



## Additional personal allowance

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Prior to April 2000 lone parents, and married parents whose partner was incapacitated, were entitled to claim the additional personal allowance, while they cared for at least one child. The allowance was set equal in value to the basic married couple's allowance (MCA), which all married couples were entitled to claim. In 1999/00 the allowance was set at £1,970 restricted to 10 per cent. In effect, taxpayers received a tax credit worth 10% of the allowance – ie, £197 – to set against their final tax bill. In April 2000 the allowance was abolished, along with the MCA for couples under 65, as part of a wider reform in the system of child support, the general aim of which, in the words of the then Chancellor, Gordon Brown, was to “substantially increase support for families with children”, and to do so, “in the fairest way.”<sup>1</sup> This note gives a short description of the allowance and the Government's reasons for its withdrawal.<sup>2</sup>

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### 1 Operation of the additional personal allowance

Up to April 2000 a lone parent, or a married parent with an incapacitated spouse, could claim an extra tax allowance, on top of the basic personal allowance. Parents were entitled to claim the additional personal allowance (APA) while they cared for at least one child under 16. Parents could also claim the allowance if their child was over 16 and in full-time education or in apprenticeship of at least two years' duration.<sup>3</sup> The allowance was extended to all single parents in this position, whether single, divorced or widowed. Only one

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<sup>1</sup> HC Deb 9 March 1999 c183

<sup>2</sup> A second note focuses on the withdrawal of the MCA (*Married couple's allowance*, Library standard note SN/BT/870, 19 October 2009).

<sup>3</sup> Provision to this effect was made under section 259 of the *Income & Corporation Taxes Act (ICTA) 1988*

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allowance was paid, irrespective of the number of children cared for by the claimant.<sup>4</sup> The child might be the claimant's natural or adopted child, or simply a child maintained at the claimant's expense (eg fostered), though in the latter case, the child had to be under 18. Prior to its abolition, about 840,000 people claimed the APA, at a cost of £220 million.<sup>5</sup>

The APA was set equal in value to the 'basic' married couple's allowance (MCA), given to all married couples under 65.<sup>6</sup> Older couples were entitled to an additional allowance on top of the basic MCA. The MCA was first introduced in 1990 when it was set at £1,720; it was increased four times prior to its abolition.<sup>7</sup> The allowances was restricted in value first in April 1994 to 20%. It was then restricted to 15% over the four tax years 1995/96 to 1998/99; and to 10% for 1999/00.

## 2 Decision to withdraw the allowance

In his 1999 Budget the then Chancellor Gordon Brown announced that the basic MCA and associated allowances would be withdrawn from April 2000, and a new children's tax credit would be introduced with effect from April 2001.<sup>8</sup> Eligibility for the new credit would be based on whether someone was caring for a child, rather than their marital status, and the credit would be tapered, to focus resources on families with low incomes. In light of this measure, child benefit would remain untaxed. (The previous year Mr Brown had announced that the basic MCA and associated allowances would be restricted to 10% from April 1999, and that child benefit would be substantially increased, subject to the proviso that this benefit might be taxed at some point in the future.<sup>9</sup>) Part of the Chancellor's speech is reproduced below:

What is today called the married couple's allowance is in fact neither restricted to marriage, nor restricted to couples; nor is it strictly an allowance. It is in fact a tax credit paid at the same flat rate to married couples, single parents and unmarried parents living together. Far from recognising marriage, it is now so confused that it can even be paid at twice the rate in the year of separation or divorce. A married couple's allowance that can pay more for separation or divorce cannot be said to uphold the institution of marriage.

The last Government called the married couple's allowance an anomaly and reduced it from 40 per cent. to 15 per cent., cutting its value in half. If we were now to restrict the married couple's allowance to married couples only, as some propose, we would unfairly exclude, for example, widows with children, and wives who have been deserted and left to bring up their children alone. So I have responded to many representations and views, including one that said that "if we were going to phase out the married couple's allowance we should have replaced it at the same time with a new

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<sup>4</sup> If both parents, living apart, claimed the allowance in respect of the same child, then they could elect to have it split between them. If they were unable to agree, the allowance was split in proportion to the amount of time each spent with the child.

