HOUSE OF COMMONS
LIBRARY

Direct taxes: rates and allowances 2015/16

RESEARCH PAPER 15/17 27 March 2015

This paper sets out the main changes to direct tax rates and allowances announced in the Budget on 18 March 2015. It lists the principal personal allowances which will be available against income tax in the tax year 2015/16, 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.

Antony Seely

Recent Research Papers

Research Paper 15/17

ISSN 1368-8456

Contents

Summary

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate. For 2015/16 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 £31,785. '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 2014/15.

The **personal allowance** is increased by £600 to £10,600 for 2015/16. The basic rate limit is cut by £80, so that the higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – rises in line with inflation.

In the 2012 Budget the Government announced it would phase out the two **age-related personal allowances**, claimed by individuals aged 65-74, and those aged 75 and over. From April 2013 these allowances would be frozen – at £10,500 and £10,660 respectively – until they became aligned with the personal allowance. In addition, only *existing* recipients would be entitled to claim either allowance. The allowance for those aged 65-74 has now been overtaken by the personal allowance. The second allowance, frozen at £10,660, may now be claimed by individuals aged 78 or over only.

From April 2015 individuals whose income is insufficient to make full use of their personal allowance will be entitled to transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of the **transferable tax allowance for married couples and civil partners** – as it is known – if their spouse or partner pays more than the basic rate of tax. For 2015/16 the maximum that can be transferred is £1,060.

All married couples used to be entitled to claim the **married couple's allowance**, which was withdrawn from April 2000 for all couples under 65 at that time. Taxpayers may still make a claim, if one or both partners were born on or before 5 April 1935. For 2015/16 this allowance is set at £8,355. The allowance is 'restricted' to 10 per cent; in effect, taxpayers receive a credit worth 10% of the married couple's allowance to set against their final tax bill.

The rates of **National Insurance contributions** (NICs) for both employees and employers are unchanged for 2015/16. 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 line with inflation: these thresholds are set at £155 & £156 per week, respectively. The upper earnings limit is increased to £815 per week for 2015/16, so that it remains aligned with the higher rate threshold.

This paper deals only with tax allowances and 'wasteable' tax credits: those which are limited to the amount of the tax liability and therefore cannot give rise to a payment by the authorities to the taxpayer. Details of 'non-wasteable' tax credits – such as the child tax credit and the working tax credit – along with other tax rates and allowances for the 2015/16 year are set out in Annex B to HM Treasury, *Overview of Tax Legislation and Rates*, 18 March 2015, which was published alongside the 2015 Budget report.

1 Rates and thresholds

1.1 Income tax

Earned income

For 2015/16 income tax on earned income is charged at three rates: the basic rate of 20%, the higher rate of 40% and the additional rate of 45%. All three rates are unchanged from 2014/15.

The 20% basic rate applies to taxable income up to a threshold of £31,785. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. (Personal allowances are discussed in more detail in section 2 of this paper.) Taxable income in excess of the threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 45%.

2014/15		2015/16	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
£0 - £31,865	**20%**	**£0 - £31,785**	**20%**
£31,866 - £150,000	**40%**	**£31,786 - £150,000**	**40%**
Over £150,000	**45%**	**Over £150,000**	**45%**

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

Savings and dividend income

For 2015/16 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 £31,785. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £150,000. Savings income above this limit is charged at the 45% additional rate.

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

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 2015/16 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 37.5% on income above the higher rate limit.

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 0% starting rate will not be available for their savings income.

---

1 To do this, savers need to submit an R85 form – details are on Gov.uk. HM Revenue & Customs provide an online calculator to help individuals assess if they should do this, and a helpline providing advice on this issue (0300 200 3312).

1.2 National Insurance contributions

Employees pay National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL), which is set at £112 per week for 2015/16. A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT), which is set at £155 per week. A notional primary Class 1 NIC is deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement. Earnings above the PT are charged NICs at a rate of 12%, subject to a cap at the upper earnings limit (UEL), which is set at £815 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.[2]

Employers pay NICs on employee earnings at a rate of 13.8% on earnings above the secondary threshold (ST), set at £156 a week for 2015/16.

