



## BRIEFING PAPER

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# Direct taxes: rates and allowances 2017/18

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## Summary

This paper sets out the main changes to direct tax rates and allowances announced in the Budget on 8 March 2017. It lists the principal personal allowances which will be available against income tax in the tax year 2017/18, 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 2017/18 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 £33,500. '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 2016/17.

The **personal allowance** is increased by £500 to £11,500 for 2017/18. The basic rate limit is increased by £1,500, so that the higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – is set at £45,000 for 2017/18.

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 Both allowances have now been overtaken by the personal allowance and have been withdrawn.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 may transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of this provision if their spouse or partner pays more than the basic rate of tax. For 2017/18 the maximum that can be transferred is £1,150.

The rates of **National Insurance contributions** (NICs) for both employees and employers are unchanged for 2017/18. 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 set at £157 per week for 2017/18. The upper earnings limit is increased to £866 per week for 2017/18, so that it remains aligned with the income tax higher rate threshold.

This paper deals only with tax allowances and 'wastable' 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-wastable' tax credits – such as the child tax credit and the working tax credit – along with other tax rates and allowances for the 2017/18 year are set out in [Annex A](#) to HM Treasury, [Overview of Tax Legislation and Rates, March 2017](#), which was published alongside the 2017 Budget report.

# 1. Rates and thresholds

## 1.1 Income tax

### Earned income

For 2017/18 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 2016/17.

The 20% basic rate applies to taxable income up to a threshold of £33,500. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. (Personal allowances are discussed 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%.

2016/17		2017/18	
Taxable income	Tax rate	Taxable income	Tax rate
£0 - £32,000	20%	£0 - £33,500	20%
£32,001 - £150,000	40%	£33,501 - £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.

From April 2017 two new allowances apply to income from property and income from trading. Individuals with property income or trading income below the level of the allowance do not need to declare this income or pay tax on it. Both allowances are set at £1,000 for 2017/18. 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.<sup>1</sup>

### Scottish taxpayers

In 2016/17 Scottish taxpayers are liable to pay the Scottish rate of income tax (SRIT) on their income from earnings, pensions and profits – but not income from savings and dividends. The SRIT works as follows: the three rates of UK income tax paid by Scottish taxpayers are reduced by 10 percentage points, and the Scottish rate is added to each rate. The Scottish Government set the SRIT at 10% for 2016/17, so that the rate structure which has applied to Scottish taxpayers has been the same as taxpayers in the rest of the UK.

<sup>1</sup> LITRG press notice, [Property and trading income allowances could simplify some individuals' tax position](#), 16 March 2016. See also, HMRC, [Income Tax: new tax allowance for property and trading income – tax information & impact note \(TIIN\)](#), December 2016



From the 2017/18 tax year, the Scottish Government has the power to set all income tax rates and thresholds to apply to Scottish taxpayers' non-savings and non-dividend income. The Government does not have the power to set the level of the income tax personal allowance. As a consequence, the Scottish Government has set the basic, higher and additional rates, and the thresholds at which the higher and additional rates start to apply.

For 2017/18 the three rates are set at 20%, 40% and 45%. The higher rate threshold and additional rate threshold are frozen, at £43,000 and £150,000 respectively. As the personal allowance has been increased by £500 to £11,500 from 2017/18, the basic rate limit for Scottish taxpayers is cut to £31,500 – to ensure that the higher rate threshold remains unchanged.<sup>2</sup>

### Savings and dividend income

For 2017/18 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 £33,500. 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 April 2008, a 10% rate was retained for savings income only.

From April 2016 savers have been entitled to claim a new Personal Savings Allowance (PSA). 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 has been withdrawn.<sup>3</sup>

For 2017/18 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%.

In calculating tax liability, dividend and savings income are regarded as the 'top slice' of income, with dividends the highest.<sup>4</sup>

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<sup>2</sup> The Scottish Government publishes details of the tax rates and thresholds which apply to Scottish taxpayers [on its site](#). HMRC is responsible for collecting the tax, and publishes guidance on how it works [on Gov.uk](#).

<sup>3</sup> For more details see, HMRC, [Personal Savings Allowance: latest information](#), September 2016

<sup>4</sup> The Low Incomes Tax Reform Group publishes guidance on the taxation of savings and dividend income [on their site](#).

## 1.2 National Insurance contributions

**Employees** pay Class 1 (primary) National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL). The LEL is set at £113 per week for 2017/18.