<sup>5</sup> Cost estimate for 1998/99; this figure includes £5 million for the allowance available to a married man with children whose wife was totally incapacitated (*Inland Revenue Statistics 1998* p 15). No further figures were available to break this number down (HC Deb 19 April 1999 c427W).

<sup>6</sup> Around 9.6 million people under 65 received the MCA at this time (HC Deb 25 February 1998 c231W).

<sup>7</sup> To £1,790 from April 1996; £1,830 from April 1997; £1,900 from April 1998; and, £1,970 from April 1999.

<sup>8</sup> In addition to the APA, the widow's bereavement allowance, and relief for maintenance payments to a divorced or separated spouse, were both tied to the basic MCA and withdrawn in April 2000.

<sup>9</sup> HC Deb 17 March 1998 cc 1106-1108

allowance, better targeted on families who really need the help"-- the words of the Leader of the Opposition.

So we will replace the married couple's allowance with a new family tax cut that will increase the amount that goes to help families with children. This children's tax credit will give more--not less--help to families at the time when they need it most, when they have their children and when their children are growing up. Today's pensioner couples will retain the married couple's allowance. Couples without children, or whose children have grown up, will benefit from other changes I will shortly announce. The married couple's allowance is today worth £190 to married couples. The children's tax credit, the tax cut for families to be introduced from April 2001, will be worth £416, and, as a result, the typical family with children will be over £200 a year better off. This tax cut for families represents the first recognition in the tax system for over 20 years of the extra costs of bringing up children. Under my proposals, the tax burden on the typical family will fall to its lowest level for 25 years. I will introduce similar improvements in the working families tax credit and income support for children. In the Budget last year, I set down the two principles that govern my approach: we must substantially increase support for families with children and we must do so in the fairest way. It is in fulfilment of those two principles that the children's tax credit will be tapered away for the higher-earning family where there is a top-rate taxpayer.

In the light of this reform, my Budget decision is that child benefit will not be taxed for taxpayers on the basic rate, or on the higher rate. As our manifesto promised, child benefit itself will remain as it is, paid to all mothers, rising annually with inflation ... I now propose a further increase in child benefit, well above the rate of inflation. It will rise next April to £15 a week for the first child, £780 year. I will also raise the rate for the second and further children beyond inflation to £10 a week ...

When we came into power, we found a chaotic, even counter-productive system of child support. It gave far too little help to mothers. It did not provide enough to those who needed it most. Child benefit had not been increased every year in line with inflation. The married couple's allowance could not fulfil its intended purpose. Income support for children was based on family status, not on family need. Family credit failed to guarantee a living wage for working families. What the benefits system gave with one hand, the tax system was taking with the other. Our long-term goal is to bring together the different strands of our support for children in the working families tax credit, in income support, in our children's tax credit and so create an integrated and seamless system of child financial support paid to the mother, building on the foundation of universal child benefit.<sup>10</sup>

The new children's tax credit – given to families who have one or more children under 16 living with them – was introduced in April 2001. As with the APA, the credit took the form of an allowance for which relief was given at 10 per cent: in 2001/02 the credit was set at £5,200 (in effect, a credit worth £520).<sup>11</sup> The credit was tapered for claimants paying income tax at the higher rate: for every £15 of income above the higher rate threshold, the credit was cut by £1, until entitlement was exhausted. In April 2002 the credit was increased in line with inflation – to £590 for 2002/03 – and an additional 'baby' rate was paid for the first year of a child's life – equivalent to a further credit of £10 a week. At the time there was general support for these changes, particularly from those groups concerned about family poverty:

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<sup>10</sup> HC Deb 9 March 1999 cc 182-183. Child benefit for the eldest child was increased from £11.45 to £14.40 from April 1999, and to £15.00 from April 2000. Benefit for the second and subsequent children was increased from £9.30 to £9.60 from April 1999, and to £10 from April 2000.

<sup>11</sup> Initially, it was anticipated the credit would be £416, but it was set at £520 in the 2001 Budget.

