

FINANCE ACT 2014

EXPLANATORY NOTES

INTRODUCTION

Section 2: Basic Rate Limit for 2015-16 and Personal Allowances from 2015

Summary

1. This section sets the amount of the basic rate limit and sets the personal allowance for those born after 5 April 1938 for tax year 2015-16. It also omits section 36 of the Income Tax Act 2007 (ITA), the personal allowance for those born before 6 April 1948 and after 5 April 1938, from 2015-16 and makes consequential amendments as a result of that omission.

Details of the Section

2. Subsections (1) and (4) provide that the amount of the personal allowance for the 2015-16 tax year for those born after 5 April 1938 is £10,500 and that the basic rate limit in section 10(5) of ITA is to be £31,785 for that year.
3. Subsection (2) disapplies the indexation provisions for the basic rate limit at section 21 of ITA as far as it applies to section 10(5), and disapplies the indexation provisions for the personal allowance, at section 57 ITA, for 2015-16.
4. Subsection (5) omits section 36 ITA (personal allowance for those born after 5 April 1938 but before 6 April 1948). Subsection (3) and subsections (6) to (8) make consequential amendments to other provisions in ITA as a result of that omission.
5. Subsection (9) provides that this section has effect from the 2015-16 tax year and subsequent years.

Background Note

6. An individual's taxable income is charged to tax at the basic rate of tax up to the basic rate limit.
7. The basic rate limit is subject to indexation (an annual increase based upon the percentage increase to the retail prices index and, from 2015-16, the consumer prices index). Parliament can over-ride the indexed amounts by a provision in the Finance Bill.
8. Budget 2014 announced that the basic rate limit will be set at £31,785 for 2015-16.
9. The effect of this section is to override the anticipated indexed amount for the basic rate limit for 2015-16.
10. An individual is entitled to a personal allowance for income tax. The amount depends upon the individual's date of birth and income from 2013-14.
11. Income tax personal allowances are subject to indexation (an annual increase based upon the percentage increase to the retail prices index, and from 2015-16 the consumer prices index). Parliament can over-ride the indexed amounts by a provision in the Finance Bill.

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

12. Budget 2014 announced that the basic personal allowance will be increased to £10,500 in 2015-16. As a consequence, it will be aligned with the personal allowance for those born after 5 April 1938 and before 6 April 1948.
13. The effect of this section is to override the indexed amount for the personal allowance for those born after 5 April 1948 that is anticipated to be lower than £10,500 in 2015-16, and make the consequential amendments to remove references to the personal allowance for those born after 5 April 1938 and before 6 April 1948 from ITA.