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Direct taxes: rates and allowances 2019/20

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Summary

This paper sets out direct tax rates and principal tax allowances for the 2019/20 tax year, as announced in the 2018 Budget on 29 October 2018. The paper outlines the conditions necessary for eligibility for these tax allowances, and provides a summary of the general tax position in straightforward cases.

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate. For 2019/20 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 £37,500. '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 2018/19.

The **personal allowance** is increased by £650 to £12,500 for 2019/20. The basic rate limit is increased by £3,000, so that the higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – is set at £50,000 for 2019/20.

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. Both allowances have now been overtaken by the personal allowance and have been withdrawn.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 2019/20 the maximum that can be transferred is £1,250.

The rates of **National Insurance contributions** (NICs) for both employees and employers are unchanged for 2019/20. 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 £166 per week for 2019/20. The upper earnings limit is increased to £962 per week for 2019/20, so that it remains aligned with the income tax higher rate threshold.

This paper deals with tax allowances, but not with cash benefits provided under the social security system, or child tax credit and working tax credit. Details of these credits, along with other tax rates and allowances for the 2019/20 year are set out in Annex A to HM Treasury, *Overview of Tax Legislation and Rates*, October 2018, published alongside the 2018 Budget report.

1. Rates and thresholds

1.1 Income tax

Income from earnings, pensions, profits

All 'non-savings' income – income from earnings, pensions, taxable social security benefits, trading profits and income from property – are subject to income tax at the same rates.

For 2019/20 income tax on these categories of 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 2018/19.

The 20% basic rate applies to taxable income up to a threshold of £37,500. 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%.

2018/19		2019/20	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
£0 - £34,500	**20%**	**£0 - £37,500**	**20%**
£34,501 - £150,000	**40%**	**£37,501 - £150,000**	**40%**
Over £150,000	**45%**	**Over £150,000**	**45%**

A 10% starting rate of tax used to apply on non-savings income, but was withdrawn in April 2008.

Two new allowances which apply to income from property and income from trading were introduced from April 2017. 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 2019/20.[1]

Scottish taxpayers

From 2017/18 the Scottish Government has had the power to set all income tax rates and thresholds to apply to Scottish taxpayers' non-savings and non-dividend income. The Scottish Government does not have the power to set the level of the income tax personal allowance.

For 2019/20 the Scottish Government has set five rate of income tax: the starter rate of 19%; the basic rate of 20%; the intermediate rate of 21%; the higher rate of 41%; and the top rate of 45%. It has also set the four thresholds at which these rates take effect.

1 HMRC, *Income Tax: new tax allowance for property and trading income*, December 2016; see also, Low Incomes Tax Reform Group, *What is the trading allowance?*, 7 February 2019 & *Renting out a property*, 13 March 2019

These rates and thresholds are set out below – the table assumes someone is in receipt of the UK personal allowance:[3]

Taxable income	Tax rate
Over £12,500 - £14,549	19%
Over £14,549 - £24,944	20%
Over £24,944 - £43,430	21%
Over £43,430 - £150,000	41%
Above £150,000*	46%

* Personal Allowance is reduced by £1 for every £2 earned over £100,000[4]

Savings and dividend income

For 2019/20 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 £37,500. 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.

Since 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 was withdrawn.[5]

For 2019/20 dividend income is charged at 0% for income up to £2,000 – 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.[6]

3 The Scottish Government publishes details of these rates and thresholds on its site.
4 HMRC is responsible for collecting the tax; general guidance is on Gov.uk.
5 For more details see, HMRC, *Tax on savings interest*, ret'd February 2019
6 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 are liable to Class 1 (primary) National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL). The LEL is set at £118 per week for 2019/20.

However, a zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £166 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 £962 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.[7]

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 £166 a week for 2019/20.

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.[8] 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.[9] Consequently a zero rate also applies to earnings on this second category of employees up to an 'apprentice upper secondary threshold' (AUST), which is also aligned with the UEL. The UST and AUST are set at £962 per week for 2019/20.

