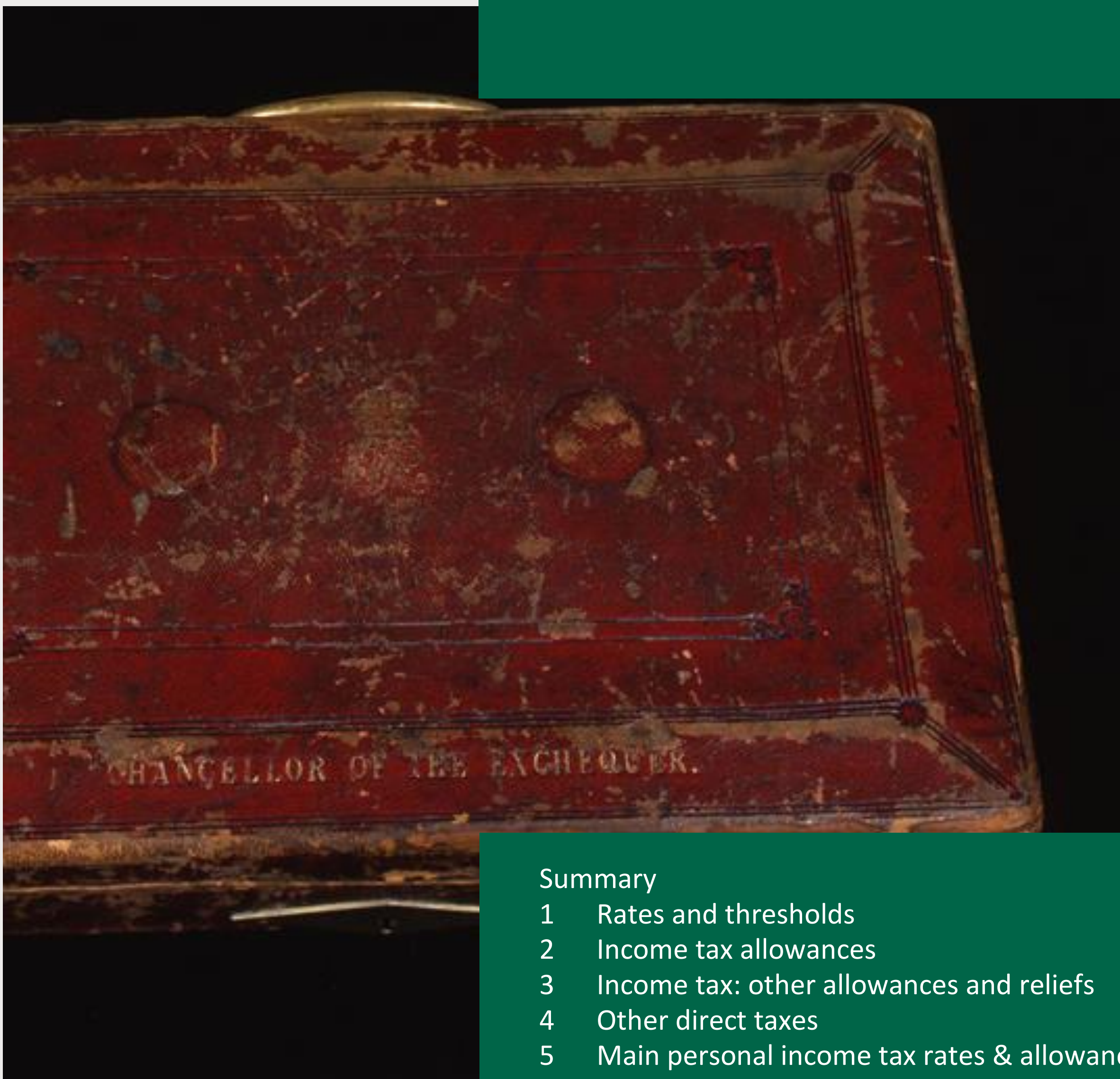
House of Commons Library

Research Briefing

By Antony Seely

6 April 2022

Direct taxes: rates and allowances 2022/23



Summary

Number 9489

Contributing Authors
Matthew Keep;
James Mirza-Davies

Contents

Summary

This paper sets out direct tax rates and principal tax allowances for the 2022/23 tax year, as confirmed in the Autumn 2021 Budget on 27 October 2021 and the Spring Statement on 23 March 2022. The paper outlines the conditions necessary for eligibility for these tax allowances and provides a summary of the general tax position in straightforward cases.

Income tax

Income tax on earned income is charged at three rates: the basic rate, the higher rate and the additional rate.

For 2022/23 these three rates are 20%, 40% and 45% respectively. Tax is charged on taxable income at the basic rate up to the basic rate limit, set at £37,700. 'Taxable income' excludes personal allowances, which represent the amount of money someone may receive free of tax. Tax is charged at the higher rate on taxable income between the basic rate limit and the higher rate limit, set at £150,000. The additional rate is charged on taxable income over £150,000. All three tax rates are unchanged from 2021/22.

Personal allowance

The **personal allowance** is set at £12,570 for 2022/23. Both the personal allowance and the basic rate limit have been fixed in value from 2021/22. As a result the higher rate threshold – the point at which individuals become liable to pay tax at the higher rate – remains unchanged at £50,270 for 2022/23.

Marriage allowance

Married couples and civil partners may be entitled to claim the **marriage allowance**. Individuals whose income is insufficient to make full use of their personal allowance may transfer this unused fraction to their spouse or civil partner, up to a set amount. Individuals cannot make use of this provision if their spouse or partner pays more than the basic rate of tax. For 2022/23 the maximum that can be transferred is £1,260.

National Insurance contributions

The rates of **National Insurance contributions** (NICs) for both employees and employers are increased by 1.25 percentage points for 2022/23. For employees, the rate of NICs is set at 13.25% on all earnings between the primary threshold and the upper earnings limit, and at 3.25% on earnings above the upper earnings limit. For employers, the rate of NICs is set at 15.05% on earnings above the secondary threshold.

The primary threshold is set initially at £190 per week, rising to £242 per week from 6 July 2022. The secondary threshold is set at £175 per week for the whole of the 2022/23 tax year. The upper earnings limit is set at £967 per week for 2022/23, so that it remains aligned with the income tax higher rate threshold.