A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £157 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 £866 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.<sup>5</sup>

**Employers** pay Class 1 (secondary) NICs on employee earnings at a rate of 13.8% on earnings above the secondary threshold (ST). The ST is set at £157 a week for 2017/18.

### Class 1 NICs rates for employees and employers for 2017/18

Earnings <sup>a</sup> £ per week	Employee NIC rate (per cent)	Earnings £ per week	Employer NIC rate (per cent)
Below £112 (LEL)	0%	Below £112 (LEL)	0%
£112 to £157 (PT)	0%	£112 to £157 (ST)	0%
£157 to £866 (UEL)	12%	Above £157	13.8%
Above £866	2%		

<sup>a</sup> The limits are defined as LEL - lower earnings limit; PT - primary threshold; ST - secondary threshold; and UEL - upper earnings limit.<sup>6</sup>

In the 2013 Autumn Statement the Government announced that from April 2015 it would abolish employer NICs on earnings for employees under 21, on earnings up to the higher rate threshold.<sup>7</sup> From this date a zero rate has applied to earnings on this category of employee up to the 'upper secondary threshold' (UST), set in line with the UEL.

In the 2014 Autumn Statement the Government announced that it would abolish employer NICs up to the UEL for apprentices aged under 25, with effect from April 2016.<sup>8</sup> Consequently a zero rate also applies to earnings on this second category of employees up to a new 'apprentice upper secondary threshold' (AUST), which is also aligned with the UEL. The UST and AUST are set at £866 per week for 2017/18.

<sup>5</sup> For details see, [The new 'single-tier' State Pension](#), Commons Briefing paper SN6525, 30 August 2016.

<sup>6</sup> Government Actuary's Department, [Report to Parliament on the 2017 re-rating and up-rating orders](#), January 2017 pp22-23 These thresholds are set [by Order](#).

<sup>7</sup> [Autumn Statement, Cm 8747, December 2013](#) para 1.195

<sup>8</sup> [Autumn Statement, Cm 8961, December 2014 para 2.53](#)

**Self-employed people** pay a weekly flat rate Class 2 NIC (set at £2.85). They may apply for exemption from paying class 2 contributions if their annual profits are less than the level of the 'small profits threshold' (SPT), set at £6,025. In addition they may be liable to pay a separate Class 4 profits related contribution. Class 4 NICs are charged at a rate of 9% on profits between a lower annual profits limit (£8,164) and an annual upper profits limit (£45,000 – all figures for 2017/18). Profits above the upper limit are charged NICs at a rate of 2%.

**Further to these categories, individuals** may be entitled to make voluntary Class 3 contributions to ensure that they qualify for basic retirement pension and bereavement benefits. Class 3 NICs are charged at a weekly flat rate, set at £14.25 for 2017/18.<sup>9</sup>

### 1.3 The 'tax lock'

In its 2015 General Election manifesto the Conservative Party stated in government it would "not increase the rates of VAT, Income Tax or National Insurance in the next Parliament."<sup>10</sup> In a speech the then 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.<sup>11</sup>

The then 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."<sup>12</sup>

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.<sup>13</sup>

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<sup>9</sup> For more details on the way National Insurance works see, [National Insurance contributions: an introduction](#), Commons Briefing paper SN4517, 21 December 2015

<sup>10</sup> Conservative Party, [2015 General Election Manifesto](#), April 2015 p27

<sup>11</sup> "Cameron pledges to ban tax rises until 2020", [Financial Times](#), 29 April 2015. Mr Cameron also publicised this commitment [on Twitter](#).

<sup>12</sup> [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: TIIN](#), 8 July 2015

<sup>13</sup> 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 are entitled to claim a personal allowance which they can set against income tax. An allowance is also given to individuals who are blind.

### 2.1 Indexation

For many years income tax legislation has required the main personal allowances and income tax 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*.<sup>14</sup> 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 went up in line with inflation - or by more than inflation.<sup>15</sup>

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.<sup>16</sup> This approach was amended in the light of three measures: the phased withdrawal of the age-related allowances for taxpayers from April 2013; the increase in the personal allowance in 'real terms' - by more than inflation - in both 2014/15 and 2015/16; and, the increase in 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.<sup>17</sup> 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.<sup>18</sup> 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

<sup>14</sup> The statutory requirement to uprate allowances and thresholds, is consolidated in sections 57 & 21 of the *Income Tax Act 2007*, as amended

<sup>15</sup> [HL Deb 7 January 2010 c121WA](#)

<sup>16</sup> [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

<sup>17</sup> HM Treasury, *Budget 2017: policy costings*, March 2017 pp23-4 ([Annex A: Indexation in the public forecast baseline](#)).