Pressure groups lobbying for low income families and children broadly welcomed the initiatives. They said the Chancellor had rightly targeted children in poor families who currently number 4.6 million. The Low Pay Unit said the redistributive effects of the Budget had benefited low income families. The Child Poverty Action Group agreed the effect had been positive, but was less impressed with the scope of the changes. It pointed out that following the Budget only 700,000 children would be lifted out of poverty, according to the Government's own statistics ... Mr Brown said it was his long-term goal to bring together the different strands of support for children, including the working families tax credit, income support and the children's tax credit 'to create an integrated and seamless system of child financial support paid to the mother, building upon the foundation of universal child benefit.' [Martin Barnes, director of the Child Poverty Action Group] said that while he welcomed the Budget proposals, he was concerned integration of benefits would lead to increased use of means testing to determine which families receive benefits and tax cuts.<sup>12</sup>

There was relatively little comment on the abolition of the APA,<sup>13</sup> partly for the fact that one parent families could claim the children's tax credit, set at more than double the value of the APA.<sup>14</sup> Some critics argued that families would lose out because the new credit would be introduced the year *after* the old allowance was withdrawn. For its part, the Government argued that the increases in child benefit, and the higher level of support provided by the working families tax credit (the in-work benefit which replaced family credit in October 1999) meant that resources were not taken away from families without replacement.<sup>15</sup>

As noted, parents caring for children *over* 16 were entitled to claim the APA, if their child was in full-time education. The Government opposed calls to apply the same rule to the new children's tax credit: during the Committee stage of the Finance Bill, the then Paymaster General, Dawn Primarolo, said, "the Chancellor said in his Budget statement that the aim of the proposed reforms ... [was] to focus help more closely on families when they most needed that support – after they had had their children and when their children were growing up ... the purpose of the children's tax credit is therefore to focus specifically on [this] group."<sup>16</sup>

The new credit replacing the APA and the MCA was short-lived – due, in part, to criticism that it was not tapered with reference to *family* income. In his 2002 Budget the Chancellor announced that a 'child tax credit' would be introduced from April 2003, to replace the support provided by the children's tax credit and the child elements of four other benefits/credits: income support, jobseeker's allowance (income-based), working families' tax credit (WFTC) and disabled person's tax credit (DPTC).<sup>17</sup> Awards for the new child tax credit would be based on the income of the family, and paid to the main carer. At this time the 'working tax credit' was also introduced, merging in-work support provided through the WFTC and DPTC.<sup>18</sup>

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<sup>12</sup> "Poorer children are given a better start", *Guardian*, 10 March 1999

<sup>13</sup> for example, it was not mentioned in the Treasury Committee's report on the Budget: *The 1999 Budget*, 1 April 1999 HC 325 1998-99

<sup>14</sup> This point was made by David Brodie, then director of the charity TaxAid, in "Women still lose out", *The Guardian*, 20 March 1999

<sup>15</sup> The then Paymaster General, Dawn Primarolo, made this point when the provisions to abolish the MCA and related allowances were debated during the proceedings of the Finance Bill: SC Deb (B) 18 May 1999 c279.

<sup>16</sup> SC Deb (B) 18 May 1999 c276

<sup>17</sup> HC Deb 17 April 2002 c587

<sup>18</sup> Guidance on tax credits is on HM Revenue & Customs site at: <http://www.hmrc.gov.uk/taxcredits/>. See also, *Tax credits and childcare costs*, Library standard note SN/SP/4929, 12 January 2009.

### 3 Married persons with incapacitated partners

Tax relief for widowed parents was first introduced in 1960. In his Budget speech that year, the then Chancellor, Derick Heathcoat Amory, noted that the existing housekeeper allowance went only to widows and widowers employing a resident housekeeper to care for their children. In addition to increasing the level of this allowance, from £60 to £75, he proposed to introduce a new allowance of £40, to go to a widow or widower with care of a child who had no resident housekeeper.<sup>19</sup> It was the Chancellor's intention that the new allowance should also be given to any single parents who would have qualified for a housekeeper allowance under the existing rules for its provision, if they had decided to employ a housekeeper. As a consequence, the new allowance was extended to cover those married men caring for incapacitated wives, who also cared for their children.