Further information

This paper deals with tax allowances, but not with cash benefits provided under the social security system, the child tax credit or the working tax credit. Details of these credits, along with other tax rates and allowances for the 2022/23 year are set out in Annex A to HM Treasury, Overview of Tax Legislation and Rates, October 2021 published alongside the Autumn 2021 Budget, supplemented by HM Treasury, Spring Statement 2022: Factsheet on Personal Tax, 23 March 2022.

1 Rates and thresholds

1.1 Income tax

Income from earnings, pensions, profits

All 'non-savings' income – income from earnings, pensions, taxable social security benefits, trading profits and income from property – are subject to income tax at the same rates.

For 2022/23 income tax on these categories of income is charged at three rates: the basic rate of 20%, the higher rate of 40% and the additional rate of 45%. All three rates are unchanged from 2021/22.[1]

The 20% basic rate applies to taxable income up to a threshold of £37,700. Taxable income excludes personal allowances, which represent the amount of money someone may receive free of tax. (Personal allowances are discussed in section 2 of this paper.)

Taxable income in excess of the threshold is charged at the higher rate of 40%, up to £150,000. Income earned above this threshold is charged tax at 45%.

2021/22		**2022/23**	
Taxable income	**Tax rate**	**Taxable income**	**Tax rate**
£0 - £37,700	**20%**	**£0 - £37,700**	**20%**
£37,701 - £150,000	**40%**	**£37,701 - £150,000**	**40%**
Over £150,000	**45%**	**Over £150,000**	**45%**

A 10% starting rate of tax used to apply on non-savings income, but was withdrawn in April 2008.

Two new allowances which apply to income from property and income from trading were introduced from April 2017. Individuals with property income or trading income below the level of the allowance do not need to declare this income or pay tax on it. Both allowances are set at £1,000 for 2022/23.[2]

1 HM Treasury (HMT), Overview of Tax Legislation and Rates, October 2021 (Annex A)

2 HM Revenue & Customs (HMRC), Tax-free allowances on property and trading income, May 2019. see also, Low Incomes Tax Reform Group (LITRG), What is the trading allowance?, 4 April 2022; and, Renting out a property, 24 February 2022.

Scottish taxpayers

From 2017/18 the Scottish Government has had the power to set all income tax rates and thresholds to apply to Scottish taxpayers' non-savings and non-dividend income. It does not have the power to set the personal allowance. For 2022/23 the Scottish Government has set five rates of income tax: the starter rate of 19%; the basic rate of 20%; the intermediate rate of 21%; the higher rate of 41%; and the top rate of 46%. It has also set the four thresholds at which these rates take effect. These rates and thresholds are:[3]

Taxable income	Tax rate
Over £12,570 - £14,732	**19%**
Over £14,732 - £25,688	**20%**
Over £25,688 - £43,662	**21%**
Over £43,662 - £150,000	**41%**
Above £150,000	**46%**

The table assumes someone is in receipt of the UK personal allowance, which is reduced by £1 for every £2 earned over £100,000.

Savings and dividend income

For 2022/23 savings income – such as interest – is charged at 0% for income up to £5,000. Above this limit savings income is charged tax at the basic rate of 20%, up to the basic rate limit of £37,700. Savings income above this limit is charged at the 40% higher rate, up to the higher rate limit of £150,000. Savings income above this limit is charged at the 45% additional rate.

Since April 2016 savers have been entitled to claim a Personal Savings Allowance (PSA). This applies a 0% rate for up to £1,000 of savings income for basic rate taxpayers. The allowance applies a 0% rate for up to £500 of savings income for higher rate taxpayers. Additional rate taxpayers are not eligible for the allowance. Historically savings income has been taxed at source by banks and building societies at 20%. Alongside the introduction of the PSA, automatic deduction of tax at source was withdrawn.[4]

For 2022/23 dividend income is charged at 0% for income up to £2,000 – the Dividend Allowance. Above this limit dividend income is charged tax at a basic rate of 8.75%, up to the basic rate limit. Dividend income above this limit is charged at a higher rate of 33.75%, up to the higher rate limit. Dividend income above this limit is charged at an additional rate of 39.35%. All three rates of tax on dividend income are increased by 1.25 percentage points for 2022/23.

3 The Scottish Government publishes details of these rates and thresholds: Scottish Income Tax, ret'd April 2022. See also, LITRG, How does Scottish income tax work?, 30 March 2022.

4 For more details see, HMRC, Tax on savings interest, ret'd April 2022

In calculating tax liability, dividend and savings income are regarded as the 'top slice' of income, with dividends the highest.[5]

1.2 National Insurance contributions

National Insurance contributions (NICs) are paid by employees, employers and the self-employed, and used to fund contributory benefits – primarily the state pension. Entitlement to contributory benefits is based on someone's National Insurance payment record.[6]

Class 1 NICs: employees and employers

Employees are liable to Class 1 (primary) National Insurance contributions (NICs) on their earnings if they exceed the lower earnings limit (LEL). The LEL is set at £123 per week for 2022/23. A zero rate of NICs is charged on earnings between the LEL and the primary threshold (PT). A notional primary Class NIC is deemed to have been paid in respect of earnings between LEL and PT to protect benefit entitlement. For 2022/23 the PT is set initially at £190 per week, but will rise to £242 a week from 6 July 2022 for the remainder of the tax year.

Earnings above the PT are charged NICs at a rate of 13.25%, subject to a cap at the upper earnings limit (UEL), which is set at £967 per week. Earnings **above** the UEL are charged NICs at a rate of 3.25%.

Prior to 6 April 2016 employees were charged a reduced rate of NICs if they had contracted out of the state second pension (S2P). These arrangements ended with the introduction of the 'single-tier' state pension, and the closure of the additional state pension, from this date.[7]

Employers pay Class 1 (secondary) NICs on employee earnings at a rate of 15.05% on earnings above the secondary threshold (ST). The ST is set at £175 per week for 2022/23.

Class 1 NICs rates for employees and employers for 2022/23

Earnings[a] £ per week	**Employee NIC rate (per cent)**	**Earnings £ per week**	**Employer NIC rate (per cent)**
Below £123 (LEL)	0%	Below £123 (LEL)	0%
£123 to £190/£242[b] (PT)	0%	£123 to £175 (ST)	0%
£190/£242[b] to £967 (UEL)	13.25%	Above £175	15.05%
Above £967	3.25%		

5 See also, LITRG, Savings and tax, 23 February 2022
6 see, HMRC, What National Insurance is for, ret'd April 2022
7 The new State Pension: transitional issues, Commons Library briefing CBP7414, 25 February 2019.