<sup>18</sup> for details see, HM Treasury, [Tax benefit reference manual: 2009-2010 edition](#), July 2009, paras 1.16-19. [HC DEP 2009-1987]



£10; for the basic rate limit, it is £100. CPI rose by 1.0% in the year to September 2016.<sup>19</sup>

## 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 2017/18 this allowance is £11,500.

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.<sup>20</sup> In the Conservative Government's first Budget after the 2015 General Election, the then Chancellor George Osborne pledged to increase the allowance to £12,500 by the end of the Parliament. Mr Osborne also announced that over this period the higher rate threshold would be raised to £50,000.<sup>21</sup> At this time Mr Osborne announced the personal allowance would be set at £11,000 for 2016/17, and in his 2016 Budget he announced the allowance would be increased by a further £500 from April 2017.<sup>22</sup>

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 2017/18.

## 2.3 Transferable allowance for married couples & civil partners

Individuals whose income is insufficient to make full use of their personal allowance may transfer a fraction of the allowance 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. The allowance was introduced in April 2015. For 2017/18 the maximum that can be transferred is £1,150. In effect the recipient is entitled to a tax credit worth up to £230 to set against their tax bill.

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.<sup>23</sup> Eligible couples can backdate their claim for the

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<sup>19</sup> Office for National Statistics, [UK Consumer Price Inflation: September 2016](#), October 2016

<sup>20</sup> For more details see, [Income tax : increases in the personal allowance \(2010-2015\)](#), Commons Briefing paper SN6569, 17 June 2015.

<sup>21</sup> [HC Deb 8 July 2015 c336](#); *Summer Budget 2015*, HC246, July 2015 [paras 1.130-4](#)

<sup>22</sup> *Budget 2016*, HC901, March 2016 [para 1.83](#)

<sup>23</sup> HMRC, [Marriage allowance](#), February 2017. HMRC's helpline is 0300 200 3300 (see, [PQ14045](#), 3 November 2015).

allowance for up to four years; couples will have until 5 April 2020 to backdate their claim to the 2015/16 tax year when the allowance was first introduced.<sup>24</sup>

## 2.4 Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,320 for 2017/18. The allowance is not restricted in value. If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.

## 2.5 Age-related allowances (withdrawn)

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).<sup>25</sup>

From 2016/17 both age-related allowances have been overtaken by the personal allowance 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.<sup>26</sup>

The MCA and tax relief on maintenance payments were retained for individuals where either they, or their current or former spouse, had

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<sup>24</sup> [PQ HL4734, 30 January 2017](#). See also, [PQ64297, 22 February 2017](#).

<sup>25</sup> For more details see, [Age-related personal allowance](#), Commons Briefing Paper SN6158, 11 May 2016.

<sup>26</sup> 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.

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**.<sup>27</sup> For 2017/18, this allowance is set at £8,445, increased in line with inflation. 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, £845.

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). For 2017/18 this income limit is set at £28,000. The withdrawal of the MCA from older couples is subject to a minimum allowance set at £3,260 for 2017/18, 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 83 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.<sup>28</sup>

## 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 83 or over (which is £3,260 restricted to 10% for 2017/18). 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.

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<sup>27</sup> When a person born on or before 5 April 1935 newly gets married, that person or their spouse is entitled to claim this allowance.

<sup>28</sup> More guidance is given [on Gov.uk](http://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.<sup>29</sup>

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<sub>2</sub> emissions level, which is expressed in grams per kilometre (g/km).

For 2017/18 a rate of 18% 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 190g/km and above). Three lower bands apply for cars with emissions under 95g/km. For 2017/18 these are 9% (0-50g/km), 13% (51-75g/km), and 17% (76-94g/km).<sup>30</sup>

In recent years the percentage charges for company cars have been announced some time in advance. *Budget 2017* confirmed rates up to 2020/21.<sup>31</sup>

The taxable benefit of free fuel provided for private motoring in a company car is also related to the level of CO<sub>2</sub> 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 2017/18 this is £22,600.<sup>32</sup>

### 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.<sup>33</sup>
- The lifetime allowance (LTA) - which limits the amount of pension saving over an individual's lifetime that can benefit from tax relief.<sup>34</sup>

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

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<sup>29</sup> 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](#).

