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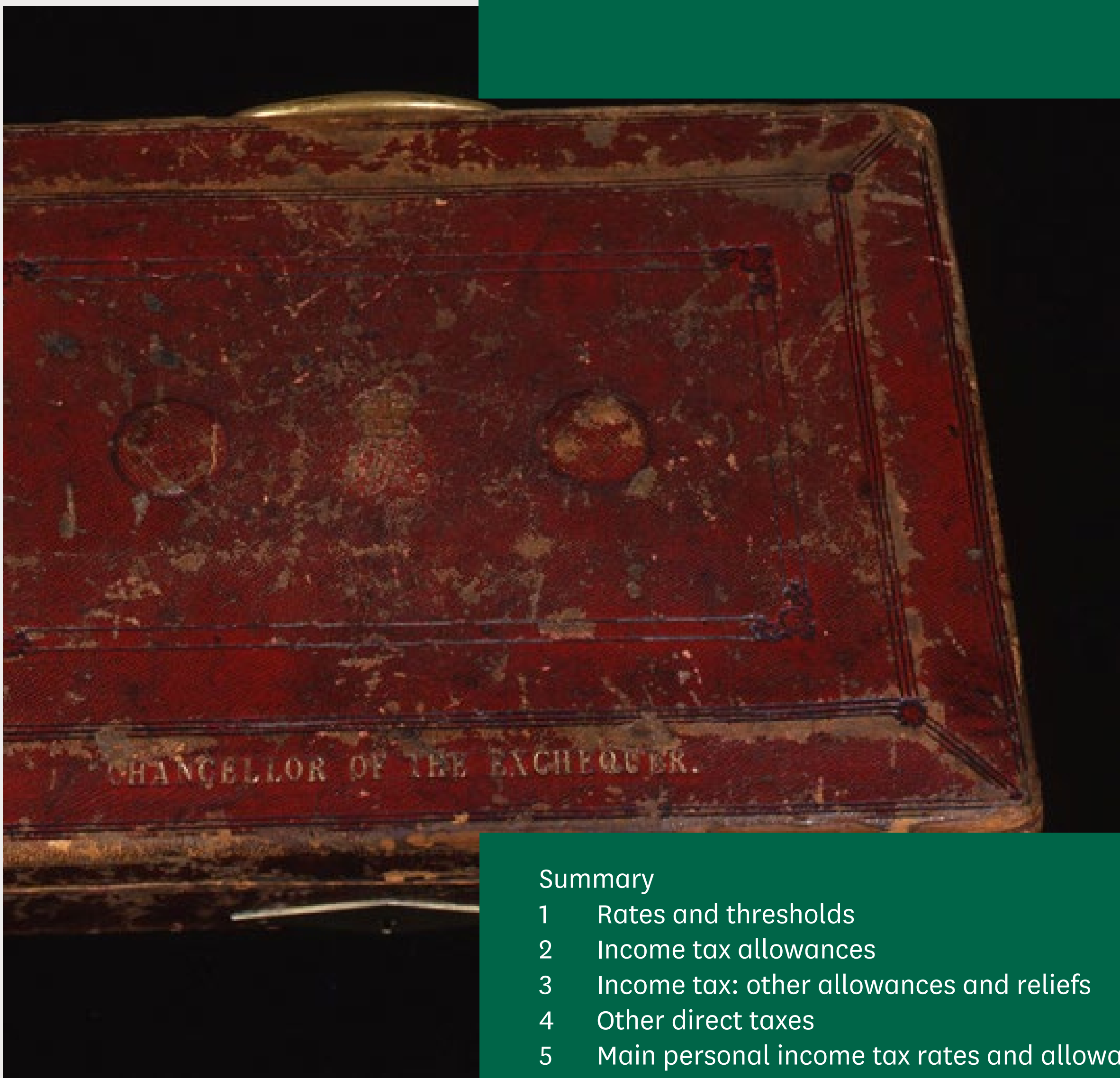
Direct taxes: Rates and allowances 2023/24



Summary

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Summary

This briefing sets out direct tax rates and principal tax allowances for the 2023/24 tax year, as confirmed in the Spring Budget 2023 on 15 March 2023.

