	5,410	5,600	3,305	3,345
1999/00	5,720	5,980	5,125	5,195
2000/01	5,790	6,050	5,185	5,255
2001/02	5,990	6,260	5,365	5,435
2002/03	6,100	6,370	5,465	5,535
2003/04	6,610	6,720	5,565	5,635
2004/05	6,830	6,950	5,725	5,795
2005/06	7,090	7,220	5,905	5,975
2006/07	7,280	7,420	6,065	6,135
2007/08	7,550	7,690	6,285	6,365
2008/09	9,030	9,180	6,535	6,625
2009/10	9,490	9,640	..	6,965
2010/11	9,490	9,640	..	6,965
2011/12	9,940	10,090	..	7,295
2012/13	10,500	10,660	..	7,705
2013/14	10,500	10,660	..	7,915
2014/15	10,500	10,660	..	8,165
2015/16	10,600	10,660	..	8,355
2016/17*	11,000	11,000	..	8,355
2017/18*	11,500	11,500	..	..

Notes: (a) from 2013/14 eligibility for the age-related allowances will be restricted to existing recipients

(b) Relief restricted to 20 per cent in 1994/95, 15 per cent from 1995/96 to 1998/99, and to 10 per cent from 1999/00.
Since 2000/01 the MCA has only been given to couples in which at least one partner was born before 6 April 1935.
The married couple's allowance for 2017/18 has not yet been announced

* from 2016/17 age-related allowances have been merged with the personal allowance. These are the allowances as announced at Budget 2015 and Budget 2016.

Sources: HM Treasury, Budgets 2010 - 16
Tax Benefit Reference Manual 2009-10,

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