Notes

[a] LEL: lower earnings limit. PT: primary threshold. ST: secondary threshold. UEL: upper earnings limit.

[b] The PT is set at £190 from 6 April to 5 July 2022, and at £242 from 6 July to 5 April 2023. [8]

The rates of NICs paid by both employees and employers are increased by 1.25 percentage points for 2022/23. This rate rise is the first part of a two-stage process for the introduction of a new tax – the Health and Social Care Levy – based on NICs. Further details are set out in the following box.

The Health and Social Care Levy

On 7 September 2021 the Prime Minister gave a statement to the House announcing the introduction of a new tax: the Health and Social Care Levy, to substantially increase funding for health and social care.

The Levy is forecast to raise between £12.4bn and £13bn a year for health and social care over the next five years.[1] The Levy is based on NICs, and will be introduced in two stages:

- In 2022/23 the rate of primary Class 1 NICs for employees charged on their earnings, the rate of secondary Class 1 NICs for employers charged on their employees' earnings, and the rate of Class 4 NICs for the self-employed charged on their trading profits, will be increased by 1.25 percentage points.
- In 2023/24 a separate Levy set at 1.25% will be introduced, replacing the temporary increase in NICs rates. Liability to the Levy will be extended to individuals in employment who are over State Pension age. At present pensioners are not liable to pay NICs on any earnings they receive from employment.[2]

Statutory provision for the Levy is made by the Health and Social Care Levy Act 2021.

In the Autumn 2021 Budget the Chancellor announced that NI thresholds would be increased in line with inflation for 2022/23. Provision for this was made by the Social Security (Contributions) (Rates, Limits and Thresholds Amendments and National Insurance Funds Payments) Regulations 2021 (SI 2021/157).

In his Spring Statement on 23 March 2020 the Chancellor confirmed that the first stage of the Levy's introduction would proceed, with the rise in Class 1 and Class 4 NICs rates from 6 April 2022.

[8] HMT, Overview of Tax Legislation and Rates, October 2021 (Annex A); Spring Statement 2022: Factsheet on Personal Tax, 23 March 2022. These thresholds were set by Order (SI 2021/157), and then amended by the National Insurance Contributions (Increase of Thresholds) Act 2022.

The Chancellor also announced an increase in NI thresholds for the coming year, to align the Primary Threshold (for employees) and the Lower Profits Limit (for the self-employed) with the personal income tax allowance:

- The Primary Threshold is to be set at £190 a week from 6 April 2022, and will rise to £242 a week from 6 July 2022. This is the earliest date that will allow all payroll software developers and employers to update their systems and implement changes. The threshold will be set at £242 a week for 2023/24, aligned with the personal allowance at £12,570.

- The Lower Profits Limit will be set at £11,908 for 2022/23, so that the benefit the self-employed receive from the higher annual threshold is in line with that received by employees. It is to be set at £12,570 for 2023/24, aligned with the personal allowance.

  From April 2022 the threshold for paying flat-rate Class 2 NICs will be aligned with the Lower-Profits Limit, with provision to protect the benefit entitlement of those with earnings between the Small Profits Threshold and the Lower Profits Limit.[3]

Statutory provision for this increase in NI thresholds was made by the National Insurance Contributions (Increase of Thresholds) Act 2022.

Notes

[1] HC Deb 7 September 2021 cc153-5. Autumn Budget & Spending Review, HC 822, October 2021 (Table 5.1 – item 10).

[2] HM Government, Build Back Better: Our Plan for Health and Social Care, CP 506, September 2021 para 80, para 91-92. For more details see, Health and Social Care Levy Bill 2021-22, Commons Library briefing CBP9310, 16 November 2021.

[3] HC Deb 23 March 2022 cc337-373; HMRC, National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022; HMT, Spring Statement 2022: Factsheet on Personal Tax, 23 March 2022.

Employer reliefs for Class 1 (secondary) NICs

Employers may be entitled to one of a number of tax reliefs on their payment of employer NICs.

- The **Employment Allowance**, which was announced in the 2013 Budget, to apply from April 2014.[9] This provides a flat rate deduction for businesses and charities against their annual employer NICs bill. Initially the Allowance was set at £2,000, but was increased to £3,000 from April 2016, to £4,000 from April 2020, and to £5,000 from April 2022.[10] The Allowance may only be claimed by employers with an employer NICs below £100,000 in their previous tax year.[11] Further details on the operation of the Allowance are published by HMRC.[12]

- An **Upper Secondary Threshold (UST) for under 21s**, which was announced in the 2013 Autumn Statement.[13] From April 2015 a zero rate has applied to earnings on this category of employee up to the UST set in line with the UEL.

- An **Apprentice Upper Secondary Threshold (AUST)**, which was announced in the 2014 Autumn Statement.[14] From April 2016 a zero rate has also applied to earnings on this second category of employees up to the AUST, also aligned with the UEL.

- In the 2020 Budget the Government announced it would introduce a **NICs holiday for employers of veterans** in their first year of civilian life, to apply from April 2021.[15] This zero-rate would apply up to the upper secondary threshold. The Government confirmed its plans in the Spring 2021 Budget when it also announced a new **zero rate for employers taking on employees in a freeport**, to apply from April 2022.[16]

Class 2 and Class 4 NICs (the self-employed)

Self-employed people pay a weekly flat rate Class 2 NIC (set at £3.15). They may apply for exemption from paying Class 2 contributions if their annual profits are less than the level of the Small Profits Threshold (SPT), set at £6,725. In addition they may be liable to pay a separate Class 4 profits related contribution. Class 4 NICs are charged at a rate of 10.25% on profits between a Lower Profits Limit (£11,908 a year) and an upper profits limit

9 Budget 2013, HC 1033, March 2013 para 2.41. Statutory provision for the new allowance was made by ss1-8 of the National Insurance Contributions Act 2014.

10 These increases in the Allowance were made by Order: SI 2016/63, SI 2020/273 and SI 2022/364.

11 Budget 2018, HC 1629, October 2018 para 3.11. This change was made by Order: SI 2020/218.

12 HMRC, Employment Allowance, ret'd April 2022

13 Autumn Statement, Cm 8747, December 2013 para 1.195. Statutory provision for the UST was made by s9 of the National Insurance Contributions Act 2014.