It outlines the conditions necessary for eligibility for these tax allowances and provides a summary of the general tax position in straightforward cases.

This briefing deals with tax allowances, but not with cash benefits provided under the social security system, the child tax credit or the working tax credit.

Income tax

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate.

For 2023/24 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 £37,700. '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 £125,140. The additional rate is charged on taxable income over £125,140.

All three tax rates are unchanged from 2022/23.

Personal allowance

The **personal allowance** is set at £12,570 for 2023/24. Both the personal allowance and the basic rate limit have been fixed in value from 2021/22. The higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – remains unchanged at £50,270 for 2023/24.

Marriage allowance

Married couples and civil partners may be entitled to claim the **marriage allowance**. 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 2023/24 the maximum that can be transferred is £1,260.

National Insurance contributions

The rates of **National Insurance contributions** (NICs) for both employees and employers are unchanged for 2023/24. 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.

The primary threshold is set at £242 per week for 2023/24. The secondary threshold is set at £175 per week for 2023/24. The upper earnings limit is set at £967 per week for 2023/24, so that it remains aligned with the income tax higher rate threshold. All three thresholds are unchanged from 2022/23.

During 2022/23 the rates of NICs for both employees and employers, as well as the primary threshold for employees, were changed:

- In the Spring Statement 2022 the then Chancellor Rishi Sunak announced that the primary threshold, set at £190 from 6 April 2022, would be increased to £242 from 6 July 2022. This measure was to mitigate the impact of the 1.25 percentage point rise in NICs rates for 2022/23, which represented the first stage in the introduction of a new tax: the Health and Social Care Levy.

- On 22 September 2022 the then Chancellor Kwasi Kwarteng announced that the 1.25 percentage point rise in NICs rates would be reversed from 6 November 2022, while the Health and Social Care Levy would be cancelled.

The Commons Library briefing on the legislation which repealed the Health and Social Levy has more details on these changes.

Further information

Details of tax rates and allowances as well as tax credits for the 2023/24 year are set out in Annex A to HM Treasury, Overview of Tax Legislation and Rates, March 2023 published alongside the Spring Budget 2023.

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 2023/24 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 2022/23.[1]

The 20% basic rate applies to taxable income up to a threshold of £37,700. 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 £125,140. Income earned above this threshold is charged tax at 45%. In Autumn Statement 2022 the Chancellor Jeremy Hunt announced that the additional rate threshold would be cut from £150,000 to £125,140 from 6 April 2023.[2]

Income tax rates and thresholds for 2022/23 and 2023/24 are set out in the table below.

Taxable rates (income tax)
2022/23 and 2023/24

2022/23		2023/24	
Taxable income	Tax rate	Taxable income	Tax rate
£12,571 - £50,270	20%	£12,571 - £50,270	20%
£50,271 - £150,000	40%	£50,271 - £125,140	40%
Over £150,000	45%	Over £125,140	45%

Source: HMRC, Income Tax rates and Personal Allowances, GOV.UK, accessed on 3 April 2023

1 HM Treasury (HMT), Overview of Tax Legislation and Rates, March 2023 (Annex A)
2 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.20

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 2023/24.[3]

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. It does not have the power to set the personal allowance. For 2023/24 the Scottish Government has set five rates of income tax: the starter rate of 19%; the basic rate of 20%; the intermediate rate of 21%; the higher rate of 42%; and the top rate of 47%. It has also set the four thresholds at which these rates take effect. These rates and thresholds for 2022/23 and 2023/24 are set out in the table below:

Taxable income rates (income tax) for Scotland

2022/23 and 2023/24

2022/23		2023/24	
Taxable income	Tax rate	Taxable income	Tax rate
£12,571 - £14,732	19%	£12,571 - £14,732	19%
£14,733 - £25,688	20%	£14,733 - £25,688	20%
£25,689 - £43,662	21%	£25,689 - £43,662	21%
£43,663 - £150,000	41%	£43,663 - £125,140	42%
Above £150,000	46%	Above £125,140	47%

Source: Scottish Government, Scottish Income Tax 2022-2023: rates and bands, and Scottish Income Tax 2023-2024: rates and bands, accessed on 3 April 2023[4]

Savings and dividend income

For 2023/24 savings income – such as interest 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 £37,700. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £125,140. Savings income above this limit is charged at the 45% additional rate.