The rates of NICs for employees and employers for 2015/16 are set out below:[3]

Earnings[a] £ per week	**Employee (primary) NIC rate (per cent)[b]**	**Earnings £ per week**	**Employer (secondary) NIC rate (per cent)[c]**
Below £112 (LEL)	0%	Below £112 (LEL)	0%
£112 to £155 (PT)	0%	£112 to £156 (ST)	0%
£155 to £815 (UEL)	12%	Above £156	13.8%
Above £815	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 2015/16 is 1.4 per cent of earnings between the LEL and the upper accrual point (UAP) of £770 for contracted-out salary-related schemes (COSRS).*
[c] *The contracted-out rebate for secondary contributions is 3.4 per cent of earnings between the LEL and UAP for COSRS.*[4]

2 Income tax allowances

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

Prior to 2013/14, individuals were entitled to claim one of two age-related additions to the personal allowance, if they were between 65 and 74 years of age, or were 75 or over. Both allowances are in the process of being phased out. Two other transitional allowances may be claimed by those born before 6 April 1935: the married couple's allowance and tax relief on maintenance payments.

---

2 This rebate applies for individuals paying into a salary-related scheme only (see, *Contracting out of the State Second Pension*, HC Library briefing note SN4822, 23 March 2011). With the introduction of the single-tier pension, scheduled for April 2016, the additional State Pension will close and, by extension, the option to contract out of it (see, *Single-tier state pension*, HC Library briefing note SN6525, 16 January 2015).

3 Government Actuary's Department, *Report on draft Social Security Benefits Up-rating Order 2015*, January 2015 pp23-4. These thresholds for 2015/16 were set by Order: SI 2015/577.

4 For more details on the way National Insurance works see, *National Insurance contributions: an introduction*, HC Library briefing note SN4517,10 June 2014

2.1 Indexation

For many years income tax legislation has required the main allowances and thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of the *Finance Act 1977*.[5] The amendment was successfully made through the cross-party co-operation of Jeff Rooker, Audrey Wise and Nigel Lawson. All three argued that without indexation, inflation acted as an unauthorised, unintended and unknown increase in taxation. By requiring that any real changes in allowances would be voted on, the amendment ensured that changes in the income tax structure would be 'out in the open'. Indeed, for most years since then, allowances have either gone up in line with inflation, or by more than inflation.[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 the 2010 Parliament.[7] This approach has been amended, following decisions to phase out the age-related allowances from April 2013, to increase the personal allowance in 'real terms' – by more than inflation – in both 2014/15 and 2015/16, and to increase the higher rate threshold by 1% in the first of those years. Any elements of the direct tax system still indexed by reference to RPI are to be covered by CPI from 2016/17.[8] At present the threshold for the additional rate (£150,000), and the income limit for the tapered withdrawal of the personal allowance (£100,000), have not been included in these provisions, and are fixed in monetary value.

When uprating the main allowances and thresholds, the relevant inflation rate is the increase in inflation in the year to September, prior to the start of the following tax year.[9] When allowances and thresholds are increased in line with inflation, they are rounded up to the nearest £10 or £100. For personal allowances this income limit is £10; for the basic rate limit, it is £100. For the year to September 2014 the rates of CPI and RPI were 1.2% and 2.3% respectively.[10]

2.2 Personal allowance

Every taxpayer resident in the United Kingdom is entitled to a personal allowance that can be set against any type of income for tax purposes. For 2015/16 this allowance is £10,600.

In May 2010, the new Coalition Government announced as part of its first Budget that it would introduce a substantial increase in the personal tax allowance. It also stated that its longer-term objective was to increase the allowance up to £10,000.[11] The allowance was set at £6,475 for 2010/11, and in his Budget speech on 22 June 2010, the Chancellor, George Osborne, announced that it would rise to £7,475 from April 2011. At this time Mr Osborne confirmed that the Government would continue to increase the allowance "during the rest of

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

6 HL Deb 7 January 2010 c121WA

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

8 Specifically, the starting rate limit for savings income and the secondary NICs threshold (HM Treasury, *Budget 2015 : policy costings*, March 2015 pp59-60 (Annex A: Indexation in the public forecast baseline)).