14 Autumn Statement, Cm 8961, December 2014 para 2.53. Statutory provision for the AUST was made by s1 of the National Insurance Contributions Act 2015.

15 Budget 2020, HC 121, March 2020 para 2.179

16 Budget 2021, HC 1226, March 2021 para 2.115. Statutory provision for both reliefs is made by the National Insurance Contributions Act 2022.

(£50,270 a year). Profits above the upper profits limit are charged NICs at a rate of 3.25%.

As part of the changes to NI thresholds for 2022/23 announced in the Spring Statement, from April 2022 the point at which the self-employed start paying Class 2 NICs will be aligned with the Lower Profits Limit (LPL). Those with profits between the SPT and the LPL will be treated as having made Class 2 contributions to preserve their entitlement to contributory benefits.

Class 3 NICs

Further to these categories, individuals may be entitled to make voluntary Class 3 contributions to ensure that they qualify for the state pension and bereavement benefits. Class 3 NICs are charged at a weekly flat rate, set at £15.85 for 2022/23.

2 Income tax allowances

All individuals are entitled to claim a personal allowance which they can set against income tax. An additional allowance is also given to individuals who are blind.

2.1 Personal allowance

Every taxpayer resident in the United Kingdom is entitled to claim a **personal allowance** that can be set against any type of income for tax purposes. For 2022/23 this allowance is £12,570.[17]

Since April 2010 the personal allowance has been withdrawn from individuals whose incomes exceed £100,000. The allowance is reduced by £1 for every £2 above this income limit, until completely withdrawn. This income limit is unchanged for 2022/23.

In May 2010, the Coalition Government announced that over the 2010-15 Parliament it would substantially increase the personal allowance, set at £6,475 for 2010/11, up to £10,000. The allowance was increased each year, to reach £10,000 for 2014/15.[18] In the Conservative Government's first Budget after the 2015 General Election, the then Chancellor George Osborne pledged to increase the allowance to £12,500 and the higher rate threshold to £50,000, by the end of the Parliament.[19]

In the 2018 Budget the then Chancellor Philip Hammond confirmed that the personal allowance and higher rate threshold would be set at £12,500 and £50,000 respectively for 2019/20. The then Chancellor went on to state that both would be frozen for 2020/21, and then increased in line with CPI inflation from 2021/22.[20]

In the Spring 2021 Budget the Chancellor Rishi Sunak announced that the personal allowance would be frozen at £12,570 from April 2022, for the four-year period 2022/23 to 2025/26.[21]

17 HMT, Overview of Tax Legislation and Rates, October 2021 (Annex A)

18 For more details see, Income tax : increases in the personal allowance since 2010, Commons Library briefing CBP6569, 15 November 2018.

19 Summer Budget 2015, HC246, July 2015 paras 1.130-4

20 Budget 2018, HC1629, October 2018 para 3.7

21 Budget 2021, HC 1226, March 2021 para 2.74. For more details see, Spring Budget 2021: personal allowance & higher rate threshold, Commons Library briefing CBP9186, 20 January 2022.

2.2 Blind person's allowance

Any person registered as blind is entitled to the **blind person's allowance**. The allowance is set at £2,600 for 2022/23. If someone has insufficient income to make use of the allowance it can be transferred to their spouse or civil partner.[22]

2.3 Transferable allowance for married couples and civil partners

Individuals whose income is insufficient to make full use of their personal allowance may transfer a fraction of the allowance to their spouse or civil partner, up to a set amount. Individuals cannot make use of the transferable tax allowance for married couples and civil partners – or, **marriage allowance**, as it is known – if their spouse or partner is liable to tax above the basic rate of tax. The allowance was introduced in 2015/16, set at 10% of the value of the personal allowance. This remains the case. For 2022/23 the maximum that can be transferred is £1,260.[23] In effect the recipient is entitled to a tax credit worth up to £252 to set against their tax bill.

Individuals who may wish to apply to have part of their allowance transferred in this way to their partner may register with HMRC either online or by phone. Eligible couples can backdate their claim for the allowance for up to four years.[24] In the Autumn 2017 Budget the Government announced that claims for the allowance would be allowed in cases where a partner has died before the claim was made, and that these claims would be able to be backdated by up to 4 years.[25]

2.4 Indexation

For many years income tax legislation has required the main personal allowances and income tax thresholds to be increased in line with the Retail Prices Index (RPI) unless Parliament determines otherwise. This statutory requirement - the so-called "Rooker-Wise" amendment - was introduced under section 22 of the Finance Act 1977.[26] The amendment was successfully

22 HMRC, Blind Person's Allowance, ret'd April 2022

23 HMT, Overview of Tax Legislation and Rates, October 2021 (Annex A)

24 HMRC, Marriage allowance, ret'd April 2022

25 Autumn Budget 2017, HC587, November 2017 para 3.6. See also, Income tax allowances for married couples, Commons Library briefing CBP870, 19 March 2021.

26 The statutory requirement to uprate allowances and thresholds, is consolidated in sections 57 & 21 of the Income Tax Act 2007, as amended

made through the cross-party co-operation of Jeff Rooker, Audrey Wise and Nigel Lawson. All three argued that without indexation, inflation acted as an unauthorised, unintended and unknown increase in taxation. By requiring that any real changes in allowances would be voted on, the amendment ensured that changes in the income tax structure would be 'out in the open'. Indeed, for many years following, allowances went up in line with inflation or by more than inflation.[27]

In the 2011 Budget the Coalition Government announced that from April 2012 the default indexation assumption for direct taxes would be the Consumer Price Index (CPI), though RPI would be retained for some allowances and thresholds for the duration of the 2010 Parliament.[28] This approach was amended in the light of three measures: the phased withdrawal of the age-related allowances for taxpayers from April 2013; the increase in the personal allowance in 'real terms' – by more than inflation – in both 2014/15 and 2015/16; and, the increase in the higher rate threshold by 1% in the first of those years.

Any elements of the direct tax system that were indexed by reference to RPI are now indexed by reference to CPI.[29] The threshold for the additional rate (£150,000), and the income limit for the tapered withdrawal of the personal allowance (£100,000), were not included in these provisions, and are fixed in monetary value.