3 HM Revenue & Customs (HMRC), Tax-free allowances on property and trading income, May 2019. see also, Low Incomes Tax Reform Group (LITRG), What is the trading allowance?, 21 December 2022; and, Renting out a property, 28 March 2023.

4 The Scottish Government publishes details of these rates and thresholds: Scottish Income Tax, ret'd April 2023. See also, LITRG, How does Scottish income tax work?, 17 May 2022; and, LITRG press notice, I am a Scottish taxpayer: what Scottish income tax will I pay in 2023/24?, 4 April 2023

Since April 2016 savers have been entitled to claim a 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 2023/24 dividend income is charged at 0% for income up to £1,000 – the Dividend Allowance. In Autumn Statement 2022 the Chancellor Jeremy Hunt announced that the Dividend Allowance would be cut from £2,000 to £1,000 from April 2023, and then to £500 from April 2023.[6]

Above this limit dividend income is charged tax at a basic rate of 8.75%, up to the basic rate limit. Dividend income above this limit is charged at a higher rate of 33.75%, up to the higher rate limit. Dividend income above this limit is charged at an additional rate of 39.35%.

When determining which rate band applies to dividend and savings income, they are regarded as the 'top slice' of income, with dividends the highest.[7]

1.2 National Insurance contributions

National Insurance contributions (NICs) are paid by employees, employers and the self-employed, and used to fund contributory benefits – primarily the state pension. Entitlement to contributory benefits is based on someone's National Insurance payment record.[8]

Class 1 NICs: employees and employers

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 £123 per week for 2023/24. A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT). A notional primary Class NIC is deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement. For 2023/24 the PT is set at £242 per week.

In the Spring Statement 2022 the then Chancellor Rishi Sunak announced that the PT would be increased to £242 during the 2022/23 tax year, so that it was aligned with the personal allowance. The PT was set at £190 a week from 6 April 2022, and then was increased to £242 a week from 6 July 2022. This was

5 For more details see, HMRC, Tax on savings interest, ret'd April 2023

6 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.21; HMRC, Income Tax: Reducing the Dividend Allowance, 21 November 2022

7 See also, LITRG, Savings and tax, 24 March 2023

8 see, HMRC, What National Insurance is for, ret'd April 2023; HMRC, Rates and allowances: National Insurance contributions, updated 21 March 2023

the earliest date that allowed all payroll software developers and employers to update their systems and implement changes.[9]

In the 2021 Budget, then Chancellor Rishi Sunak announced that the income tax personal allowance and higher rate threshold would be frozen at their current levels until 2025/26.[10] In the Autumn Statement 2022 Chancellor Jeremy Hunt extended this freeze until 2027/28. He added that the PT would remain aligned with the personal allowance over this period of time.[11]

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 £967 per week for 2023/24. Earnings **above** the UEL are charged NICs at a rate of 2%.

The UEL is aligned with the higher rate threshold, the point at which taxpayers start to pay the 40% higher rate of income tax. Both thresholds are to be frozen for the next five tax years up to April 2028, in the same way as the personal allowance and the PT.[12]

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 ended with the introduction of the 'single-tier' state pension, and the closure of the additional state pension, from this date.[13]

Employers pay Class 1 (secondary) NICs on employee earnings on earnings above the secondary threshold (ST) at the rate of 13.8%. The ST is set at £175 per week for 2023/24, unchanged from the year before. In the Autumn Statement 2022 Chancellor Jeremy Hunt announced that the ST would frozen for the five-year period 2023/24 to 2027/28.[14]

NICs rates and thresholds for both employees and employers for 2022/23 and 2023/24 are set out in the two tables below.

9 HMRC, National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022

10 HM Treasury, Budget 2021 (HTML), GOV.UK, 3 March 2021, para 3.10

11 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.17. For more details see, Commons Library briefing CBP9186 Spring Budget 2021: personal allowance & higher rate threshold.

