

Income Tax Rates, Rate Limits and Personal Allowances for 2011-12

Who is likely to be affected?

Income tax payers, employees and the self-employed.

General description of the measure

Legislation will be introduced in Finance Bill 2011 to set:

- the basic rate of income tax at 20 per cent;
- the higher rate at 40 per cent; and
- the additional rate at 50 per cent.

Legislation in the Finance Bill will also increase the personal allowance for those aged under 65 to £7,475 and reduce the basic rate limit to £35,000.

The national insurance contributions (NICs) Upper Earnings Limit and Upper Profits Limit will be reduced to the level of the higher rate threshold (the total of the personal allowance for those aged under 65 and the basic rate limit) by separate regulations.

Policy objective

The increase to the personal allowance for those aged under 65 will contribute to the Government's objective of a fairer tax system by providing support to individuals on low and middle incomes, and by increasing the rewards to work. The reduction to the basic rate limit and changes to NICs target the additional support on basic rate taxpayers.

Background to this measure

- The June Budget announced that the personal allowance for 2011-12 for those aged under 65 will increase to £7,475 and the basic rate limit reduced so that higher rate taxpayers do not benefit from the increase.
- The June Budget also announced that the alignment of the Upper Earnings/Profits Limit with the higher rate threshold (the total of the personal allowance for those aged under 65 and the basic rate limit) will be maintained.
- There are no changes to the main rates of income tax for 2011-12.

Detailed proposal

Operative date

The measure will have effect on and after 6 April 2011.

Current law

The annual Finance Act (FA) provides the charge and the main income tax rates (from 2010-11, the basic rate, higher rate and additional rate). Section 1 of FA 2010 provides for income tax and the tax rates for 2010-11.

Section 1 of FA 2010 also provides that for 2010-11, the personal allowances for those aged under 65 is the same amount as for 2009-10. Section 3 of FA 2009 provides that the personal allowance for those aged under 65 is £6,475.

Proposed revisions

For 2011-12, the income tax rate and allowances will be:

Personal allowance for someone aged under 65	£7,475
Income limit for the personal allowance	£100,000
Personal allowance for someone aged 65 to 74	£9,940
Personal allowance for someone aged 75 or over	£10,090
Married couple's allowance for someone born before 6 April 1935 and aged over 75	£7,295
Minimum amount of married couple's allowance	£2,800
Income limit for age-related allowances	£24,000
Blind person's allowance	£1,980
Starting rate limit for savings	£2,560
Basic rate limit	£35,000
Higher rate limit	£150,000

Existing legislation requires the Government to increase personal allowances and rate limits by the annual percentage increase to the retail prices index (RPI) for the year to September preceding the new tax year. The Government made the Order to set the relevant amounts on 2 December.

The Government has announced that for 2011-12 it will over-ride the amounts set in the order for the personal allowance for those aged under 65 and the basic rate limit. These provisions will be included in Finance Bill 2011.

The personal allowance provides an amount of tax free income. An individual is liable to basic rate tax on their taxable income up to the basic rate limit. Above the basic rate limit, higher rate tax is payable up to the higher rate limit. Above the higher rate limit, additional rate (50 per cent) tax is payable.

Summary of impacts

Exchequer impact (£m)	2010-11	2011-12	2012-13	2013-14	2014-15
	0	-3490	-3700	-3770	-3910
This costing relates to the £1,000 cash increase in the income tax personal allowance for those aged under 65 to £7,475 in 2011-12 including accompanying reductions in the basic rate limit and National Insurance Upper Earnings/Profit Limit. The costing is based on the Office of Budget Responsibility's June Budget forecast.					

Economic impact	The measures to increase the personal allowances for income tax form part of a package which includes an increase in the secondary threshold for employer NICs. The OBR's central judgement was that these measures would change post-tax labour income; with the measure having a positive impact on GDP (details are provided in the June Budget).
Impact on individuals and households	<p>The increase in the personal allowance will remove the 880,000 lowest income taxpayers out of tax altogether, and around 23 million basic rate taxpayers will gain by £170 per annum on average.</p> <p>There will be no significant change for the majority of higher rate taxpayers, but 1.75 million higher rate and additional rate taxpayers will have an average loss of £220 per annum. This includes those with incomes above £114,950 whose personal allowance will be tapered to zero, and therefore will not benefit from the increase to the allowance (approx 520,000 individuals). There will also be some higher rate or additional rate taxpayers whose tax loss is not offset by the reduction in the NICs Upper Earnings/Profit Limit (approx 1.3 million individuals, including 350,000 pensioners who do not pay NICs, and 275,000 self-employed individuals).</p> <p>In addition, there will be a further 400,000 higher rate taxpayers. However, 280,000 of these are better off because they experience the full benefit of the allowance increase without experiencing the full loss from the reduction in the basic rate limit.</p>
Equalities impacts	<p>Income tax changes apply regardless of personal circumstances such as gender, race, or disability. Of these categories, HM Treasury and HM Revenue & Customs (HMRC) only hold taxpayer data on gender:</p> <ul style="list-style-type: none"> • 45 per cent of the 23 million people better off as a result of this measure are female; and • 60 per cent of the 880,000 taken out of tax are female.
Impact on business including third sector	There will be no significant compliance costs for businesses from making this routine change to employees' PAYE thresholds.
Impact on public sector	The impact on HMRC is negligible because changes to the amounts of personal allowances and rate limits are a routine requirement.
Other impacts	Small firms who are also employers will make changes to their PAYE payrolls to reflect the new amounts of personal allowance and basic rate limit. Generally speaking, this is an annual requirement and HMRC provides comprehensive support and guidance to all employers and pension providers to minimise any potential impacts.