<sup>30</sup> HMRC, *Expenses & benefits: a tax guide, Notice 480, 2017 edition p99*

<sup>31</sup> HM Treasury, *Overview of Tax Rates & Allowances*, March 2017 (pp33-4)

<sup>32</sup> HMRC, *Personal Tax: van benefit charge and the car and van fuel benefit charges: TIIIN*, December 2016. This multiplier is set by Order: [SI 2016/1174](#).

<sup>33</sup> *Finance Act (FA) 2004*, s227; HMRC, Registered Pension Schemes Manual, [RPSM06100000](#)

<sup>34</sup> *FA 2004*, s216; [RPSM11200000](#)

£1.5 million.<sup>35</sup> Both allowances were set to increase in stages, with the LTA reaching £1.8m and the AA £255,000 by 2010.<sup>36</sup> 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.<sup>37</sup> This was legislated for in the [Finance Act 2011](#).<sup>38</sup>
- 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.<sup>39</sup> This was legislated for in the [Finance Act 2013](#).<sup>40</sup>
- In the March 2015 Budget, the Government announced a reduction in the LTA from £1.25 million to £1 million from April 2016.<sup>41</sup> Provision for this was made in [Finance Act 2016](#).<sup>42</sup>
- 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.<sup>43</sup> This was legislated for in the [Finance \(No. 2\) Act 2015](#).<sup>44</sup>

Major changes to options on retirement for people with defined contribution (DC) pension savings were introduced from 6 April 2015.<sup>45</sup>

Before this, roughly three-quarters of people with DC pension savings used them to purchase an annuity.<sup>46</sup> 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 due to falling annuity rates and evidence that parts of the market did not work well for consumers.<sup>47</sup>

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. At the time the then Chancellor of the Exchequer, George Osborne, said that people "should be trusted with their own finances."<sup>48</sup> The relevant changes to pension tax legislation were made in the *Taxation of*

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<sup>35</sup> [FA 2004](#) s218, s218 and 228

<sup>36</sup> [Budget 2004](#), HC301, March 2004 para 5.45

<sup>37</sup> [Restricting pensions tax relief through existing allowances: a summary of the discussion document responses](#), October 2010, para 2.6 to 2.7

<sup>38</sup> specifically, ss66-7 and Sch 17 & 18 of [FA2011](#).

<sup>39</sup> [Autumn Statement 2012](#), Cm 8480, December 2012 para 1.179

<sup>40</sup> specifically Chapter 4 of [FA2013](#).

<sup>41</sup> [Budget 2015](#), HC1093, March 2015, para 1.232

<sup>42</sup> Specifically, s19 and Sch 4

<sup>43</sup> [Summer Budget 2015](#), HC 264, July 2015, para 1.223

<sup>44</sup> specifically s23 and Sch 4 of [F\(No.2\)A2015](#). For more detail, see [Restricting pension tax relief](#), Commons Briefing paper SN5901, April 2016.

<sup>45</sup> A DC pension is one to which contributions are made, which are invested, and then used to provide an income at retirement

<sup>46</sup> HM Treasury, [Freedom and choice in pensions](#), Cm 8835, March 2014, Diagram 3A

<sup>47</sup> FSCP, [Annuities: Time for Regulatory Reform](#), December 2013

<sup>48</sup> [HC Deb 19 March 2014 c794](#)



*Pensions Act 2014*. To help people navigate the expanded range of options, a guidance service – [Pension Wise](#) – was established.<sup>49</sup>

The Government introduced a limit of £10,000 on the annual amount an individual can save in a DC pension once they have accessed their savings flexibly. In the [Autumn Statement](#) in November 2016, it announced that the limit would be reduced to £4,000 from April 2017. The reason was that:

The government does not consider that earners aged 55 and over should be able to enjoy double pension tax relief, such as relief on recycled pension savings, but does wish to offer scope for those who have needed to access their savings to subsequently rebuild them.<sup>50</sup>

A consultation on proposals for this ran between 23 November 2016 and 15 February 2017.<sup>51</sup> Legislation to this effect is to be included in *Finance Bill 2017*.<sup>52</sup>

The ‘pension freedoms’ are not available to people to have already purchased an annuity – because this is generally a one-off and irreversible purchase.<sup>53</sup> In its March 2015 Budget, the Coalition Government proposed allowing annuity holders to sell that income to a third party from April 2016.<sup>54</sup> Following the election, the current Government announced that implementation would be delayed to 2017 to enable consumer protection measures to be developed.<sup>55</sup>