12 As above

13 For details see, Commons Library briefing CBP7414 The new State Pension: transitional issues.

14 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.26

Class 1 NICs rates for employees

2022/23 and 2023/24

Earnings per week[a]	NICs rate (6 April 2022- 5 November 2023)	NICs rate (6 November 2022 - 5 April 2023)	NICs rate (6 April 2023 - 5 April 2024)
Below £123 (LEL)	0%	0%	0%
£123 to £190/242[b] (PT)	0%	0%	0%
£190/242 to £967 (UEL)	13.25%	12%	12%
Above £967	3.25%	2%	2%

[a] LEL: Lower Earnings Limit; PT: Primary Threshold; UEL: Upper Earnings Limit

[b] The PT was set at £190 from 6 April to 5 July 2022, and at £242 from 6 July 2023.

Source: HMRC, Rates and thresholds for employers 2022 to 2023, and Rates and thresholds for employers 2023 to 2024, GOV.UK, (accessed on 3 April 2023)

Class 1 NICs rates for employers

2022/23 and 2023/24

Earnings per week[c]	NICs rate (6 April 2022- 5 November 2023)	NICs rate (6 November 2022 - 5 April 2023)	NICs rate (6 April 2023 - 5 April 2024)
Below £123 (LEL)	0%	0%	0%
£123 to £175 (ST)	0%	0%	0%
Above £175	15.05%	13.8%	13.8%

[c] LEL: Lower Earnings Limit; ST: Secondary Threshold

Source: HMRC, Rates and thresholds for employers 2022 to 2023, and Rates and thresholds for employers 2023 to 2024, GOV.UK, (accessed on 3 April 2023)

Employer reliefs for Class 1 (secondary) NICs

Employers may be entitled to one of a number of tax reliefs on their payment of employer NICs.

- The **Employment Allowance**, which was announced in Budget 2013, to apply from April 2014.[15] This provides a flat rate deduction for businesses and charities against their annual employer NICs bill. Initially the Allowance was set at £2,000, but was increased to £3,000 from April 2016, to £4,000 from April 2020, and to £5,000 from April 2022.[16] The Allowance may only be claimed by employers with an employer NICs

15 Budget 2013, HC 1033, (PDF) March 2013 para 2.41. Statutory provision for the new allowance was made by ss1-8 of the National Insurance Contributions Act 2014.

16 These increases in the Allowance were made by Order: SI 2016/63, SI 2020/273 and SI 2022/364.

below £100,000 in their previous tax year.[17] Further details on the operation of the Allowance are published by HMRC.[18]

- An **Upper Secondary Threshold (UST) for under 21s**, which was announced in Autumn Statement 2013.[19] From April 2015 a zero rate has applied to earnings on this category of employee up to the UST set in line with the UEL.

- An **Apprentice Upper Secondary Threshold (AUST)**, which was announced in Autumn Statement 2014.[20] From April 2016 a zero rate has also applied to earnings on this second category of employees up to the AUST, also aligned with the UEL.

- A **Veteran Upper Secondary Threshold (VUST)**, announced in Budget 2020, for employers of veterans to apply in their first year of civilian life.[21] From April 2021 a zero rate has applied to earnings on this category of employees up the VUST, which is aligned with the UEL.

- A **Freeport Upper Secondary Threshold (FUST)**, announced in Spring Budget 2021, for employers taking on employees in a Freeport. From April 2022 a zero rate has applied to earnings on this category of employees up to the FUST, which is set at £481 per week.[22] In Spring Budget 2023 the Government announced that it would introduce an equivalent zero rate to apply for employers taking on employees in an Investment Zone.[23]

Class 2 and Class 4 NICs (the self-employed)

Self-employed people pay a weekly flat rate Class 2 NIC, set at £3.45 for 2023/24. The Class 2 rate has been uprated in line with inflation from 2022/23.[24] The self-employed 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 £6,725 for 2023/24.

The self-employed may be liable to pay a separate Class 4 profits-related contribution. Class 4 NICs are charged at a main rate on profits between a Lower Profits Limit (£12,570) and an Upper Profits Limit (£50,270 a year), and at an additional rate on profits above the upper profits limit. These rates are set at 9% and 2% for 2023/24. The Upper Profits Limit (UPL) is aligned with UEL and the higher rate threshold.