When uprating the main allowances and thresholds, the relevant inflation rate is the increase in inflation in the year to September, prior to the start of the following tax year.[30] When allowances and thresholds are increased in line with inflation, they are rounded up to the nearest £10 or £100. For personal allowances, this income limit is £10; for the basic rate limit, it is £100. CPI rose by 3.1% in the year to September 2021.[31]

In the Spring 2021 Budget the Chancellor Rishi Sunak announced that the personal allowance and the higher rate threshold, as well as the NICs UEL/UPL, would be frozen for the four-year period 2022/23 to 2025/26.[32] At this time the Chancellor announced that a number of other tax allowances and thresholds would also be frozen over this period: the pensions lifetime allowance, the capital gains tax annual exempt amount, and the inheritance tax thresholds.[33] These allowances and thresholds are discussed below.

27 HL Deb 7 January 2010 c121WA

28 Budget 2011, HC 836, March 2011 para 1.128. see also, Office of National Statistics, Users and uses of consumer price inflation statistics, October 2016

29 HM Treasury, Autumn Budget and Spending Review 2021 : policy costings, October 2021 pp63-69 (Annex A: Indexation in the public forecast baseline).

30 for details see, HM Treasury, Tax benefit reference manual: 2009-2010 edition, July 2009, paras 1.16-19. [HC DEP 2009-1987]

31 ONS, UK Consumer Price Inflation: September 2021, October 2021

32 HC Deb 3 March 2021 c256

33 Budget 2021, HC 1226, March 2021 p52

The Chancellor did not announce any changes to this policy in the Autumn 2021 Budget. As noted above, in the Spring Statement in March 2022, the Chancellor announced that the NICs primary threshold would be aligned with the personal allowance from April 2023. The primary threshold is to remain aligned with the allowance, and as a consequence it will be frozen in value for the next two years (2024/25 to 2025/26).[34]

2.5 Age-related allowances (withdrawn)

Prior to 2013/14, individuals were entitled to claim one of two age-related additions to the personal allowance, if they were aged between 65 and 74 years of age, or were 75 or over. The allowance was withdrawn if an individual's income exceeded a set limit. This was done by cutting the allowance by £1 for every £2 by which an individual's income exceeded a set income limit.

In the 2012 Budget the Coalition Government announced that from April 2013 both allowances would be phased out: each allowance would be frozen in cash terms, until they became aligned with the personal allowance. In addition, only existing recipients would be entitled to claim either allowance. At this time these allowances were frozen at £10,500 (for taxpayers born after 5 April 1938 but before 6 April 1948), and £10,660 (for taxpayers born before 6 April 1938).[35]

From 2016/17 both age-related allowances have been overtaken by the personal allowance and have been withdrawn. Taxpayers that were claiming these allowances are now eligible for the 'basic' personal allowance.

2.6 Transitional allowances for older people

Four allowances were withdrawn from April 2000: the married couple's allowance (MCA) for couples aged under 65; the additional personal allowance; the maintenance allowance for separated or divorced couples under 65; and the widow's bereavement allowance.[36] The MCA and tax relief on maintenance payments were retained for individuals where either they, or their current or former spouse, had reached the age of 65 by the start of the tax year 2000/01; i.e., they were born on or before 5 April 1935.

---

34 Spring Statement, CP 653, March 2022 para 4.62

35 For details see, Age-related personal allowance, Commons Library briefing CBP6158, 11 May 2016.

36 This measure was announced in the March 1999 Budget; see, Direct taxes: rates & allowances 2000/01, Commons Library briefing RP00/38, 29 March 2000 pp11-12.

Married couple's allowance

Married couples, in which at least one partner reached 65 by 6 April 2000, are still entitled to claim a **married couple's allowance**.[37] (This is to be distinguished from the marriage allowance discussed in section 2.3.)

For 2022/23, this allowance is set at £9,415, increased in line with inflation. Tax relief for the allowance is 'restricted' to 10%. In effect taxpayers receive a credit worth 10% of the MCA to set against their final tax bill: ie, £942.

The value of the MCA is gradually reduced for taxpayers earning above an income limit, in the same way as the age-related personal allowances were (see above). For 2022/23 this income limit is set at £31,400. The withdrawal of the MCA from older couples is subject to a minimum allowance set at £3,640 for 2022/23, restricted to 10%. No couple entitled to the allowance will receive less than this.

Where a couple marry during the tax year the allowance is reduced by one twelfth for each complete tax month pre-marriage. In the first instance the MCA is given to the husband, though if couples elect to do so, the minimum MCA can be transferred to the wife or split equally between spouses.

In previous years, in line with the personal allowance, an age-related MCA was given to couples aged between 65 and 74, and a second, higher MCA to those 75 or over. Given that anyone who reached 65 by 6 April 2000 will be 88 or over this tax year, it is only the second of these allowances that remains applicable.

Civil partners may also claim the MCA provided – as with married couples – at least one partner was born before 6 April 1935.[38]

Tax relief for maintenance payments

Generally, maintenance payments are made outside the tax system: those who make payments cannot claim them against tax, and those who receive them are not taxed on them.

Separated or divorced individuals who pay maintenance direct to their ex-spouse under a legally binding agreement may qualify for a limited form of tax relief – often referred to as a '**maintenance allowance**' – provided that one or more of the parties reached 65 prior to 6 April 2000. This relief is set equal to the 'minimum' MCA that couples can receive if they are now 88 or over (which is £3,640 restricted to 10% for 2022/23).

37 When a person born on or before 5 April 1935 newly gets married, that person or their spouse is entitled to claim this allowance.

38 HMRC, Married Couple's Allowance, ret'd April 2022. In March 2005 the then Labour Government announced that civil partners would be treated the same as married couples for tax purposes, when the Civil Partnership Act 2004 came into force on 5 December 2005.

Individuals who make maintenance payments to a child, or to someone to whom they have not been married, do not qualify for this relief. Tax relief is withdrawn if the ex-spouse who receives maintenance remarries.[39]

[39] See also, LITRG, What tax allowances am I entitled to?, 1 April 2022.