Class 1 NICs rates for employees and employers for 2019/20

Earnings[a] £ per week	Employee NIC rate (per cent)	Earnings £ per week	Employer NIC rate (per cent)
Below £118 (LEL)	0%	Below £118 (LEL)	0%
£118 to £166 (PT)	0%	£118 to £166 (ST)	0%
£166 to £962 (UEL)	12%	Above £166	13.8%
Above £962	2%		

7 For details see, *The new State Pension: transitional issues*, Commons Library Briefing paper CBP7414, 25 February 2019.
8 *Autumn Statement*, Cm 8747, December 2013 para 1.195
9 *Autumn Statement*, Cm 8961, December 2014 para 2.53

[a] *The limits are defined as LEL - lower earnings limit; PT - primary threshold; ST - secondary threshold; and UEL - upper earnings limit.* [10]

Self-employed people pay a weekly flat rate Class 2 NIC (set at £3.00). 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 £6,365. 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 (£8,632) and an annual upper profits limit (£50,000 – all figures for 2019/20). 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 the state pension and bereavement benefits. Class 3 NICs are charged at a weekly flat rate, set at £15.00 for 2019/20.[11]

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10 Government Actuary's Department, *Report to Parliament on the 2019 re-rating and up-rating orders*, January 2019 pp31-2. These thresholds are set by Order (SI 2019/262).

11 For more details on the operation of NICs see, *National Insurance contributions: an introduction*, Commons Briefing paper CBP4517, 17 July 2017.

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 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 2019/20 this allowance is £12,500.

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.[12] 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 and the higher rate threshold to £50,000, by the end of the Parliament.[13] In the 2018 Budget the Chancellor Philip Hammond confirmed that the personal allowance and higher rate threshold would be set at £12,500 and £50,000 respectively for 2019/20. The Chancellor went on to state that both would be frozen for 2020/21, and then increased in line with CPI inflation from 2021/22.[14]

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 2019/20.

2.2 Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,450 for 2019/20. If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.

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

12 For more details see, *Income tax : increases in the personal allowance since 2010,* Commons Briefing paper CBP6569, 15 November 2018.
13 HC Deb 8 July 2015 c336; *Summer Budget 2015*, HC246, July 2015 paras 1.130-4
14 HC Deb 29 October 2018 cc667-8; *Budget 2018*, HC1629, October 2018 para 3.7

in April 2015. For 2019/20 the maximum that can be transferred is £1,250. In effect the recipient is entitled to a tax credit worth up to £250 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. Eligible couples can backdate their claim for the 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.[15] In the Autumn 2017 Budget the Government announced that claims for the allowance would be allowed in cases where a partner has died before the claim was made, and that these claims would be able to be backdated by up to 4 years.[16]

2.4 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*.[17] 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 many years since then, allowances went up in line with inflation or by more than inflation.[18]

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.[19] 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.[20] The threshold for the additional rate

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15 HMRC, *Marriage allowance*, ret'd March 2019. HMRC's helpline is 0300 200 3300. See also, PQ14045, 3 November 2015; PQ HL4734, 30 January 2017.

16 *Autumn Budget 2017*, HC587, November 2017 para 3.6. See also, *Income tax allowances for married couples*, Commons Briefing paper CBP870, 4 May 2018.

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

18 HL Deb 7 January 2010 c121WA

19 *Budget 2011*, HC 836, March 2011 para 1.128. see also, Office of National Statistics, *Users and uses of consumer price inflation statistics*, October 2016

20 HM Treasury, *2018 Budget : policy costings*, October 2018 pp49-53 (Annex A: Indexation in the public forecast baseline).

(£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.[21] 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. CPI rose by 2.4% in the year to September 2018.[22]

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).[23]

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.[24]

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.

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

22 ONS, *UK Consumer Price Inflation: September 2018*, October 2018

23 For more details see, *Age-related personal allowance*, Commons Briefing Paper CBP6158, 11 May 2016.

24 This measure was announced in the March 1999 Budget; see, *Direct taxes: rates & allowances 2000/01*, Commons Briefing paper RP00/38, 29 March 2000 pp11-12.

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**.[25] For 2019/20, this allowance is set at £8,915, 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, £892.