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17 Budget 2018, HC 1629, (PDF) October 2018 para 3.11. This change was made by Order: SI 2020/218.
18 HMRC, Employment Allowance, ret'd April 2023
19 Autumn Statement 2013, Cm 8747, (PDF) December 2013 para 1.195. Statutory provision for the UST was made by s9 of the National Insurance Contributions Act 2014.
20 Autumn Statement 2014, Cm 8961, (PDF) December 2014 para 2.53. Statutory provision for the AUST was made by s1 of the National Insurance Contributions Act 2015.
21 Budget 2020, HC 121, (PDF) March 2020 para 2.179
22 Spring Budget 2021, HC 1226, (PDF) March 2021 para 2.115. Statutory provision for both the VUST and FUST was made by the National Insurance Contributions Act 2022.
23 Spring Budget 2023, HC 1183, (PDF) March 2023 para 3.106-8
24 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.18

As part of the changes to NI thresholds announced in the Spring Statement 2022, the then Chancellor Rishi Sunak announced that the point at which the self-employed start paying Class 2 NICs would be aligned with the Lower Profits Limit (LPL). Those with profits between the SPT and this new Lower Profits Threshold (LPT) would be treated as having made Class 2 contributions to preserve their entitlement to contributory benefits. In addition the LPL would be aligned with the personal allowance in the same way as the PT.[25]

In Autumn Statement 2022 Chancellor Jeremy Hunt confirmed that the LPT and the LPL would remain aligned with the PT and the personal allowance; as a result these thresholds would be frozen at £12,570 (or the weekly equivalent) for the five years (2023/24 to 2027/28). The UPL would remain aligned with the UEL and the higher rate threshold; all three thresholds would be frozen at £50,270 (or the weekly equivalent) for the same period of time.[26]

Class 3 NICs

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 £17.45 for 2023/24. The Class 3 rate has been uprated in line with inflation from 2022/23.[27]

25 HMRC, National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022

26 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.17

27 As above para 5.18

2 Income tax allowances

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

2.1 Personal allowance

Every taxpayer resident in the United Kingdom is entitled to claim a **personal allowance** that can be set against any type of income for tax purposes. For 2023/24 this allowance is £12,570.[28]

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 2023/24.

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.[29] 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.[30]

In the 2018 Budget the then 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 then Chancellor went on to state that both would be frozen for 2020/21, and then increased in line with CPI inflation from 2021/22.[31]

In the Spring 2021 Budget the then Chancellor Rishi Sunak announced that the personal allowance would be frozen at £12,570 from April 2022, for the four-year period 2022/23 to 2025/26.[32] In the Autumn Statement 2022 Chancellor

28 HMT, Overview of Tax Legislation and Rates, March 2023 (Annex A)

29 For more details see, Commons Library briefing CBP6569 Income tax : increases in the personal allowance since 2010.

30 Summer Budget 2015, HC246, (PDF) July 2015 paras 1.130-4

31 Budget 2018, HC1629, (PDF) October 2018 para 3.7

32 Budget 2021, HC 1226, (PDF) March 2021 para 2.74

Jeremy Hunt announced that the freeze would be extended a further two years up to April 2028.[33]

2.2 Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,870 for 2023/24. It has been increased in line with inflation from 2022/23.[34] If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.[35]

2.3 Transferable allowance for married couples and 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 2015/16, set at 10% of the value of the personal allowance. This remains the case. For 2023/24 the maximum that can be transferred is £1,260.[36] In effect the recipient is entitled to a tax credit worth up to £252 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.[37] 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.[38]

33 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.17; HMRC, Income Tax Personal Allowance and the basic rate limit, and certain National Insurance contributions thresholds from 6 April 2026 to 5 April 2028, 21 November 2022. For more details see, Commons Library briefing CBP9186 Spring Budget 2021: personal allowance & higher rate threshold.

34 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.22

35 HMRC, Blind Person's Allowance, ret'd April 2023

36 HMT, Overview of Tax Legislation and Rates, March 2023 (Annex A)

37 HMRC, Marriage allowance, ret'd April 2023

38 Autumn Budget 2017, HC587, (PDF) November 2017 para 3.6. See also, Commons Library briefing CBP870 Income tax allowances for married couples.

