Budget 2021 key personal tax announcements in the Budget.

Income tax rates and allowances

As announced at Spending Review 2020, the Chancellor has increased the personal allowance, the basic-rate limit and various other allowances for the coming tax year, 2021–22, in line with the Consumer Price Index (CPI) for September 2020, but today he announced that he would be freezing several of them at the new level for the following four years (i.e. until 6 April 2026) as part of his plan to restore the public finances. There is no change in the starting level for the additional (45%) rate, which remains at £150,000.

There is also no change to the main rates (20%, 40% and 45%) of income tax or to the savings rates (0% and 20%) or the dividend rates (7.5%, 32.5% and 38.1%), the trust rate (45%) or the dividend trust rate (38.1%). Nor is there a change in the default rates (20%, 40% and 45%) of income tax, which apply to non-savings, non-dividend income of any taxpayer not subject to either the main rates or the Scottish rates of income tax.

The personal allowance

The personal allowance increases from £12,500 to £12,570, with effect from 6 April 2021. Thereafter, it remains at £12,570 for each of the tax years 2022–23, 2023–24, 2024–25 and 2025–26. These changes to the personal allowance apply across the whole of the UK.

The married couple's allowance

This allowance now applies only to couples and civil partnerships where at least one member was born before 6 April 1935. It is increased to £9,125 for 2021–22.

The marriage allowance

This allowance is available to married couples and civil partners who are not in receipt of the married couple's allowance. A spouse or civil partner who is not liable to income tax or not subject to the higher or additional rates may transfer this amount of any unused personal allowance to the other spouse or civil partner, who must equally not be subject to the higher or additional rates.

The amount of the transferable allowance is increased from £1,250 to £1,260 for the year 2021–22.

The blind person's allowance

This is increased to £2,520 for 2021–22.

The dividend allowance

This remains unchanged at £2,000.

The personal savings allowance

This remains unchanged at £1,000 for basic-rate taxpayers and at £500 for higher-rate taxpayers.

The income limit for the personal allowance

There is no change to the income limit (£100,000) above which the personal allowance begins to be tapered down.

The income limit for the married couple's allowance

This limit increases to £30,400 for 2021–22. This limit is the amount of income above which the married couple's allowance begins to be tapered down. The minimum amount at which the taper stops operating is increased to £3,530 for 2021–22. This allowance is given as a tax credit at 10% of the value of the allowance.

The basic-rate limit

The basic-rate limit (the amount of taxable income above which the 40% rate of income tax begins to apply) increases from £37,500 to £37,700. Thereafter, it remains at £37,700 for each of the tax years 2022–23, 2023–24, 2024–25 and 2025–26.

These changes to the basic-rate limit apply to non-savings, non-dividend income in England, Wales and Northern Ireland and to savings and dividend income in the whole of the UK. Income tax rates and thresholds on non-savings, non-dividend income for Scottish taxpayers are set by the Scottish Parliament.

The starting rate for the savings limit

The amount of savings income subject to the 0% starting rate will remain at £5,000 for 2021–22. There has been no announcement in respect of future years. This measure applies throughout the UK.

National Insurance contributions: upper earnings limit and upper profits limit

The upper earnings limit and the upper profits limits are the limits of earnings or profits, respectively, above the rate of primary contributions (for employees under Class 1) or the rate of Class 4 contributions for the self-employed reduces to 2%.

These limits are to remain aligned with the higher-rate threshold for income tax, so they will both be set at £50,270 for 2021–22 and remain at that level for the following four years (2022–23, 2023–24, 2024–25 and 2025–26).

Venture Capital Schemes: extension of SITR

Income tax relief and capital gains tax hold-over relief for investors in qualifying social enterprises will be extended to April 2023 (from April 2021). The necessary legislation will be introduced in Finance Bill 2021.

Income tax exemptions

Income tax exemptions are to be legislated in Finance Bill 2021 for:

•financial support payments to victims of modern slavery and human trafficking; and

•Covid-19 support scheme payments made to tax credit recipients.

Financial support payments to victims of modern slavery and human trafficking

If the UK's National Referral Mechanism identifies an individual as a victim of modern slavery (which includes human trafficking), that person is entitled to financial support payments. Finance Bill 2021 will exempt payments made by the UK Government and devolved administrations from income tax under ITTOIA 2005, s. 683. The measure will be retrospective, applicable from 1 April 2009 when the scheme started.

Covid-19 support scheme payments made to tax credit recipients

The Universal Credit standard allowance and Working Tax Credits basis element were increased by £20 per week for 2020–21 in order to provide extra support for low income workers during the coronavirus pandemic. A further one-off payment of £500 will be made to cover a six-month period from April to September 2021.

Legislation will be introduced in Finance Bill 2021 to exempt from income tax Covid-19 support scheme: working households receiving tax credits payments made to tax credit recipients.

The measure will have effect from 6 April 2021.

ISAs and Child Tax Funds

The 2020–21 adult ISA annual subscription limit of £20,000, junior ISA annual subscription limit of £9,000 and Child Tax Fund annual subscription limit of £9,000 will all remain unchanged for 2021–22. This measure will apply to the whole of the UK.

The standard lifetime allowance for pensions

The lifetime allowance for pensions is the aggregate amount of pension benefits that may accrue tax-free in registered pension schemes to an individual over the individual's lifetime. If the value of those benefits exceeds the lifetime allowance when benefits start to be taken, there is a tax charge of 25% or 55%. Some individuals may qualify for an enhanced lifetime allowance.

In 2020–21 (the current tax year), the standard lifetime allowance is £1,073,100. Normally, this allowance is indexed by reference to the CPI in September of the tax year just ending. However, the Chancellor announced that the standard lifetime allowance will remain at £1,073,100 for the next five tax years, i.e. until 6 April 2026.

Taxation of collective money-purchase pensions

Legislation will be introduced to ensure that these new types of scheme (whereby several employers pool their money-purchase (defined-contribution) schemes) introduced by the *Pensions Act* 2021 may be recognised as registered pension schemes and thus enjoy the normal tax privileges with respect to scheme funds and contributions.