However, in October 2016, it said it had cancelled plans for a secondary annuities market. The reason was that it had become increasingly clear that creating the conditions to allow a competitive market to emerge that could not be balanced with consumer protections.<sup>56</sup>

The Government consulted in 2015 about whether fundamental changes should be made to this system of pension tax relief to improve incentives to save.<sup>57</sup> However, in Budget 2016 it announced no change on the grounds that there had been “no consensus.”<sup>58</sup>

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<sup>49</sup> specifically by the [Pension Schemes Act 2015](#)

<sup>50</sup> HM Treasury, [Autumn Statement 2016](#), Cm 9362, November 2016, para 4.20

<sup>51</sup> HM Treasury, [Reducing the money purchase annual allowance: consultation](#), November 2016

<sup>52</sup> HMRC, [Reducing the annual money purchase allowance: TIIN](#), March 2017

<sup>53</sup> Financial Conduct Authority, [Retirement income market study: Interim Report](#), Executive Summary

<sup>54</sup> [Budget 2015](#), HC 1093, 18 March 2015, paras 1.229-31

<sup>55</sup> [Summer Budget 2015](#), HC 264, July 2015

<sup>56</sup> HM Treasury, [Government cancels plans to create market for secondary annuities](#), 18 October 2016; [PQ 49517, 26 October 2016](#)). For more details see, [Secondary annuities market](#), Library Briefing Paper CBP7707, 4 November 2016.

<sup>57</sup> HM Treasury, [Strengthening the incentive to save: reforming pension tax relief](#), Cm 9102, July 2015

<sup>58</sup> [HC Deb 16 March 2016 c966; Budget 2016](#), HC901, March 2016 para 1.108-9; [Reforming pension tax relief](#), Library Briefing Paper CBP7505, 7 March 2016.

### 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.<sup>59</sup>

**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 applies to a donation of any size.<sup>60</sup> 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 scheme to allow 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 was increased to £8,000 from April 2016.<sup>61</sup> From April 2017 eligible donations may be made by contactless payment as well as in cash, one of a number of changes to simplify and increase access to the GASDS.<sup>62</sup>

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<sup>59</sup> A maximum limit of £1,200 a year applied prior to 6 April 2000.

<sup>60</sup> [Guidance for taxpayers](#) on both payroll giving and Gift Aid is published on Gov.uk.

<sup>61</sup> This change was made by Order: [SI 2015/2027](#).

<sup>62</sup> For details see, [Small Charitable Donations and Childcare Payments Act 2017](#), [Commons Library Briefing CBP7711](#), 17 January 2017.

## 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 increased, in line with inflation, to £11,300 for 2017/18. Individuals may realise gains up to this threshold free of tax. 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. Gains from residential property not eligible for Private Residence Relief, and from carried interest, are liable to tax at higher rates: 18%, and 28% respectively.<sup>63</sup>

Gains qualifying for entrepreneur's relief are charged a rate of 10%. A £10m lifetime limit applies to capital gains qualifying for this relief. A 10% rate also applies to gains made by long term investors in unlisted companies, subject to a lifetime limit of £10m of gains. These rates and thresholds are unchanged for 2017/18.

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.<sup>64</sup> 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 then Chancellor George Osborne announced that both rates of CGT would be cut, from 18% and 28%, to 10% and 20% respectively, from 6 April 2016. The rates of tax were left unchanged for gains from residential property not eligible for Private Residence Relief, and gains from carried interest.

### 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 2017/18.<sup>65</sup>

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.

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<sup>63</sup> [Guidance on CGT](#) is published on Gov.uk.

<sup>64</sup> 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.

<sup>65</sup> [Guidance on inheritance tax](#) is published on Gov.uk.

In the Summer 2015 Budget the then 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.<sup>66</sup> 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.” The additional nil-rate band is set at £100,000 for 2017/18.

The additional band is 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.<sup>67</sup>

In the Summer 2015 Budget Mr Osborne also announced 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.<sup>68</sup> 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.

