Direct taxes: rates and allowances 2011/12

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This paper sets out the main changes to direct tax rates and allowances announced in the Budget on 23 March 2011. It lists the principal personal allowances which will be available against income tax in the tax year 2011/12, and it outlines the conditions necessary for eligibility for these allowances.

The paper provides a summary of the general tax position in straightforward cases only. It should be noted that it deals just with tax allowances. No reference is made to cash benefits provided under the social security system, or to child tax credit and working tax credit.

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Summary

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate. For 2011/12 all three rates are unchanged: at 20%, 40% and 50% respectively. Tax is charged at the basic rate up to the basic rate limit, set at £35,000 of taxable income. Tax is charged at the higher rate on taxable income between this and the higher rate limit set at £150,000. The additional rate is charged on taxable income over £150,000.

The **personal allowance** is increased by £1,000 to £7,475 for 2011/12, by £690 in real terms. The basic rate limit is cut by £2,400 to ensure that higher rate taxpayers do not benefit from the increase in the personal allowance.

In the 2011 Budget the Government announced that the personal allowance would be increased by a further £630 to £8,105 for 2012/13. The basic rate limit is to be cut by £630 so that the point at which individuals become liable to pay tax at the higher rate will remain the same.

The two **age-related personal allowances** for older people are set at £9,940 – for people aged 65-74 years – and £10,090 for people aged 75 years and over. The income limit for the age-related allowances is set at £24,000. Both age-related allowances and the income limit are increased in line with inflation.

Married couples used to be entitled to claim an additional allowance, but this was withdrawn from April 2000 for all couples under 65 at that time. Older taxpayers may still be entitled to the **married couple's allowance**, if one or both partners were born on or before 5 April 1935. For 2011/12 this allowance is increased in line with inflation to £7,295, restricted to 10 per cent.

The rates of **National Insurance contributions** (NICs) for both employees and employers are increased by 1% for 2011/12. 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 increased in real terms, to mitigate the impact of this rate rise on employees on lower incomes and on employers: these thresholds are set at £139 and £136 respectively. The upper earnings limit is set at £817 for 2011/12: this is a cut of £27, to ensure that it is aligned with the point at which individuals start to pay tax at the higher rate (the total of the personal allowance and the basic rate limit). The rates of NICs paid by the self-employed are also increased by 1% for 2011/12.

This paper deals only with tax allowances and 'wasteable' tax credits: those which are limited to the amount of the tax liability and therefore cannot give rise to a payment by the authorities to the taxpayer. Details of 'non-wasteable' tax credits – such as the child tax credit and the working tax credit – along with other tax rates and allowances for the 2011/12 year are set out in HM Treasury, *Overview of Tax Legislation and Rates*, 23 March 2011 (Appendix B), which was published alongside the 2011 Budget report.

1 Rates and thresholds

1.1 Income tax

Earned income

For 2011/12 income tax on earned income is charged at three rates: these are the basic rate of 20%, the higher rate of 40% and the additional rate of 50%.

The 20% basic rate applies to taxable income up to £35,000. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. Taxable income in excess of this threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 50%.

2010/11		2011/12	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
£0 - £37,400	**20%**	**£0 - £35,000**	**20%**
£37,401 - £150,000	**40%**	**£35,001 - £150,000**	**40%**
Over £150,000	**50%**	**Over £150,000**	**50%**

This rate structure covers all non-savings income: earnings, pensions, taxable social security benefits, trading profits and income from property. A 10% starting rate of tax used to apply, but was withdrawn in April 2008. When this was done, the 10% starting rate was *retained* for savings income: that is, bank and building society interest. This remains in place.

Savings and dividend income

For 2011/12 savings income is charged at 10% for income up to £2,560. Above this limit savings income is charged tax at the basic rate of 20%, up to the basic rate limit of £35,000. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £150,000. Savings income above this limit is charged at the 50% additional rate.

Generally savings income is taxed at source at 20%. Individuals with too little income to pay tax, or those paying only the starting rate, can claim a repayment of tax from HM Revenue & Customs. Alternatively individuals may apply to have their savings income paid gross of tax.[1]

For 2011/12 the rates of tax on dividend income are: 10% for income below the basic rate limit, 32.5% for income between this limit and the higher rate limit, and 42.5% on income above the higher rate limit. All of these rates are unchanged for 2011/12.

In calculating tax liability, dividend and savings income are regarded as the 'top slice' of income, with dividends the highest. As a consequence, if an individual's non-savings income exceeds the starting rate limit for savings, then the 10% starting rate will not be available for their savings income.