3 Income tax: other allowances and reliefs

3.1 Company cars and free fuel

Generally individuals are taxed on the cash value of any 'fringe benefit' they enjoy by virtue of their employment. The cash value is added to their taxable income, and taxed accordingly; ie, taxed at the same rate as the rest of their income (20%, 40% or 45% depending on their circumstances). Some basic guidance on these rules is given on Gov.uk.[40]

Special rules apply in evaluating the cash value of a company car. This is calculated as a percentage of the car's price – the 'appropriate percentage' – set by reference to the car's CO_2 emissions level, which is expressed in grams per kilometre (g/km).[41]

In the Autumn 2017 Budget the Government announced that from April 2020 the emissions test used to underpin company car tax, as well and vehicle excise duty (VED), would be the new Worldwide Harmonised Light Vehicles Test Procedure (WLTP).[42]

The new test is more rigorous, and initial evidence provided by manufacturers suggested that using the WLTP would mean that the reported emissions of over 50% of cars could rise by 10% to 20%. To smooth the transition, in July 2019 it was announced most CCT rates would be cut by 2 percentage points in 2020/21 for cars first registered from 6 April 2020.[43] Rates would return to planned levels over the next two years, increasing by 1 percentage point in 2021/22 and 1 percentage point in 2022/23. After this point rates would be frozen until 2024/25. Autumn Budget 2021 confirmed the second of these 1 percentage point rate increases for 2022/23.[44]

The taxable benefit of free fuel provided for private motoring in a company car is also calculated by reference related to the level of CO_2 emissions. To calculate the monetary value of this benefit, the 'appropriate percentage' is multiplied against a set figure for the year; for 2022/23 this is set at £25,300.[45]

40 HMRC, Tax on company benefits, ret'd April 2022

41 HMRC, Expenses & benefits: a tax guide, Notice 480, May 2021 (see Appendix 2)

42 HMT, Overview of tax legislation and rates, November 2017 para 1.17

43 HMT, Review of WLTP and vehicle taxes: summary of responses, July 2019. See also, Budget 2020, HC 121, March 2020 para 2.227

44 HMT, Autumn Budget 2021: overview of tax legislation and rates, October 2021 (Annex A)

45 HMRC, Van benefit charge and fuel benefit charges for cars and vans from 6 April 2022, 27 October 2021. This multiplier is set by Order: SI 2021/1422.

3.2 Pensions – annual and lifetime allowances

In the UK, private pension saving is taxed on an "exempt, exempt, taxed" model (EET). This means:

- When people and their employers pay into a pension the contributions are exempt from taxation. Both the saver and any contributing employer receive tax relief, up to set limits.
- If the pension savings grow through investments this is exempt from taxation.
- When the savings are used to make pension payments these are taxed like other income. People can access up to 25% of their pension savings tax free.[46]

The main limits on the amount of tax relief someone can receive when they are contributing to their pension are:

- An annual allowance which limits the amount someone can save into a pension pot in a given tax year before they pay tax. This is £40,000 a year for most people.[47] In any given tax year, a person can save the lower of 100% of their annual earnings or the annual allowance into a pension without paying tax.[48]
- A lifetime allowance on the amount which someone can save into pension pots before they are taxed. This is currently £1,073,100.[49]

The limits were introduced by the Finance Act 2004.[50] Both allowances increased until 2010 and since 2010 have been reduced.

The lifetime allowance was set at £1.5 million when it was introduced and increased to £1.8 million by 2010/11.[51] Since then it reduced to £1.5 million in 2012/13, to £1.25 million in 2014/15, and to £1 million in 2016/17.[52]

46 Pensions Tax Manual, PTM024100 – General principles: overview of pensions taxation: the basics, HMRC, 28 February 2022

47 Finance Act 2004, section 228

48 If a person earns below £3,600 a year, they can receive tax relief up to that amount. (Finance Act 2004, section 190)

49 Pensions Tax Manual, PTM081000 - The lifetime allowance and the lifetime allowance charge: essential principles of the lifetime allowance, HMRC, 28 February 2022

50 Finance Act 2004, part 4

51 The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2007, SI 2007/494

52 Finance Act 2011, schedule 18; Finance Act 2013, part 1, section 48; and Finance Act 2016, part 1, section 19

Between 2018/19 and 2021/22 the lifetime allowance was increased in line with inflation as measured by CPI.[53] The Finance Act 2021 froze the lifetime allowance at its current level of £1,073,000 until April 2026.[54]

The annual allowance was set at £215,000 in 2006 and increased by £10,000 a year, reaching £255,000 in 2010/11.[55] Since 2010, the allowance has been reduced on a number of occasions:

- The Finance Act 2011 reduced the annual allowance from £255,000 in 2010/11 to £50,000 in 2011/12.[56]
- The annual allowance was further reduced to £40,000 in 2014/15 by the Finance Act 2013.[57]
- Since 2016/17, the annual allowance has been tapered, reducing for earners with an income above both a taxed threshold and adjusted amount including pension contributions.[58] For every £2 of income someone receives above their adjusted income their annual allowance is reduced by £1.[59]

Between 6 April 2016 and 5 April 2020, the threshold income for tapering the annual allowance was £110,000, adjusted income was £150,000 and people could retain an annual allowance of at least £10,000.[60] Due to widespread concerns about the impact, particularly on senior NHS clinicians and GPs, the Government legislated to mitigate its impact by increasing the threshold and adjusted income levels from 6 April 2020. Since then, a person's annual allowance is tapered, if their threshold income is above £200,000 and their adjusted income is above £240,000.[61] Tapering stops at £312,000, meaning everyone retains an annual allowance of at least £4,000.[62]

The last consultation on fundamental reform of pension tax relief in 2015, resulted in no change on the grounds that there had been "no consensus."[63]

Two Commons Library briefings provide further details of these reforms: Pension tax relief: the annual and lifetime allowances, CBP 5901; and, Pension tax rules: Impact on NHS consultants and GPs, CBP 8626.

53 Finance Act 2016, section 19
54 Finance Act 2021, section 28
55 The Registered Pension Schemes (Standard Lifetime and Annual Allowances) Order 2007, SI 2007/494
56 Finance Act 2011, schedule 17
57 Finance Act 2013, section 49
58 Finance Act 2015, schedule 4
59 Finance Act 2020, part 1 section 22
60 Finance Act 2015, schedule 4
61 Pensions Tax Manual, PTM051100 – Annual allowance: essential principles, 28 February 2022
62 As above
63 HMT, Strengthening the incentive to save: reforming pension tax relief, Cm 9102, July 2015; HC Deb 16 March 2016 c966; Budget 2016, HC901, March 2016, para 1.108-9.