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.[39] 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 following, allowances went up in line with inflation or by more than inflation.[40]

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.[41] 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 now indexed by reference to CPI.[42] The threshold for the additional rate (£150,000, reduced to £125,140 from 6 April 2023), and the income limit for the tapered withdrawal of the personal allowance (£100,000), were not included in these provisions, and have been 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. 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.[43] CPI rose by 10.1% in the year to September 2021.[44]

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

40 HL Deb 7 January 2010 c121WA

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

42 HMT, Spring Budget 2023: policy costings, (PDF) March 2023 pp63-72 (see Annex A: Indexation in the public forecast baseline).

43 As above. See also, HMT, Tax benefit reference manual: 2009-2010 edition, (PDF) July 2009, paras 1.16-19 [HC DEP 2009-1987]

44 ONS, UK Consumer Price Inflation: September 2022, October 2022

In the Spring 2021 Budget the then Chancellor Rishi Sunak announced that the personal allowance and the higher rate threshold, as well as the NICs UEL/UPL, would be frozen for the four-year period 2022/23 to 2025/26.[45] At this time the Chancellor announced that a number of other tax allowances and thresholds would also be frozen over this period: the pensions lifetime allowance, the capital gains tax annual exempt amount, and the inheritance tax thresholds.[46] These allowances and thresholds are discussed below.

As noted above, in the Spring Statement in March 2022, Mr Sunak announced that the NICs primary threshold (PT) would be aligned with the personal allowance from April 2023, and remain aligned in future years.[47]

Subsequently in the Autumn Statement 2022 Chancellor Jeremy Hunt announced that the freeze to the personal allowance, the higher rate threshold, the NICs UEL/UPL, would be extended a further two years up to April 2028.[48]

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).[49]

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.

45 HC Deb 3 March 2021 c256

46 Budget 2021, HC 1226, (PDF) March 2021 p52

47 Spring Statement, CP 653, (PDF) March 2022 para 4.62

48 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.17. For more details see, Commons Library briefing CBP9186 Spring Budget 2021: personal allowance & higher rate threshold.

49 For details see, Commons Library briefing CBP6158 Age-related 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; the additional personal allowance; the maintenance allowance for separated or divorced couples under 65; and the widow's bereavement allowance.[50] 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**.[51] (This is to be distinguished from the marriage allowance discussed in section 2.3.)

For 2023/24, this allowance is set at £10,375, increased in line with inflation from 2022/23.[52] 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, £1,038.

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 2023/24 this income limit is set at £34,600. The withdrawal of the MCA from older couples is subject to a minimum allowance set at £4,010 for 2023/24, 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 89 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.[53]

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[50] This measure was announced in the March 1999 Budget. For details see, Commons Library briefing RP00/38, Direct taxes: rates & allowances 2000/01, 29 March 2000 pp11-12.

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

[52] Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.22

[53] HMRC, Married Couple's Allowance, ret'd April 2023. 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.

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 89 or over (which is £4,010 restricted to 10% for 2023/24).

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.[54]

[54] See also, LITRG, What tax allowances am I entitled to?, 13 September 2022.

3 Income tax: other allowances and reliefs

3.1 Company cars and free fuel

Generally individuals are taxed on the cash value of any 'fringe benefit' they enjoy by virtue of their employment. The cash value is added to their taxable income, and taxed accordingly; ie, taxed at the same rate as the rest of their income (20%, 40% or 45% depending on their circumstances).[55]

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).[56]

In the Autumn 2017 Budget the Government announced that from April 2020 the emissions test used to underpin company car tax, as well and vehicle excise duty (VED), would be the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP).[57]

The new test is more rigorous, and initial evidence provided by manufacturers suggested that using the WLTP would mean that the reported emissions of over 50% of cars could rise by 10% to 20%. To smooth the transition, in July 2019 it was announced most CCT rates would be cut by 2 percentage points in 2020/21 for cars first registered from 6 April 2020.[58] Rates would return to planned levels over the next two years, increasing by 1 percentage point in 2021/22 and 1 percentage point in 2022/23. After this point rates would be frozen until 2024/25. Spring Budget 2023 confirmed that rates would be frozen for 2023/24.[59]