[1] HM Revenue & Customs provide an online calculator to help individuals assess if they should do this - http://www.hmrc.gov.uk/calcs/r85/index.htm - and a helpline providing advice on this issue (0845 980 0645).

1.2 National Insurance contributions

Employees pay National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL), which is set at £102 per week for 2011/12. A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £139 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 £817 per week. Earnings *above* the UEL are charged NICs at a rate of 2%.

Employees contracted out of the state second pension (S2P) pay a reduced rate of NICs. Employers pay NICs on employee earnings at a rate of 13.8% on earnings above the secondary threshold (ST), set at £136 a week for 2011/12.

The rates of NICs for both employees and employers are increased by 1% for 2011/12. The PT and ST are increased by £24 and £21 in real terms, while the UEL has been cut by £27. The LEL is increased by £5 in line with inflation.

The rates of NICs for employees and employers for 2011/12 are set out below:[2]

Earnings[a] £ per week	Employee (primary) NIC rate (per cent)[b]	Earnings £ per week	Employer (secondary) NIC rate (per cent)[c]
Below £102 (LEL)	0%	Below £102 (LEL)	0%
£102 to £139 (PT)	0%	£102 to £136 (ST)	0%
£139 to £817 (UEL)	12%	Above £136	13.8%
Above £817	2%		

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

[b] *The contracted-out rebate for primary contributions in 2011/12 is 1.6 per cent of earnings between the LEL and the upper accrual point (UAP) of £770 for contracted-out salary-related schemes (COSRS) and contracted-out money purchase schemes (COMPS).*

[c] *The contracted-out rebate for secondary contributions is 3.7 per cent of earnings between the LEL and UAP for COSRS and 1.4 per cent for COMPS. For COMPS, an additional age-related rebate is paid direct to the scheme following the end of the tax year.*

2 Income tax allowances

All individuals irrespective of sex or marital status receive a personal allowance which they can set against income tax. Two age-related additions are made to the allowance: the first, if someone is 65 or over, the second if they are 75 or over. Those born before 6 April 1935 may be eligible for two other allowances: the married couple's allowance and tax relief on maintenance payments. An allowance is also given to individuals who are blind.

2.1 Indexation

Income tax legislation requires the main allowances and thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of the

[2] For more details on the way National Insurance works see, *National Insurance contributions : an introduction*, Library standard note SN/BT/4517, 18 February 2011

Finance Act 1977.[3] 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 ensuring that any real changes in allowances would have to be voted on, the amendment ensured changes in the income tax structure would be 'out in the open'. Indeed, for most years since then, allowances have either gone up in line with inflation, or by more than inflation.[4]

When allowances and thresholds are increased in line with the RPI, they are rounded up to the nearest £10 or £100. For personal allowances this income limit is £10; for age allowances and the higher rate threshold the limit is £100. When uprating the main allowances and thresholds, the relevant inflation rate is the increase in the RPI in the year to September, prior to the start of the tax year.[5] For the year to September 2010 the rate of RPI was 4.6%.[6]

In the 2011 Budget the 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 this Parliament: specifically, the employer NICs threshold, the age-related allowance and other thresholds for older people.[7]

2.2 Personal allowance

Every taxpayer resident in the United Kingdom is entitled to a personal allowance that can be set against any type of income for tax purposes. Two additional levels of the allowance are provided for older people. The allowance is not transferable between spouses.

For 2011/12 these three allowances are:

Under 65	**£7,475**
65 – 74	**£9,940**
75 and over	**£10,090**

The 'basic' personal allowance is increased by £1,000 for 2011/12 – equivalent to an increase of £690 in real terms – whereas the two age-related allowances are increased in line with inflation.

The additions made for older taxpayers to the basic personal allowance are reduced for taxpayers whose incomes exceed a given limit: the extra allowance is withdrawn by £1 for every £2 by which income exceeds this limit (this is explained in more detail below).

Since April 2010 the basic personal allowance has been withdrawn in a similar fashion from individuals whose incomes exceed £100,000: that, is, the allowance is reduced by £1 for every £2 above this income limit, until completely withdrawn. This income limit is unchanged for 2011/12.

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

4 HL Deb 7 January 2010 c121WA

5 Uprating is calculated using the values of the RPI; for details see, HM Treasury, *Tax Benefit Reference Manual* 2009/10 edition paras 1.16-19. House of Commons Deposited paper 2009-1987

6 Office of National Statistics press notice, *Consumer price indices: September 2010*, 12 October 2010 p6

7 *Budget 2011* HC 836, March 2011 para 1.128

2.3 Income limit for age-related allowances

Taxpayers claiming an age-related allowance whose income exceeds £24,000 for 2011/12 will have their allowance reduced by £1 for every £2 that their income exceeds this limit. This progressive reduction continues until the allowance is equal in value to the basic personal allowance, or, in the case of those taxpayers still entitled to the married couple's allowance (MCA), a 'minimum' allowance. (As noted above, taxpayers whose incomes exceed £100,000 have the basic personal allowance reduced in the same way.)