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

10 Office of National Statistics, *Consumer Price Indices September 2014*, October 2014

11 HMG, *The Coalition: our programme for government*, 20 May 2010, p30

this Parliament."[12] The allowance was increased by £630 for 2012/13, by £1,335 for 2013/14, and by £560 for 2014/15 to reach £10,000 for that year.

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 2015/16.

2.3 Transferable allowance for married couples & civil partners

From April 2015 individuals whose income is insufficient to make full use of their personal allowance will be entitled to transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of the **transferable tax allowance for married couples and civil partners** – as it is known – if their spouse or partner is liable to tax above the basic rate of tax. For 2015/16 the maximum that can be transferred is £1,060. As this extra allowance would be set against someone's liability to basic rate tax, it would be worth up to £212.

Individuals who may wish to apply to have part of their allowance transferred in this way to their partner may register online with HM Revenue & Customs. People can register at any point in the tax year and still receive the full benefit of the allowance.[13]

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 2015/16, and is set at £2,290. The allowance is not restricted in value. If someone has insufficient income to make use of the allowance it can be transferred to a spouse.

2.5 Age-related allowances

Prior to 2013/14, individuals were entitled to claim one of two age-related additions to the personal allowance, if they were aged between 65 and 74 years of age, or were 75 or over. In the 2012 Budget the 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.[14]

For 2015/16 the first of these allowances, frozen at £10,500, has been withdrawn. Taxpayers in this cohort - born after 5 April 1938 but before 6 April 1948 - may now claim the personal allowance which is £100 larger. The second allowance, frozen at £10,660, is restricted to people born before 6 April 1938.

The age-related allowance is withdrawn if an individual's income exceeds a set limit. This is done by cutting the allowance by £1 for every £2 by which an individual's income exceeds the

---

12 HC Deb 22 June 2010, c179

13 This service is available at: https://www.gov.uk/marriage-allowance. For more details see, HM Treasury press notice, "*Registration opens for new married couples tax break*", 20 February 2015.

14 for more details see, *Age-related personal allowance*, HC Library briefing note SN6158, 22 May 2014.

income limit. This limit remains in place for those who are still eligible to claim the allowance, and is set at £27,700 for 2015/16.[15] 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.

For individuals aged 78 and over qualifying for an age-related personal allowance, the benefit of the additional allowance will not be completely withdrawn until their total income reaches a limit of £27,820.

2.6 Other 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.[16] 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**.[17] For 2015/16, this allowance is £8,355, 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: i.e., £840.

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 (see above). The withdrawal of the MCA from older couples is subject to a minimum allowance set at £3,220 for 2015/16, restricted to 10%.[18] 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, the minimum MCA can be transferred to the wife or split equally between spouses. In previous years, in line with the personal allowance, an age-related MCA was given to couples aged between 65 and 74, and a second, higher MCA to those 75 or over. Given that anyone born before 6 April 1935 will be 81 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.[19]

---

15 It has been increased in line with inflation from 2014/15.

16 The abolition of these allowances was announced in the March 1999 Budget; for further details see *Direct taxes: rates & allowances 2000/01*, HC Library research paper RP00/38, 29 March 2000 pp11-12.

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

18 The minimum amount of the MCA is also increased in line with inflation for 2014/15.

19 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.

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 81 or over (which is £3,220 restricted to 10% for 2015/16). 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.