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 2023/24 this is set at £27,800.[60]

55 For more details see, HMRC, Tax on company benefits, ret'd April 2023
56 HMRC, Expenses & benefits: a tax guide, Notice 480, November 2022 (see Appendix 2)
57 HMT, Overview of tax legislation and rates, November 2017 para 1.17
58 HMT, Review of WLTP and vehicle taxes: summary of responses, July 2019. See also, Budget 2020, HC 121, (PDF) March 2020 para 2.227
59 HMT, Overview of Tax Legislation and Rates, March 2023 (Annex A)
60 HMRC, Income Tax: van benefit charge and fuel benefit charges for cars and vans from 6 April 2023, 8 December 2022. This multiplier is set by Order: SI 2022/1288.

3.2 Pensions – annual and lifetime allowances

In the UK, private pension saving is taxed on an “exempt, exempt, taxed” (EET) model. This means:

- When people and their employers pay into a pension, the contributions are **exempt** from taxation. Both the saver and any contributing employer receive tax relief, up to set limits.
- If the pension savings grow through investments, this is **exempt** from taxation.
- When the savings are withdrawn as pension payments, these are **taxed** like other income. People are allowed access up to 25% of their pension savings tax free.[61]

The way pension tax rules are applied can depend on the type of pension scheme. There are two main types of pension schemes in the UK.

- **Defined benefit schemes** pay a promised pension based on factors such as salary and length of service. A sponsor, which is usually an employer, guarantees the promised benefits are paid. The pension provides an income for life and may also include a retirement lump sum.
- **Defined contribution schemes** do not provide a guaranteed pension and instead provide a pot of money that can be used in retirement. The value of the pension pot depends on the amount paid into the scheme and the returns on investment of that amount.

There are limits on the amount of tax relief someone can receive when they are contributing to their pension. In 2023/24 these are:

- A person can receive tax relief on pension contributions of up to 100% of their annual earnings.[62] Someone earning less than £3,600 a year can receive relief on contributions up to this amount.[63]
- An annual allowance, which limits the amount someone can pay into a pension pot to £60,000 each year before they pay tax. This allowance is tapered (reduced) for people earning more than £260,000 including pension contributions. The minimum annual allowance someone with tapering can retain is £10,000.
- A lifetime allowance of £1,073,100, which is the total amount someone can usually build up in pension pots without paying a tax charge.

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61 HMRC, Pensions Tax Manual, PTM024100 – General principles: overview of pensions taxation: the basics, ret’d April 2023

62 Finance Act 2004, section 190

63 As above

- Once someone withdraws savings from a defined contribution pension, the amount that they can contribute to defined contribution schemes and receive tax relief on in future is reduced to the money purchase annual allowance of £10,000.

There is also a lifetime allowance of £1,073,100, which was the total amount someone could usually build up in pension pots without paying a tax charge. It was announced at the Spring Budget 2023 that in 2023/24 there will be no tax charge for exceeding the lifetime allowance and the Government has announced that it will be abolished in a future Finance Bill. The maximum amount someone can withdraw from a pension tax free will remain at £268,275 – 25% of the lifetime allowance in 2022/23.[64]

Other changes announced in the Spring Budget 2023 were that from 6 April 2023:

- The annual allowance would increase from £40,000 to £60,000.
- The adjusted income when the tapering of the annual allowance for high earners begins will increase from £240,000 to £260,000 and that the minimum annual allowance someone with tapering can retain will increase from £4,000 to £10,000.
- Once someone withdraws savings from a defined contribution pension, the amount that they can contribute to defined contribution schemes in future is reduced to the money purchase annual allowance. The money purchase annual allowance will increase from £4,000 to £10,000.[65]

Further information is available in the Commons Library briefing Pension tax relief: The annual allowance and lifetime allowance.

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).

Payroll Giving

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

64 Finance Act 2004, section 190
65 HM Revenue and Customs, Policy paper: Pension Tax Limits, 17 March 2023

the employee's choice. There are no minimum or maximum limits for donations under the scheme.[66]

Gift Aid

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.[67] Under the scheme charities claim repayment of basic rate tax on donations. Higher rate taxpayers claim higher rate tax relief on their gifts.