The income limit is increased in line with inflation for 2011/12.

For individual taxpayers qualifying for an age-related personal allowance, the benefit of the additional allowance will not be completely withdrawn until their total income reaches the following limits:

65 – 74	**£28,930**
75 and over	**£29,230**

2.4 Blind person's allowance

Any person registered as blind is entitled to the blind person's allowance. The allowance is increased in line with inflation for 2011/12, and is set at £1,980. The allowance is not restricted in value. If someone has insufficient income to make use of the allowance it can be transferred to a spouse.

2.5 Two transitional allowances for the elderly

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.[8] 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; ie, 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**.[9] For 2011/12, this age-related allowance is £7,295, increased in line with inflation. Tax relief for the allowances is 'restricted' to 10%. In effect taxpayers receive a credit worth 10% of the MCA to set against their final tax bill: ie, £730.

The value of the MCA is gradually reduced for taxpayers earning above the income limit, in the same way as the age-related personal allowances. The withdrawal of the MCA from elderly couples is subject to a minimum allowance set at £2,800 for 2011/12, restricted to 10%.[10] No

8 The abolition of these allowances was announced in the March 1999 Budget; for further details see *Direct taxes: rates & allowances 2000/01*, Library Research paper 00/38, 29 March 2000 pp 11-12.

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

10 The minimum amount of the MCA is also increased in line with inflation for 2011/12.

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, 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 between 65 and 74, and a second, higher MCA to those 75 or over. Given that anyone born before 6 April 1935 will be 77 or over this tax year, it is only the second of these allowances that remains applicable.

On 5 December 2005 the *Civil Partnership Act 2004* came into force, creating a new legal status for same-sex couples wishing to have their relationships recognised in law. In March 2005 the Labour Government announced that civil partners would be treated the same as married couples for tax purposes. As a consequence, civil partners may claim the MCA, *provided* – as with married couples – one or more partner was born before 6 April 1935.[11]

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 76 or over (which is £2,800 restricted to 10 per cent for 2011/12). 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.[12]

[11] The rules regarding the MCA for civil partners, and marriages after 5 December 2005, are slightly different regarding the initial right of claim. For details see HM Revenue & Customs, *Independent Taxation Manual* paras IN511A-IN518C.

[12] This relief is also given to those paying maintenance under arrangements set up before 15 March 1988, who benefited from transitional relief withdrawn in April 2000. Again, relief is only given if one or more of the parties reached 65 prior to 6 April 2000.

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

Table 1

Main income tax rates and allowances: 1990/91-2011/12

	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%

Notes (a) From 2008/09, a 10 per cent starting rate of income tax is retained for savings income. See text for further details.
(b) The 2011 Budget also announced an increase in the personal allowance to £8,105 and a corresponding cut in the basic rate limit to £34,370 for 2012/13.

Sources: Budget 2011, HM Treasury, HC 836, 2010-11 and Budget 2010, HM Treasury, HC 451, 2009-10
Tax Benefit Reference Manual 2009-10, HM Treasury 2009

Table 2

Age-related allowances: 1990/91 to 2011/12

£ per annum

	Personal		Married couple's (a)	
	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

Notes: (a) 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 w hich at least one partner w as born before 6 April 1935.

Sources: HMRC
Tax Benefit Reference Manual 2009-10, HM Treasury 2009

4 Fringe benefits: company cars & free fuel

Generally individuals are taxed on the cash value of any fringe benefit they enjoy by virtue of their employment.[13]

Special rules apply in evaluating the cash value of a company car: in brief, a charge equal to 15% of the car's price applies to cars emitting CO_2 at a specified qualifying level – which is set at 125g/km for 2011/12. The percentage charge builds up in 1% steps for every additional full 5g/km over that level up to a maximum charge of 35% of the car's price.[14]

A number of changes to simplify these rules come into effect from April 2011 – setting lower rates for cars with emissions below 120g/km. For cars with emissions of 120g/km down to 75g/km, a 10% rate applies. For cars with emissions below 75g/km, a 5% rate applies. For cars with zero CO_2 emissions, a 0% rate applies. Prior to this a 10% rate applied to cars with CO_2 emissions of 120g/km or less, and certain supplements and reductions to the charge applied to take account of different fuels.[15]

The taxable benefit of free fuel provided for private motoring in a company car is also related to the level of CO_2 emissions. The same percentage charge is used as for company cars – starting at 15% and rising to 35%. To calculate the benefit charge the percentage figure is multiplied against a set figure for the year; for 2011/12 this is £18,800.