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 2019/20 this income limit is set at £29,600. The withdrawal of the MCA from older couples is subject to a minimum allowance set at £3,450 for 2019/20, 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 who reached 65 by 6 April 2000 will be 85 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.[26]

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 85 or over (which is £3,450 restricted to 10% for 2019/20). 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.[27]

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

[26] 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.

[27] See also, Low Incomes Tax Reform Group, *What tax allowances am I entitled to?*, February 2019.

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.[28]

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 2019/20 a rate of 23% 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 165g/km and above). Three lower bands apply for cars with emissions under 95g/km. For 2019/20 these are 16% (0-50g/km), 19% (51-75g/km), and 22% (76-94g/km).[29] In recent years these percentage charges have been announced some time in advance. *Budget 2018* confirmed rates up to 2020/21.[30]

The taxable benefit of free fuel provided for private motoring in a company car is also calculated by reference related to the level of CO_2 emissions. To calculate the monetary value of this benefit, the 'appropriate percentage' is multiplied against a set figure for the year; for 2019/20 this is set at £24,100.[31]

3.2 Pensions

The annual and lifetime allowances

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.[32]
- The lifetime allowance (LTA) - which limits the amount of pension saving over an individual's lifetime that can benefit from tax relief.[33]

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28 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.

29 HMRC, *Expenses & benefits: a tax guide*, Notice 480, 2019 edition (see Appendix 2)

30 HMT, *Overview of Tax Rates & Allowances*, October 2018 (Annex A)

31 HMRC, *Income Tax: van benefit charge and fuel benefit charges for cars and vans from 6 April 2019*, 29 October 2018. This multiplier is set by Order: SI 2018/1176.

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

33 *FA 2004*, s216; RPSM11200000

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.[34] Both allowances were set to increase in stages, with the LTA reaching £1.8m and the AA £255,000 by 2010.[35] 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.[36] This was legislated for by *Finance Act 2011* (ss66-7 & Schedules 17 & 18).
- 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.[38] This was legislated for by *Finance Act 2013* (ss47-54).
- In the March 2015 Budget, the Government announced a reduction in the LTA from £1.25 million to £1 million from April 2016. From April 2018, it would increase each year in line with CPI inflation.[40] Provision for this was made by *Finance Act 2016* (s19 & Schedule 4). The LTA will increase in line with the CPI for 2019-20, rising to £1,055,000.[42]
- 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.[43] This was legislated for by *Finance (No. 2) Act 2015* (s23 & Schedule 4).

Measures were put in place to mitigate the impact of these reductions. Individuals have been able to apply for different forms of protection at each stage the LTA has been reduced. And individuals at risk of breaching the AA in one year, can offset excess contributions against unused allowances from the previous three years. Because a tax charge will nonetheless arise in some cases, the Government consulted on options to enable individuals to meet a charge out of pension benefits rather than current income. Despite this, there are about the impact of these reduced limits on some members of defined benefit pension schemes, particularly in the public sector.[45]

Pension freedoms

Major changes to options on retirement for people with defined contribution (DC) pension savings were introduced from 6 April 2015.[46] Before this, roughly three-quarters of people with DC pension savings

[34] *FA 2004* s218, s218 and 228
[35] *Budget 2004*, HC301, March 2004 para 5.45
[36] *Restricting pensions tax relief through existing allowances: a summary of the discussion document responses*, October 2010, para 2.6 to 2.7
[38] *Autumn Statement 2012*, Cm 8480, December 2012 para 1.179
[40] *Budget 2015*, HC1093, March 2015, para 1.232
[42] HM Treasury, *Budget 2018*, HC 1629, October 2018, para 3.17
[43] *Summer Budget 2015*, HC 264, July 2015, para 1.223
[45] PQ HL23895 6 March 2019; *Restricting pension tax relief*, Commons Briefing paper CBP5901, 21 March 2019.
[46] A DC pension is one to which contributions are made, which are invested, and then used to provide an income at retirement

used them to purchase an annuity.[47] 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.[48]

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.[49] The relevant changes to pension tax legislation were made in the *Taxation of Pensions Act 2014.* To help people navigate the expanded range of options, a guidance service – Pension Wise – was established, under the *Pension Schemes Act 2015.*