3 Company cars & free fuel

Generally individuals are taxed on the cash value of any 'fringe benefit' they enjoy by virtue of their employment.[20]

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). A rate of 14% 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 210g/km). Three lower bands apply for cars with emissions under 95g/km. For 2015/16 these are 5% (0-50g/km), 9% (51-75g/km), and 13% (76-94g/km). In recent years the percentage charges for company cars have been announced some time in advance. Budget 2015 announced rates up to 2019/20.[21]

The taxable benefit of free fuel provided for private motoring in a company car is also related to the level of CO_2 emissions. The same 'appropriate percentage' charge is used as for company cars. To calculate the benefit charge the percentage figure is multiplied against a set figure for the year; for 2015/16 this is £22,100.[22]

4 Pensions

Major changes to the tax treatment of pensions were introduced under the *Finance Act 2004,* with effect from 6 April 2006 ('A-day'). This reform set two limits for an individual's tax-privileged pension saving: an annual allowance (AA) - a limit on the amount of annual pension savings that benefit from tax relief; and a lifetime allowance (LTA) - an overall ceiling on the amount of tax-privileged pension savings that someone may accrue. Previously, there had been a range of limits on annual contributions and final benefits in pension schemes.[23]

In the 2009 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.[24] Concerns about the complexity of these plans led 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. The AA would reduce from £255,000 to £50,000 from April 2011 and the LTA from £1.8 to £1.5 million from April 2012.[25] From April 2014, there was a further reduction in the AA to £40,000 and the LTA to £1.25 million.[26] In the 2015

[20] 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). Benefits in kind are taxed if the person receiving them is a director, or an employee who earns £8,500 or more per year. Some basic guidance on these rules is given on Gov.uk.

[21] *Budget 2015*, HC1093, March 2015 para 2.160-1. For more details on these rates see two editions of HM Treasury's *Overview of Tax Legislation and Rates*: March 2013 pB4, and, March 2015 p79

[22] *Budget 2014*, HC 1104, March 2014 para 2.158. This multiplier is set by Order: SI 2014/2896.

[23] for details see, *Restricting pension tax relief*, HC Library briefing note SN5901, 18 March 2015. Guidance is collated on the HMRC website [accessed 26 March 2015]

[24] HM Treasury, *Budget 2009,* HC 407, 22 April 2009, para 5.88 and 5.91

[25] HM Treasury, *Restricting pensions tax relief through existing allowances: a summary of the discussion document responses*, October 2010, summary

[26] HM Treasury, *Autumn Statement*, Cm 8480, December 2012, para 1.179-80

Budget the Chancellor announced that the lifetime allowance would be reduced to £1 million from April 2016, but would be increased annually in line with inflation from 2018.[27]

Pension tax rules restrict the payments that may be made from a pension scheme without attracting an 'unauthorised payments charge'.[28] The effect of the rules in force up to 6 April 2015 has been that most people with defined contribution pension savings use them to buy an annuity.[29] The main exceptions have been: people with small amounts of pension saving (who may be able to draw it all as a lump sum); and people who opt for an "income drawdown" arrangement (although there was a cap on the amount they could draw down each year unless they had other pension income above a set amount).[30]

In the 2014 Budget the Government announced that these rules would be reformed, so that individuals would be entitled to access their defined contribution pension savings whenever and however they wish from age 55, subject to their marginal rate of income tax.[31] These new rules apply from 6 April 2015.[32] In Budget 2015, the Government announced that from April 2016, it would change the tax rules to allow people who are already receiving income from an annuity to sell that income to a third party, subject to agreement from their annuity provider. The proceeds of the sale could then be taken directly or drawn down over a number of years, and would be taxed at their marginal rate, in the same way as those taking their pension after April 2015. [33]

5 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.[34]

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

27 *Budget 2015*, HC1093, March 2015 para 2.86. For more details see, *Restricting pension tax relief*, HC Library briefing note SN5901, 18 March 2015

28 for more details see, HMRC, *Registered Pension Schemes Manual (RPSM)*, page RPSM09200030

29 HM Treasury, *Freedom and choice in pensions*, Cm 8835, March 2014.

30 under ss 165-6 & Schedules 28 & 29 to *Finance Act 2004*

31 *Budget 2014*, HC 1104, March 2014 para 1.176, paras 1.170-2, paras 1.156-63. For more detail, see, *Flexibility for DC pension savers from April 2015*, HC Library briefing note SN6891, 4 December 2014.