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<sup>66</sup> *Summer Budget 2015*, HC264, July 2015 [paras 1.217-221](#); [para 2.89](#)

<sup>67</sup> For details see, HMRC, *Inheritance tax: main residence nil-rate band and the existing nil-rate band*: *TIN*, 8 July 2015

<sup>68</sup> 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. 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
<b>1990/91</b>	3,005	n/a	20,700	n/a	25%	40%	n/a
<b>1991/92</b>	3,295	n/a	23,700	n/a	25%	40%	n/a
<b>1992/93</b>	3,445	2,000	23,700	20%	25%	40%	n/a
<b>1993/94</b>	3,445	2,500	23,700	20%	25%	40%	n/a
<b>1994/95</b>	3,445	3,000	23,700	20%	25%	40%	n/a
<b>1995/96</b>	3,525	3,200	24,300	20%	25%	40%	n/a
<b>1996/97</b>	3,765	3,900	25,500	20%	24%	40%	n/a
<b>1997/98</b>	4,045	4,100	26,100	20%	23%	40%	n/a
<b>1998/99</b>	4,195	4,300	27,100	20%	23%	40%	n/a
<b>1999/00</b>	4,335	1,500	28,000	10%	23%	40%	n/a
<b>2000/01</b>	4,385	1,520	28,400	10%	22%	40%	n/a
<b>2001/02</b>	4,535	1,880	29,400	10%	22%	40%	n/a
<b>2002/03</b>	4,615	1,920	29,900	10%	22%	40%	n/a
<b>2003/04</b>	4,615	1,960	30,500	10%	22%	40%	n/a
<b>2004/05</b>	4,745	2,020	31,400	10%	22%	40%	n/a
<b>2005/06</b>	4,895	2,090	32,400	10%	22%	40%	n/a
<b>2006/07</b>	5,035	2,150	33,300	10%	22%	40%	n/a
<b>2007/08</b>	5,225	2,230	34,600	10%	22%	40%	n/a
<b>2008/09</b>	6,035	n/a	34,800	n/a	20%	40%	n/a
<b>2009/10</b>	6,475	n/a	37,400	n/a	20%	40%	n/a
<b>2010/11</b>	6,475	n/a	37,400	n/a	20%	40%	50%
<b>2011/12</b>	7,475	n/a	35,000	n/a	20%	40%	50%
<b>2012/13</b>	8,105	n/a	34,370	n/a	20%	40%	50%
<b>2013/14</b>	9,440	n/a	32,010	n/a	20%	40%	45%
<b>2014/15</b>	10,000	n/a	31,865	n/a	20%	40%	45%
<b>2015/16</b>	10,600	n/a	31,785	n/a	20%	40%	45%
<b>2016/17</b>	11,000	n/a	32,000	n/a	20%	40%	45%
<b>2017/18</b>	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.

Sources: HM Treasury, Budgets 2010 - 17  
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+
<b>1990/91</b>	3,670	3,820	2,145	2,185
<b>1991/92</b>	4,020	4,180	2,355	2,395
<b>1992/93</b>	4,200	4,370	2,465	2,505
<b>1993/94</b>	4,200	4,370	2,465	2,505
<b>1994/95</b>	4,200	4,370	2,665	2,705
<b>1995/96</b>	4,630	4,800	2,995	3,035
<b>1996/97</b>	4,910	5,090	3,115	3,155
<b>1997/98</b>	5,220	5,400	3,185	3,225
<b>1998/99</b>	5,410	5,600	3,305	3,345
<b>1999/00</b>	5,720	5,980	5,125	5,195
<b>2000/01</b>	5,790	6,050	5,185	5,255
<b>2001/02</b>	5,990	6,260	5,365	5,435
<b>2002/03</b>	6,100	6,370	5,465	5,535
<b>2003/04</b>	6,610	6,720	5,565	5,635
<b>2004/05</b>	6,830	6,950	5,725	5,795
<b>2005/06</b>	7,090	7,220	5,905	5,975
<b>2006/07</b>	7,280	7,420	6,065	6,135
<b>2007/08</b>	7,550	7,690	6,285	6,365
<b>2008/09</b>	9,030	9,180	6,535	6,625
<b>2009/10</b>	9,490	9,640	..	6,965
<b>2010/11</b>	9,490	9,640	..	6,965
<b>2011/12</b>	9,940	10,090	..	7,295
<b>2012/13</b>	10,500	10,660	..	7,705
<b>2013/14</b>	10,500	10,660	..	7,915
<b>2014/15</b>	10,500	10,660	..	8,165
<b>2015/16</b>	10,600	10,660	..	8,355
<b>2016/17*</b>	11,000	11,000	..	8,355
<b>2017/18</b>	11,500	11,500	..	8,445

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.

From 2016/17 age-related allowances have been merged with the personal allowance.

Sources: HM Treasury, Budgets 2010 - 17  
Tax Benefit Reference Manual 2009-10,

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