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, on the grounds that, in the Government's view, "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."[51] Following a consultation exercise, provision for this measure was made by *Finance (No. 2) Act 2017* (s7).[53]

The 'pension freedoms' are not available to people to have already purchased an annuity – because this is generally a one-off and irreversible purchase.[54] In its March 2015 Budget, the Coalition Government proposed allowing annuity holders to sell that income to a third party from April 2016.[55] Following the election, the current Government announced that implementation would be delayed to 2017 to enable consumer protection measures to be developed.[56] 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.[57]

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47 HM Treasury, *Freedom and choice in pensions,* Cm 8835, March 2014, Diagram 3A
48 FSCP, *Annuities: Time for Regulatory Reform*, December 2013
49 HC Deb 19 March 2014 c794; *Budget 2014*, HC 1104, para 1.156-66. For more detail, see *Pension flexibilities: the 'freedom and choice' reforms*, Commons Briefing paper CBP6891, 28 September 2018.
51 Autumn Statement 2016, Cm 9362, November 2016, para 4.20
53 See also, HMRC, *Reducing the annual money purchase allowance*, March 2017
54 Financial Conduct Authority, *Retirement income market study: Interim Report*, December 2014 (see 'Executive Summary' pp4-8).
55 *Budget 2015,* HC 1093,18 March 2015, paras 1.229-31
56 *Summer Budget 2015*, HC 264, July 2015, para 1.227-30
57 HM Treasury press notice, *Government cancels plans to create market for secondary annuities*, 18 October 2016; PQ 49517, 26 October 2016). For more details see, *Secondary annuities market*, Commons Briefing paper CBP7707, 4 November 2016.

Wider reforms

The Government consulted in 2015 about whether fundamental changes should be made to this system of pension tax relief to improve incentives to save.[58] However, in Budget 2016 it announced no change on the grounds that there had been "no consensus."[59]

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 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.[60]

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.[61] 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.[62] 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.[63] The cash limit on donations is increased to £30 from April 2019.[64]

58 HM Treasury, *Strengthening the incentive to save: reforming pension tax relief*, Cm 9102, July 2015

59 HC Deb 16 March 2016 c966; *Budget 2016*, HC901, March 2016 para 1.108-9; *Reforming pension tax relief*, Commons Briefing paper CBP7505, 12 October 2018.

60 A maximum limit of £1,200 a year applied prior to 6 April 2000.

61 Guidance for taxpayers on both payroll giving and Gift Aid is published on Gov.uk.

62 This change was made by Order: SI 2015/2027.

63 For more details see, *Gift Aid Small Donations Scheme*, Commons Library Briefing CBP6330, 7 February 2019.

64 This change was also made by Order: SI 2019/237.

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 £12,000 for 2019/20. 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.[65]

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.

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.[66] 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, which is set at £325,000 for 2019/20.[67]

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.

65 Guidance on CGT is published on Gov.uk.
66 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.
67 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.[68] 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 was set initially at £100,000 and is set at £150,000 for 2019/2020.

In his 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.[69]

The additional nil-rate 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. 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. 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.[70]

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68 *Summer Budget 2015*, HC264, July 2015 paras 1.217-221; para 2.89

69 In 2013 the Coalition Government had proposed that the threshold should be frozen until April 2018 (*Budget 2013*, HC1033, March 2013 para 2.76.)

70 For details see, HMRC, *Inheritance tax: main residence nil-rate band and the existing nil-rate band*, updated June 2017

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

Table 1

Main income tax rates and allowances: 1990/91-2019/20

	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%
2018/19	11,850	n/a	34,500	n/a	20%	40%	45%
2019/20	12,500	n/a	37,500	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,
HMRC. Rates and thresholds for employers: 2019 to 2020

Table 2

Age-related allowances: 1990/91 to 2019/20

£ 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	..	8,445
2018/19	11,850	11,850	..	8,695
2019/20	12,500	12,500	..	8,915

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,
HM Treasury. Autumn Budget 2017: overview of tax legislation and rates, Annex A

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