32 *Taxation of Pensions Act 2014*

33 *Budget 2015*, HC 1093,18 March 2015, para 1.229-31

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

35 Guidance for taxpayers on both payroll giving and Gift Aid is published on Gov.uk [accessed 26 March 2015]

In April 2013 the Government launched a new scheme which allows charities to claim Gift Aid on small donations without a Gift Aid declaration. 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 up to £5,000 of donations per year. In the 2015 Budget the Government announced that this limit would be set at £8,000 from April 2016.[36]

6 Capital gains tax

Capital gains tax (CGT) is charged on gains in excess of the annual exempt amount, which is increased by 1% to £11,100 for 2015/16. 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.[37] The new Government introduced a 28% rate for higher rate and additional rate taxpayers, with effect from Budget day (22 June 2010).[38] The 2015 Budget makes no change to either the rates of CGT or the £10m lifetime limit on capital gains qualifying for entrepreneurs' relief - where eligible gains are taxed at 10%. In December 2012 the Government first announced that for both 2014/15 and 2015/16 the annual exempt amount would be increased by 1% only, rather than in line with inflation.[39]

7 Inheritance tax

Inheritance tax is levied on the value of a person's estate at the time of their death. Most large gifts made out of someone's estate within seven years of their death are treated as part of their estate for tax purposes. The tax is charged at 40% above the tax-free allowance. This allowance is frozen at £325,000 for 2015/16. In Budget 2013 the Government announced that the threshold would remain frozen at this level until April 2018.[40]

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.[41]

---

36 *Budget 2015*, HC1093, March 2015, para 2.104

37 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.

38 Guidance on CGT is published on Gov.uk [accessed 26 March 2015]

39 HM Treasury, *Autumn Statement*, Cm 8480, December 2012 para 2.48

40 HM Treasury, *Budget 2013*, HC 1033, March 2013 para 2.76. Previously the Government had proposed that the threshold should be frozen until April 2015 at the earliest (*Budget 2011,* HC 836, March 2011, para 2.58).

41 Guidance on inheritance tax is published on Gov.uk. [accessed 26 March 2015]

Appendix 1: Budget 2015 announcements for future tax years

In his 2015 Budget the Chancellor, George Osborne, announced a number of proposals for personal tax changes which would be introduced after 2015/16:

- The **personal allowance** will be increased by £200 to £10,800 for 2016/17. The allowance will be increased by a further £200 to £11,000 for 2017/18.[42]

- The **basic rate** limit will be increased in both years so that the higher rate threshold will be set at £42,700 in 2016/17, and at £43,300 in 2017/18.[43]

- From 6 April 2016 a new **Personal Savings Allowance** will be introduced. The allowance will exempt from tax the first £1,000 of savings income for basic rate taxpayers. It will exempt from tax the first £500 of savings income from higher rate taxpayers. Additional rate taxpayers will not receive an allowance. The automatic deduction of 20% income tax by banks and building societies on non-ISA savings will cease from April 2016.[44]

- The lifetime allowance which applies to **tax relief on pension contributions** will be cut from £1.25m to £1 million from 2016/17. The allowance will be increased annually in line with inflation from 2018/19.[45]

---

42 *Budget 2015*, HC 1093, March 2015, para 1.207-10.
43 *Overview of Tax Legislation and Rates*, March 2015, p74, p78
44 *Budget 2015*, HC 1093, March 2015, para 1.221-4, para 2.84
45 *Budget 2015*, HC 1093, March 2015, para 1.232

Appendix 2: Main personal income tax rates and allowances since 1990/91

Table 1

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

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

Notes (a) From 2008/09, a 10 per cent starting rate of income tax is retained for savings income. From April 2015, this is set at 0% - see main text for details.
* as announced at Budget 2015

Sources: HM Treasury, Budgets 2010-2015
Tax Benefit Reference Manual 2009-10

Table 2

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

£ per annum

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

Notes: (a) from 2013/14 eligibility for the age-related allowances was 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. These are the allowances as announced at Budget 2015. Figures for the MCA for 2016-18 have not been announced as yet.

Sources: HM Treasury, Budgets 2010-2015
Tax Benefit Reference Manual 2009-10