

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 1: Income Tax: Charge, Rates, Basic Rate Limit and Personal Allowance for 2014-15

Summary

1. This section provides for income tax, sets the amount of the basic rate limit for income tax at £31,865 and sets the amount of the personal allowance for those born after 5 April 1948 at £10,000 for the tax year 2014-15.

Details of the Section

2. Subsection 1 provides for income tax for 2014-15.
3. Subsection 2 provides the main rates of tax.
4. Subsection 3 replaces the existing amount of the basic rate limit (£32,010) in section 10(5) of the Income Tax Act 2007 (ITA) with £31,865 for 2014-15, and replaces the amount of the personal allowance for those born after 5 April 1948 in section 35(1) of ITA (£9,440) with £10,000 for 2014-15.
5. Subsection 4 disapplies the indexation provisions for the basic rate limit at section 21 ITA as far as it applies to section 10(5), for 2014-15 and disapplies the indexation provisions for the personal allowance, at section 57 of ITA, for those born after 5 April 1948 for 2014-15.

Background Note

6. Income tax is an annual tax. It is for Parliament to impose income tax for a year.
7. This section imposes a charge to income tax for the tax year 2014-15. It also provides the main rates of income tax for 2014-15: the 20 per cent basic rate, the 40 per cent higher rate and the 45 per cent additional rate.
8. An individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit.
9. 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 the indexed amounts by a provision in the Finance Bill.
10. Budget 2013 announced that the basic rate limit will be set at £31,865 for 2014-15.
11. The table below sets out the amount of the basic rate limit for 2013-14, the indexed amount for 2014-15, and the amount specified by this section for 2014-15.

<i>2013-14</i>	<i>2014-15 indexed</i>	<i>2014-15 by this section</i>
£32,010	£33,100	£31,865

*These notes refer to the Finance Act 2014 (c.26)
which received Royal Assent on 17 July 2014*

12. The effect of this section is to override the indexed amount for the basic rate limit.
13. An individual is entitled to a personal allowance for income tax. From 2013-14 the amount depends upon the individual's date of birth and income.
14. 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 the indexed amounts by a provision in the Finance Bill.
15. Budget 2013 announced that the basic personal allowance will be increased to £10,000 in 2014-15.
16. The table below sets out the amount of personal allowance for 2013-14, the indexed amount for 2014-15 and the amount specified in this section for 2014-15: for those born after 5 April 1948.

<i>2013-14</i>	<i>2014-15 indexed</i>	<i>2014-15 by this section</i>
£9,440	£9,740	£10,000

17. The effect of this section is to override the indexed amount for the personal allowance for those born after 5 April 1948.