5 Pensions

In the 2004 Budget the Labour Government announced a simplification in the tax treatment of pensions to come into effect from 6 April 2006 ('A-day'). This reform in the tax rules set two limits for an individual's tax-privileged pension saving: an annual allowance for the amount of contributions that may be made over a year, and a lifetime allowance setting an overall ceiling on the amount of tax-privileged pension savings that someone may accrue. Prior to this, an annual limit – the pension scheme earnings cap – was set on the maximum earnings from which contributions to a personal, occupational or stakeholder pension scheme could attract tax relief.[16]

In the 2010 Budget the Labour Government proposed that tax relief on pension contributions would be restricted for those with incomes of £150,000 and over from April 2011. Concerns about the complexity of these plans lead to an announcement in October 2010 by the Coalition Government that as an alternative way of raising an equivalent sum of money, both the annual and the lifetime allowance would be cut. From April 2011 the annual allowance is cut from £255,000 to £50,000. The lifetime allowance is frozen at £1.8 million, but is to be cut to £1.5 million from April 2012.[17]

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13 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 50% depending on their circumstances). Benefits in kind are taxed if the person receiving them is a director, or an employee who earns £8,500 or more per year.

14 Guidance on these rules is given on HMRC's site at: http://www.hmrc.gov.uk/cars/index.htm

15 A summary of these changes, and further changes to apply over the next three years, is given on the department's site at: http://www.hmrc.gov.uk/cars/rule-changes.htm

16 For more details see, *Tax and private pensions*, Library standard note SN/BT/625, 21 March 2011. Guidance is collated on the department's site at: http://www.hmrc.gov.uk/pensionschemes/

17 *Budget 2011* HC 836 March 2011 para 2.51. For more details see, *Restricting pension tax relief*, Library standard note SN/BT/5901, 31 March 2011.

6 Charities

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

Under the Payroll Giving scheme charitable donations are wholly deductible for income tax purposes, the relief being given through the PAYE system. The employer deducts the appropriate sum from a participating employee's pay, and passes it to an agency which distributes it to the charity or charities of the employee's choice. There are no minimum or maximum limits for donations under the scheme.[18]

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. Tax relief applies to a donation of any size, following the abolition of the minimum limit – then £250 – from 6 April 2000.[19] Under the scheme charities claim repayment of basic rate tax on donations. Higher rate taxpayers claim higher rate tax relief on their gifts.

In the 2011 Budget the Government announced a number of changes to Gift Aid – including, from April 2011, an increase in the limit set to any benefit paid to a donor giving more than £10,000, and, from April 2013, a new scheme to allow charities to claim Gift Aid on small donations without a Gift Aid declaration.[20]

7 Capital gains tax

Capital gains tax (CGT) is charged on gains in excess of the annual exempt amount, which is increased in line with inflation to £10,600 for 2011/12. Individuals may realise gains up to this threshold free of tax. The tax is charged at a rate of 18%, and at 28% on gains realised by individuals paying income tax at the higher or additional rates.

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.[21] The new Government introduced a 28% rate for higher rate and additional rate taxpayers, with effect from Budget day which was 22 June 2010.[22] The 2011 Budget leaves the rates of CGT unchanged, though it doubles the lifetime limit on capital gains qualifying for entrepreneurs' relief - where eligible gains are taxed at 10% - to £10 million.[23]

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18 A maximum limit of £1,200 a year applied prior to 6 April 2000. Further information is on HMRC's site at: http://www.hmrc.gov.uk/individuals/giving/payroll.htm

19 Further information is on HMRC's site at: http://www.hmrc.gov.uk/individuals/giving/gift-aid.htm

20 HC 836 March 2011 paras 2.112-115

21 Prior to this capital gains had been were treated as the top slice of income, and the tax was charged at the same rates of tax as savings income.

22 Details on the tax are collated on HMRC's site at: http://www.hmrc.gov.uk/cgt/index.htm

23 HC 836 March 2011 paras 2.55-6

8 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. The tax is charged at 40% above the tax-free allowance. This allowance is frozen at £325,000 for 2011/12. In Budget 2011 the Government announced that the threshold would remain frozen at this level until April 2015.[24]

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.[25]

[24] HC 836 March 2011 para 2.58
[25] Details on the tax are collated on HMRC's site at: http://www.hmrc.gov.uk/inheritancetax/