3.3 Charities

There is no general tax exemption or relief granted to taxpayers who make gifts to charities. Tax relief is provided through two schemes which cover regular donations made out of one's salary (Payroll Giving) and one-off gifts (Gift Aid).

Payroll Giving

Under the **Payroll Giving** scheme charitable donations are wholly deductible for income tax purposes, the relief being given through the PAYE system. The employer deducts the appropriate sum from a participating employee's pay, and passes it to an agency which distributes it to the charity or charities of the employee's choice. There are no minimum or maximum limits for donations under the scheme.[64]

Gift Aid

Gift Aid allows income tax relief for single donations by individuals. When this relief was introduced in 1990, a minimum limit on donations was set at £600. Subsequently this limit was cut to £250 before being abolished entirely from 6 April 2000. As a consequence, tax relief applies to a donation of any size.[65] Under the scheme charities claim repayment of basic rate tax on donations. Higher rate taxpayers claim higher rate tax relief on their gifts.

Gift Aid Small Donations Scheme

In April 2013 the Government launched a scheme to allow charities to claim Gift Aid on small donations without a Gift Aid declaration. Under the **Gift Aid Small Donations Scheme** (GASDS) individual donations must be made in cash and be worth no more than £20. Charities may claim a top-up payment, equivalent to Gift Aid relief, on an annual maximum of donations. Initially this limit was set at £5,000 per year, but was increased to £8,000 from April 2016.[66] From April 2017 eligible donations may be made by contactless payment as well as in cash, one of a number of changes to simplify and increase access to the GASDS.[67] The cash limit on donations was increased to £30 from April 2019.[68]

64 A maximum limit of £1,200 a year applied prior to 6 April 2000.
65 Guidance for taxpayers on both payroll giving and Gift Aid is published on Gov.uk.
66 This change was made by Order: SI 2015/2027.
67 see, Gift Aid Small Donations Scheme, Commons Library briefing CBP6330, 6 February 2019
68 This change was also made by Order: SI 2019/237.

4 Other direct taxes

4.1 Capital gains tax

Capital gains tax (CGT) is charged on gains in excess of the annual exempt amount, which is set at £12,300 for 2022/23.[69] Individuals may realise gains up to this threshold free of tax. The tax is charged at a rate of 10%, and at 20% on gains realised by individuals paying income tax at the higher or additional rates. Gains from residential property not eligible for Private Residence Relief, and from carried interest, are liable to tax at higher rates: 18%, and 28% respectively.[70]

As noted above, the annual exempt amount is one of the tax allowances and thresholds to be frozen over the period 2022/23 to 2025/26.[71]

The structure of CGT rates was reformed by the Coalition Government in its first Budget in June 2010. Prior to this, gains had been subject to a single rate set at 18%, introduced as part of a series of reforms to CGT by the Labour Government in its 2008 Budget.[72] The Coalition Government introduced a 28% rate for higher rate and additional rate taxpayers, with effect from Budget day (22 June 2010).

In the 2016 Budget the then Chancellor George Osborne announced that both rates of CGT would be cut, from 18% and 28%, to 10% and 20% respectively, from 6 April 2016. The rates of tax were left unchanged for gains from residential property not eligible for Private Residence Relief, and gains from carried interest.[73]

Gains qualifying for entrepreneur's relief are charged a rate of 10%. A £10m lifetime limit has applied to capital gains qualifying for this relief since April 2011. In the 2020 Budget the Chancellor Rishi Sunak announced that the lifetime limit would be cut to £1m with immediate effect, renaming the relief business asset disposal relief.[74] A 10% rate also applies to gains made by long term investors in unlisted companies, subject to a lifetime limit of £10m of gains.

69 HMT, Autumn Budget 2021: overview of tax legislation and rates, October 2021 (Annex A)
70 Guidance on CGT is published on Gov.uk.
71 Budget 2021, HC 1226, March 2021 p52
72 Prior to this capital gains were treated in the same way as the top slice of income, and the tax was charged at the same rates of tax as savings income.
73 Budget 2016, HC 901, March 2016 para 1.171, para 2.187
74 Budget 2020, HC 121, March 2020 para 2.199; HMRC, CGT Entrepreneurs' Relief - reduction in the lifetime limit, 11 March 2020

4.2 Inheritance tax

Inheritance tax is levied on the value of a person's estate at the time of their death. Most large gifts made out of someone's estate within seven years of their death are treated as part of their estate for tax purposes. The tax is charged at 40% above the nil-rate band, set at £325,000 for 2022/23.[75]

Gifts made to one's spouse or civil partner are exempt from tax irrespective of their size, and irrespective of whether they are made during one's life, or made under the terms of one's will. In addition, widows, widowers and civil partners are entitled to use the share, if any, of their partner's nil-rate band which was unused when they died, to set against tax on their own estate. This transferable allowance is available to all survivors of a marriage or civil partnership who die on or after 9 October 2007 – whenever their first partner died.

In the Summer 2015 Budget the then Chancellor George Osborne announced that from April 2017 an additional nil-rate band would apply on death to transfers of a main residence to a direct descendant. In this context a direct descendant is "a child (including a step-child, adopted child or foster child) of the deceased and their lineal descendants."[76]

The additional, or residence, nil-rate band was set initially at £100,000 and is set at £175,000 for 2022/23.

In his Summer 2015 Budget Mr Osborne had also announced that the **existing** nil-rate band would be frozen at £325,000 at least until 2020/21, while the residence nil-rate band would rise by £25,000 each year, to reach £175,000 by 2020/21.[77]

Both of these inheritance tax thresholds are among the tax allowances and thresholds to be frozen over the four-year period 2022/23 to 2025/26.[78]

The residence nil-rate band is subject to a taper. For any estate with a net value of more than £2m, the band will be withdrawn by £1 for every £2 the estate exceeds this threshold. If someone downsizes or ceases to own a home before they die, the additional band may still be claimed on assets of an equivalent value, if passed on death to direct descendants. This is to apply if someone downsizes or ceases to own a home on or after 8 July 2015. As with the existing nil-rate band, any unused fraction of the main residence nil-rate band may be transferred to a surviving spouse or civil partner.[79]

75 HMT, Autumn Budget 2021: overview of tax legislation and rates, October 2021 (Annex A)

76 Summer Budget 2015, HC264, July 2015 paras 1.217-221; para 2.89. HMRC, Inheritance tax: main residence nil-rate band and the existing nil-rate band, June 2017

77 In 2013 the Coalition Government had proposed that the threshold should be frozen until April 2018 (Budget 2013, HC1033, March 2013 para 2.76.)