At that time, housekeeper allowance was not given to wives caring for incapacitated husbands, who employed a housekeeper to take care of their children. This anomaly was carried over into the provision of the new allowance. When this provision was debated in Committee, Dame Irene Ward was among those who argued that this was discriminatory and unfair: "I want to know whether a married woman who has a totally incapacitated husband whom she has to look after as well as her children will be able to get the benefit of this concession, or has the tax structure got so involved that there is no possible way of including her?"<sup>20</sup> Sir Edward Boyle, the then Financial Secretary to the Treasury, argued that extending the new allowance to wives would change the basis on which the allowance was given: "To give an allowance where a man is incapacitated would be to give an allowance not for the care of the children, but in respect of the husband's disability. This is a point which we have often discussed in Committee - whether or not there should be a disability allowance. Ministers on both sides ... whenever this point has been raised, have always felt obliged to resist that suggestion."<sup>21</sup>

Clearly the underlying assumption was that married mothers would not enter the workforce, even if their husbands were incapacitated, and would not, in any case, require financial aid to care for their own children. Mr Douglas Houghton pointed out this deficiency in Sir Edward's argument, which gives some indication why the Government did not address this anomaly at the time: "The Financial Secretary says that if we gave relief for a totally incapacitated husband whose wife is able to look after the children, it could not be for the purpose of employing a housekeeper, because in fact she was physically able to take care of the children. But that overlooks the possibility that she may have to become the breadwinner, and therefore a housekeeper is necessary to look after the children while she goes out to earn the money for the support of the family."<sup>22</sup>

The housekeeper's allowance itself, which had been set at £75 in 1960, was only increased to £100 in 1973. It was allowed to diminish substantially in real terms over the next fifteen years, and was finally abolished in 1988, when it was still worth just £100.<sup>23</sup> When this was discussed in Committee, the then Chief Secretary to the Treasury (John Major) suggested that the allowance was an anachronism, going on to argue that "it has been accepted on

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<sup>19</sup> HC Deb 4 April 1960 cc 61-62

<sup>20</sup> HC Deb 19 May 1960 c1555

<sup>21</sup> *op.cit.* cc 1558-1559

<sup>22</sup> *op.cit.* c1560

<sup>23</sup> Under section 25(3) of the *Finance Act 1988*.

both sides of the House in recent years that the best way of helping to support elderly or infirm people is not through the tax system but through the social security system.”<sup>24</sup>

During the Committee stage of the *Finance Bill* in June 1991, Chris Smith proposed a new clause to remove this anomaly, by extending the provision of the additional personal allowance to women in this situation.<sup>25</sup> In response, the then Minister of State at the Treasury, Gillian Shephard, explained why this anomaly existed: “The difference in tax treatment has long been a feature of the tax system; in its present form, it dates from 1960. No doubt, it reflects a view from those days that it was usual for a wife to look after a home and bring up children. Therefore, when a mother was incapacitated, a case was seen for additional help; that did not seem appropriate when the husband was incapacitated.”<sup>26</sup> The Minister promised to look at the issue, and Mr Smith withdrew the clause.

During the Committee stage of the *Finance Bill* in July 1992, Paul Boateng proposed a similar clause to Mr Smith’s the year before.<sup>27</sup> The then Financial Secretary, Stephen Dorrell, opposed the clause, arguing that although the provision was an anomaly, extending this type of tax relief was an inefficient way of helping those wives caring for incapacitated husbands: “It is not right to seek to mould the tax system to help small groups of people in the way that the additional personal allowance does for men and the amendment would do for women ... We believe that the way to help the disabled is not through the tax system, but by targeted social security benefits ... There are choices, none of which is attractive. The option of withdrawing the existing additional allowance does not seem attractive, nor does the option of extending it to women. Given the options available, the least bad road forward is to stay as we are.”<sup>28</sup> As a result of the then Government’s opposition to this measure, the clause was negated.