Gift Aid Small Donations Scheme

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.[68] 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.[69] The cash limit on donations was increased to £30 from April 2019.[70]

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

67 For more details see, HMRC, Tax relief when you donate to a charity, ret'd April 2023.

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

69 For more background see, Commons Library briefing CBP6330, Gift Aid Small Donations Scheme.

70 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 £6,000 for 2023/24.[71] 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 that are from residential property not eligible for Private Residence Relief, or from carried interest, are liable to tax at higher rates: 18%, and 28% respectively.[72]

In the Autumn Statement 2022 the Government announced the annual exempt amount would be cut from £12,300 to £6,000 from April 2023, and to £3,000 from April 2024.[73]

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.[74] The Coalition 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.[75]

Gains qualifying for entrepreneur's relief are charged a rate of 10%. A £10m lifetime limit has applied to capital gains qualifying for this relief since April 2011. In the 2020 Budget the then Chancellor Rishi Sunak announced that the lifetime limit would be cut to £1m, renaming the relief 'business asset disposal relief'.[76] A 10% rate also applies to gains made by long term investors in unlisted companies, subject to a lifetime limit of £10m of gains.

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71 HMT, Overview of Tax Legislation and Rates, March 2023 (Annex A)

72 For details see, HMRC, Capital Gains Tax: what you pay it on, rates and allowances, ret'd April 2023.

73 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.21; HMRC, Capital Gains Tax: Annual Exempt Amount, 21 November 2022

74 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.

75 Budget 2016, HC 901, (PDF) March 2016 para 1.171, para 2.187

76 Budget 2020, HC 121, (PDF) March 2020 para 2.199; HMRC, CGT Entrepreneurs' Relief - reduction in the lifetime limit, 11 March 2020

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 nil-rate band, set at £325,000 for 2023/24.[77]

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 nil-rate band 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.

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. 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."[78]

The additional, or residence, nil-rate band was set initially at £100,000 and is set at £175,000 for 2023/24.

In his Summer 2015 Budget Mr Osborne had also announced that the **existing** nil-rate band would be frozen at £325,000 at least until 2020/21, while the residence nil-rate band would rise by £25,000 each year, to reach £175,000 by 2020/21.[79]

Both of these inheritance tax thresholds are among the tax allowances and thresholds to be frozen over the six-year period 2022/23 to 2027/28.[80]

The residence 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.[81]

77 HMT, Overview of Tax Legislation and Rates, March 2023 (Annex A)

78 Summer Budget 2015, HC264, (PDF) July 2015 paras 1.217-221; para 2.89. HMRC, Inheritance tax: main residence nil-rate band and the existing nil-rate band, June 2017

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

80 Autumn Statement 2022, CP 751, (PDF) November 2022 para 5.19; HMRC, Inheritance Tax nil-rate band and residence nil-rate band thresholds from 6 April 2026 to 5 April 2028, 21 November 2022

81 HMRC, Inheritance tax: main residence nil-rate band and the existing nil-rate band, June 2017

5 Main personal income tax rates and allowances since 1990/91

Table 1

Main income tax rates and allowances: 1990/91-2023/24

	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%
2020/21	12,500	n/a	37,500	n/a	20%	40%	45%
2021/22	12,570	n/a	37,700	n/a	20%	40%	45%
2022/23	12,570	n/a	37,700	n/a	20%	40%	45%
2023/24	12,570	n/a	37,700	n/a	20%	40%	45%

Notes: From 2008/09, a 10 per cent starting rate of income tax is retained for savings income. Sources: HM Treasury, Budgets 2010 – 2020; Tax Benefit Reference Manual 2009-10; HMRC. Spring Budget 2023: overview of tax legislation and rates (OOTLAR)

Table 2

Age-related allowances: 1990/91 to 2023/24

£ 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
2020/21	12,500	12,500	..	9,075
2021/22	12,570	12,570	..	9,125
2022/23	12,570	12,570	..	9,415
2023/24	12,570	12,570	..	10,375

Notes: (a) from 2013/14 eligibility for the age-related allowances is 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, (c) 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: As above