78 Budget 2021, HC 1226, March 2021 p52

79 HMRC, Inheritance tax: main residence nil-rate band and the existing nil-rate band, June 2017

5 Main personal income tax rates & allowances since 1990/91

Table 1

Main income tax rates and allowances: 1990/91-2022/23

	Allowances/Limits (£ per annum)			Rates			
	Personal allowance	Lower/ Starting Rate Limit	Basic Rate Limit	Lower/ Starting	Basic	Higher	Additional
1990/91	3,005	n/a	20,700	n/a	25%	40%	n/a
1991/92	3,295	n/a	23,700	n/a	25%	40%	n/a
1992/93	3,445	2,000	23,700	20%	25%	40%	n/a
1993/94	3,445	2,500	23,700	20%	25%	40%	n/a
1994/95	3,445	3,000	23,700	20%	25%	40%	n/a
1995/96	3,525	3,200	24,300	20%	25%	40%	n/a
1996/97	3,765	3,900	25,500	20%	24%	40%	n/a
1997/98	4,045	4,100	26,100	20%	23%	40%	n/a
1998/99	4,195	4,300	27,100	20%	23%	40%	n/a
1999/00	4,335	1,500	28,000	10%	23%	40%	n/a
2000/01	4,385	1,520	28,400	10%	22%	40%	n/a
2001/02	4,535	1,880	29,400	10%	22%	40%	n/a
2002/03	4,615	1,920	29,900	10%	22%	40%	n/a
2003/04	4,615	1,960	30,500	10%	22%	40%	n/a
2004/05	4,745	2,020	31,400	10%	22%	40%	n/a
2005/06	4,895	2,090	32,400	10%	22%	40%	n/a
2006/07	5,035	2,150	33,300	10%	22%	40%	n/a
2007/08	5,225	2,230	34,600	10%	22%	40%	n/a
2008/09	6,035	n/a	34,800	n/a	20%	40%	n/a
2009/10	6,475	n/a	37,400	n/a	20%	40%	n/a
2010/11	6,475	n/a	37,400	n/a	20%	40%	50%
2011/12	7,475	n/a	35,000	n/a	20%	40%	50%
2012/13	8,105	n/a	34,370	n/a	20%	40%	50%
2013/14	9,440	n/a	32,010	n/a	20%	40%	45%
2014/15	10,000	n/a	31,865	n/a	20%	40%	45%
2015/16	10,600	n/a	31,785	n/a	20%	40%	45%
2016/17	11,000	n/a	32,000	n/a	20%	40%	45%
2017/18	11,500	n/a	33,500	n/a	20%	40%	45%
2018/19	11,850	n/a	34,500	n/a	20%	40%	45%
2019/20	12,500	n/a	37,500	n/a	20%	40%	45%
2020/21	12,500	n/a	37,500	n/a	20%	40%	45%
2021/22	12,570	n/a	37,700	n/a	20%	40%	45%
2022/23	12,570	n/a	37,700	n/a	20%	40%	45%

Notes: From 2008/09, a 10 per cent starting rate of income tax is retained for savings income.

Sources: HM Treasury, Budgets 2010 – 2020; Tax Benefit Reference Manual 2009-10; HMRC. Autumn Budget 2021: overview of tax legislation and rates (OOTLAR)

Table 2

Age-related allowances: 1990/91 to 2021/22

£ per annum

	Personal (a)		Married couple's (b)	
	65-74	75+	65-74	75+
1990/91	3,670	3,820	2,145	2,185
1991/92	4,020	4,180	2,355	2,395
1992/93	4,200	4,370	2,465	2,505
1993/94	4,200	4,370	2,465	2,505
1994/95	4,200	4,370	2,665	2,705
1995/96	4,630	4,800	2,995	3,035
1996/97	4,910	5,090	3,115	3,155
1997/98	5,220	5,400	3,185	3,225
1998/99	5,410	5,600	3,305	3,345
1999/00	5,720	5,980	5,125	5,195
2000/01	5,790	6,050	5,185	5,255
2001/02	5,990	6,260	5,365	5,435
2002/03	6,100	6,370	5,465	5,535
2003/04	6,610	6,720	5,565	5,635
2004/05	6,830	6,950	5,725	5,795
2005/06	7,090	7,220	5,905	5,975
2006/07	7,280	7,420	6,065	6,135
2007/08	7,550	7,690	6,285	6,365
2008/09	9,030	9,180	6,535	6,625
2009/10	9,490	9,640	..	6,965
2010/11	9,490	9,640	..	6,965
2011/12	9,940	10,090	..	7,295
2012/13	10,500	10,660	..	7,705
2013/14	10,500	10,660	..	7,915
2014/15	10,500	10,660	..	8,165
2015/16	10,600	10,660	..	8,355
2016/17*	11,000	11,000	..	8,355
2017/18	11,500	11,500	..	8,445
2018/19	11,850	11,850	..	8,695
2019/20	12,500	12,500	..	8,915
2020/21	12,500	12,500	..	9,075
2021/22	12,570	12,570	..	9,125
2022/23	12,570	12,570	..	9,415

Notes: (a) from 2013/14 eligibility for the age-related allowances is restricted to existing recipients; (b) Relief restricted to 20 per cent in 1994/95, 15 per cent from 1995/96 to 1998/99, and to 10 per cent from 1999/00, (c) Since 2000/01 the MCA has only been given to couples in which at least one partner was born before 6 April 1935.

* from 2016/17 age-related allowances have been merged with the personal allowance.

Sources: As above

The House of Commons Library is a research and information service based in the UK Parliament. Our impartial analysis, statistical research and resources help MPs and their staff scrutinise legislation, develop policy, and support constituents.

Our published material is available to everyone on commonslibrary.parliament.uk.

Get our latest research delivered straight to your inbox. Subscribe at commonslibrary.parliament.uk/subscribe or scan the code below:

commonslibrary.parliament.uk

@commonslibrary