Monitoring and evaluation

The £1,000 cash increase announced at the June Budget is the first step towards the Government's longer term commitment of increasing the personal allowance to £10,000.

A key aim of this policy is to boost the rewards to employment, and HMRC and HM Treasury will seek to assess the cumulative labour market effects of personal allowance increases in the context of other relevant tax and benefit changes.

Further advice

If you have any questions about this change, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk).

1 Charge and main rates for 2011-12

- (1) Income tax is charged for the tax year 2011-12.
- (2) For that tax year –
 - (a) the basic rate is 20%,
 - (b) the higher rate is 40%, and
 - (c) the additional rate is 50%.

2 Basic rate limit for 2011-12

- (1) For the tax year 2011-12 the amount specified in section 10(5) of ITA 2007 (basic rate limit) is replaced with “£35,000”.
- (2) Accordingly section 21 of that Act (indexation of limits), so far as relating to the basic rate limit, does not apply for that year.

3 Personal allowance for 2011-12 for those aged under 65

- (1) For the tax year 2011-12 the amount specified in section 35(1) of ITA 2007 (personal allowance for those aged under 65) is replaced with “£ 7,475”.
- (2) Accordingly section 57 of that Act (indexation), so far as relating to the amount specified in section 35 of that Act, does not apply to the tax year 2011-12.

DRAFT EXPLANATORY NOTE

CHARGE AND MAIN RATES FOR 2011-12

SUMMARY

1. This clause imposes the income tax charge for 2011-12 and sets the basic rate of income tax at 20 per cent, the higher rate at 40 per cent and the additional rate at 50 per cent.

DETAILS OF THE CLAUSE

2. Subsection (1) imposes the income tax charge for 2011-12.
3. Subsection (2)(a) sets the basic rate of income tax at 20 per cent.
4. Subsection (2)(b) sets the higher rate of income tax at 40 per cent.
5. Subsection (2)(c) sets the additional rate of income tax at 50 per cent.

BACKGROUND NOTE

6. Income tax is an annual tax re-imposed by Parliament (even if the proposed rates are the same as for the previous year). The table below sets out the main rates and rate limits for 2011-12 and for reference includes the amounts for 2010-11:

	2010-11	2011-12
Basic rate	£0 - £37,400 at 20 per cent	£0 - £35,000 at 20 per cent
Higher rate	£37,401 - £150,000 at 40 per cent	£35,001 - £150,000 at 40 per cent
Additional rate	Over £150,000 at 50 per cent	Over £150,000 at 50 per cent

The basic rate limit of £35,000 as identified in the table above is set by clause 2 of this Bill.

7. If you have any questions about this change or comments on the legislation, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Barbara Jones on 020 7147 2491 (email: Barbara.e.jones@hmrc.gsi.gov.uk).

DRAFT EXPLANATORY NOTE

BASIC RATE LIMIT FOR 2011-12

SUMMARY

1. This clause sets the amount of the basic rate limit for income tax at £35,000.

DETAILS OF THE CLAUSE

2. Subsection (1) replaces the existing amount of the basic rate limit in section 10(5) of the Income Tax Act 2007 (£37,400) with £35,000 for 2011-12.
3. Subsection (2) disapplies the indexation provisions for the basic rate limit for 2011-12.

BACKGROUND NOTE

4. An individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit.
5. The basic rate limit is subject to indexation (an annual increase based upon the percentage increase to the retail prices index). Parliament can over-ride indexed amounts by a provision in the Finance Bill.
6. The table below sets out the amount of the basic rate limit for 2010-11, the indexed amount for 2011-12 and the amount specified by this clause for 2011-12:

2010-11	2011-12 indexed	2011-12 by this clause
£37,400	£39,200	£35,000

7. The effect of this clause is to over-ride the indexed amount for the basic rate limit. This clause is part of a package of measures that include a further clause in this Bill and the reduction in the Upper Earnings Limit and Upper Profits Limit provided for by separate National Insurance Contributions' Regulations.
8. If you have any questions about this change or comments on the legislation, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Barbara Jones on 020 7147 2491 (email: Barbara.e.jones@hmrc.gsi.gov.uk).

DRAFT EXPLANATORY NOTE

PERSONAL ALLOWANCE FOR 2011-12 FOR THOSE AGED UNDER 65

SUMMARY

1. This clause sets the amount of the personal allowance for those aged under 65 at £7,475 for 2011-12.

DETAILS OF THE CLAUSE

2. Subsection (1) replaces the existing amount of the personal allowance for those aged under 65 (£6,475) with £7,475 for 2011-12.
3. Subsection (2) disapplies the indexation provisions for this allowance for 2011-12.

BACKGROUND NOTE

4. Individuals are entitled to a personal allowance for income tax. The amount depends upon the individual's age and income.
5. Income tax personal allowances are subject to indexation (an annual increase based upon the percentage increase to the retail prices index). Parliament can over-ride indexed amounts by a provision in the Finance Bill. For 2011-12, the personal allowances for people aged 65 to 74 and aged 75 and over have been increased by indexation.
6. The table below sets out the amount of personal allowance for individuals aged under 65 for 2010-11, the indexed amount for 2011-12 and the amount specified by this clause for 2011-12:

2010-11	2011-12 indexed	2011-12 by this clause
£6,475	£6,785	£7,475

7. The effect of this clause is to over-ride the indexed amount for the personal allowance for individuals aged under 65.
8. If you have any questions about this change or comments on the legislation, please contact Paul Thomas on 020 7147 2479 (email: paul.thomas@hmrc.gsi.gov.uk) or Barbara Jones on 020 7147 2491 (email: Barbara.e.jones@hmrc.gsi.gov.uk).