

FINANCE ACT 2012

EXPLANATORY NOTES

INTRODUCTION

Section 4: Personal Allowances from 2013

Summary

1. This section amends the income tax personal allowances currently available for people aged under 65, aged 65 to 74 or aged 75 and over in a tax year. It changes entitlement from age to date of birth and fixes the amount of the allowances for people born before 6 April 1948 until the personal allowance for people born after 5 April 1948 is a greater amount.

Details of the Section

2. Subsection 1 provides that the income tax personal allowances currently available for people aged under 65, aged 65 to 74 or aged 75 and over in a tax year are amended in accordance with this section.
3. Subsection 2 provides that section 35 Income Tax Act 2007 (ITA) (personal allowance for those aged under 65) is amended so that the personal allowance that it provides is available to people born after 5 April 1948.
4. Subsection 3(a) provides that section 36 ITA (personal allowance for those aged 65 to 74) is amended so that the personal allowance that it provides, or the allowance provided by section 35, whichever is the greater, is available to people born after 5 April 1938 but before 6 April 1948.
5. Subsection 3(b) provides that the income-related reduction to the allowance provided by section 36 ITA, only applies if the allowance is greater than the allowance provided by section 35 ITA. The section 36 allowance is not reduced below the amount of the section 35 allowance.
6. Subsection (3)(c) inserts a new section for section 36 ITA that defines “the section 35 amount” as the amount the individual would have been entitled to if they had been born after 5 April 1948.
7. Subsection 4(a) provides that section 37 ITA (personal allowance for those aged 75 and over) is amended so that the personal allowance that it provides or the allowance provided by section 35 ITA, whichever is the greater, is available to people born before 6 April 1938.
8. Subsection 4(b) provides that the income-related reduction to the allowance provided by section 37 ITA, only applies if the allowance is greater than the allowance provided by section 35. The section 37 allowance is not reduced below the amount of the section 35 allowance.
9. Subsection (4)(c) inserts a new section for section 37 ITA that defines “the section 35” amount as the allowance the individual would have been entitled to if they had been born after 5 April 1948.

*These notes refer to the Finance Act 2012 (c.14)
which received Royal Assent on 17 July 2012*

10. Subsection 5 provides that section 41 ITA (allowances in the year of death), which clarifies that the higher allowance is due if an individual dies before they reach the age of 65 or 75 in the year of their death, is amended to remove specific references to sections 36 and 37 ITA.
11. Subsection 6 provides that the amended allowance provided by section 35 ITA is subject to indexation as provided for by section 57 ITA (indexation of allowances). It also removes the amended allowances provided by section 36 and 37 ITA from the indexation provisions.
12. Subsection 7 amends the references to section 35 ITA in section 508A Income and Corporation Taxes Act 1988.
13. Subsection 8 provides that this section has effect from the 2013-14 tax year and subsequent years.

Background Note

14. There are currently three income tax personal allowances provided by reference to an individual's age; one for people aged under 65 in the tax year; one for people aged 65 to 74 in the tax year; one for people aged 75 and over in the tax year.
15. This section provides that from 2013-14, an individual is entitled to a personal allowance by reference to their date of birth.
16. This section also provides that from 2013-14, the allowances for people born before 6 April 1948 are removed from the indexation provisions for personal allowances.
17. For 2012-13, the amount of these allowances will be:

Individual aged under 65 in the tax year	£8,105
Individual aged 65 to 74 in the tax year	£10,500
Individual aged 75 and over in the tax year	£10,660

18. The amount of the personal allowance for people aged under 65 will be set by a separate section in this Act. The allowances for people aged 65 to 74 and aged 75 and over are set by [The Income Tax \(Indexation\) Order 2011 No. 2926](#) made on 6 December 2011.
19. The Chancellor has announced that for 2013-14, the personal allowance provided for by section 35 ITA will be £9,205. This will be provided for in Finance Bill 2013.
20. Taken together with the powers provided by this section, the personal allowances for 2013-14 will be:

Individual born after 5 April 1948	£9,205
Individual born after 5 April 1938 but before 6 April 1948	£10,500
Individual born before 6 April 1938	£10,660

21. Existing legislation specifically clarifies that the allowances for people aged 65 to 74 and aged 75 and over in a tax year are unaffected where the individual dies before their birthday. Setting a personal allowance by reference to an individual's date of birth removes the requirement for this clarification.