The Conservative Government’s opposition on extending to APA to wives with incapacitated husbands was reiterated in a written answer in December 1995:

**Mr. Kirkwood:** To ask the Chancellor of the Exchequer (1) if he will make it his policy to allow an additional personal tax allowance to a woman whose husband is permanently disabled and who has a dependent child; (2) if he will make a statement on the additional personal tax allowance currently available to a man whose wife is disabled and who has a dependent child indicating the considerations underlying the reasons why the same facility is not allowed to a woman in the same circumstances.

**Mr. Michael Jack :** The additional personal allowance for husbands with totally incapacitated wives dates from a time when social security provision for the disabled was much less comprehensive than it is now. The Government believe that, in general, it is much better to help both men and women with disabled partners through the social security system than through tax reliefs, and a generous range of social security benefits are available today.<sup>29</sup>

Following the Labour party’s victory in the 1997 General Election, the then Chancellor Gordon Brown proposed reversing this anomaly in his 1998 Budget:

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<sup>24</sup> SC Deb (A) 24 May 1988 c228

<sup>25</sup> SC Deb (B) 20 June 1991 cc 477-480

<sup>26</sup> *op.cit.* c 479

<sup>27</sup> SC Deb (B) 1 July 1992 cc 511-519

<sup>28</sup> *op.cit.* cc 516-517

<sup>29</sup> HC Deb 6 December 1995 c262W

I have one further announcement: for hundreds of thousands of men and women, care within the family extends beyond caring for children to caring for disabled or elderly relatives, so valuing families means valuing carers--spouses, grandparents, and all the carers who contribute to the family. As a first step to recognising the importance of carers within the family, I can today announce that I am ending an injustice that the previous Government tolerated. The tax allowance that has been available only to men with children whose wives are incapacitated will be extended to mothers with dependent children and incapacitated husbands. Because of the importance that I attach to ending this unfairness, I will backdate this additional help to April 1997.<sup>30</sup>

Legislation to this effect was introduced under section 27 of the *Finance Act 1998*.<sup>31</sup>

Of course only one year later Mr Brown announced the APA would be abolished: David Brodie in the *Guardian* was one of the few commentators who pointed out this measure would affect parents with incapacitated partners:

For many years, husbands with incapacitated wives have received an extra tax allowance for children. Voluntary agencies protested that the absence of a similar allowance for women with incapacitated husbands was discriminatory. Last year Mr Brown introduced such a relief 'as a first step towards recognising the importance of carers within the family' although he omitted to mention that the European Commission had forced his hand by ruling that the existing provision was discrimination in breach of the European Convention on Human Rights ... The cheers will be shortlived when this special tax help for such needy families bites the dust in April 2000 when the tax relief is abolished along with the MCA.<sup>32</sup>

The issue was raised by Nick Gibb MP during the Committee stage of the Finance Bill; an extract from the debate is reproduced below:

**Nick Gibb:** ... One year the allowance was extended, but the next year it is abolished. That seems rather odd, and suggests not a carefully planned strategy but a tax policy in disarray. The Carers National Association is concerned about that. It states: "the recognition of the costs of caring and therefore the increased financial demands on carers is lost."

**Dawn Primarolo:** ... The additional personal allowance has always been available only to people with children. That includes married people with totally incapacitated spouses. Most will be eligible for the new children's tax credit, which will be worth more. Such people should still make a net gain from the Budget. The Government are determined to ensure that the tax system is fair. Extending the additional personal allowance to married women with incapacitated spouses corrected a long-standing discrimination, over which the Conservative party presided. However, the time is right to reform the allowance as part of a wider package.<sup>33</sup>

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<sup>30</sup> HC Deb 17 March 1998 c1108

<sup>31</sup> The debate in Committee on this provision focused on the widow's bereavement allowance, and the failure of the Government to extend this to widowers: SC Deb (E) 14 May 1998 cc 141-145.

<sup>32</sup> "Women still lose out", *The Guardian*, 20 March 1999

<sup>33</sup> SC Deb (B) 20 May 1999 c313. Provision to withdraw the APA from April 2000 was made under section 33 of the *Finance Act 1999*.