Marriage Allowance

Personal tax

01 July 2018

Some technical points relating to rates of tax and interactions with allowances

Claims for marriage allowance – rate bands

LITRG continue to receive regular queries regarding the allowance.

You will recall from previous articles that neither the individual who gives up part of their personal allowance, nor their spouse or civil partner who receives it, may be liable to income tax at a rate higher than the UK basic rate. In order to accommodate the new tax bands introduced by the Scottish government, the legislation has been amended to ensure that Scottish taxpayers who pay tax at no higher than the Scottish intermediate rate (21% for 2018/19) are able to benefit from the allowance. Where a taxpayer has an extended basic rate band, for example as a result of gift aid payments or pension contributions, it is that extended basic rate band that is used to determine whether the taxpayer is a basic rate taxpayer or not and thus whether marriage allowance may be claimed. In addition, the test for the transferor is applied on the assumption that the election is made and the personal allowance has already been reduced.

Taxpayers who use the dividend allowance

The dividend allowance currently removes income tax liability on dividends up to £2,000 (2018/19) but the allowance was £5,000 for the two previous tax years. The allowance operates by applying a 0% rate to these dividends rather than exempting them from tax altogether. This can cause some difficulty where a claim to marriage allowance is made because the legislation requires that the tax rate payable by the taxpayer is hypothetically calculated by disregarding the dividend allowance. For example, consider a taxpayer for 2017/18 who receive dividends of £3,000, but whose other income falls within the basic rate tax band. This taxpayer would pay no income tax at a rate higher than basic rate, but in order to decide whether a claim to marriage allowance may be made, it is necessary to notionally disapply the dividend allowance. Thus a taxpayer may have sufficient headroom in their basic rate band to stop the dividend income being notionally chargeable at higher rates, in which case the marriage allowance may be claimed. But, alternatively, by disapplying the dividend allowance it may be that the taxpayer would find some of their income would be chargeable at higher rates. In that case no claim to marriage allowance is possible. Scottish tax rates apply only to non-savings and non-dividend income (thus broadly to earned income, whether employed or self-employed, pension income and to property income). Therefore, Scottish taxpayers will need to be especially careful when calculating whether they are basic rate taxpayers in this situation since they will need to use UK tax bands to determine whether any dividends would be taxable at the higher rate for this purpose. It is worth saying that it is not necessary to consider the hypothetical rate of tax on income otherwise covered the personal savings allowance. But, of course, savings income does use up part of the basic rate band and that may affect the hypothetical rate at which the dividend income is taxed.