AF1 Income Tax 2022/23
Part 7: Family Affairs

This part will look at how marriage can affect an individual's tax liability and the situation as regards children's income.

The milestones are:

- To understand the difference between Married Couple's Allowance and the Marriage Allowance.
- To be able to apply them in a calculation.
- To understand how children's income is taxed

Income tax and marriage

Income tax is based on the income of an individual rather than the family unit. There are however two concessions for married couples or civil partners:

- Marriage Allowance
- Married Couple's Allowance

Marriage Allowance

As income tax is based on individual rather than family income, it treats two earner couples more favourably than one where there is only one earner.

John and Sandra are married but only John is employed. His gross salary is £42,000 so £29,430 of his income is subject to tax and Sandra's PA is wasted. His income after tax is £36,114.

Peter and Julia are both employed and each earns £21,000. Each can use their personal allowance so the total taxable income for both is £8,430. Each has an after income of £19,314

Even though both couples have the same gross income, Peter and Julia have a higher net income of £38,628.

In this situation it's possible to transfer 10% of the personal allowance (£1,260 for 2022/2023) from one partner to the other. The conditions are:

- The couple must be married or in a civil partnership
- The partner transferring the PA must have some unused PA and the one receiving it must not be a higher rate tax payer
- Both must have been born on or after April 6 1935.
- The maximum saving is £252 (£1,260 @ 20%)

Sue has a salary of £30,570 and her husband, Ben, has an income of £5,000
Before using marriage allowance Sue's tax liability is £3,600

By transferring £1,260 to Sue, her PA is increased to £13,830 and her liability is reduced to £3,348

To be 100% accurate whilst Sue's PA is increased by £1,260, Ben's is reduced by the same amount. This is significant if the person transferring the PA has less than £1,260 of unused allowance. This restricts the maximum saving to 20% of the donor's unused allowance.

Jack and Kath are married. Jack's income is £20,700. Kath has an income of £12,070. Their joint liability is £1,626.

She has unused PA of £500 but by applying for marriage allowance the maximum £1,260 is transferred to Jack giving him a PA of £13,830 and Kath's is reduced to £11,310.

Jack's income tax liability is £20,700 less £13,830 = £6,870 @ 20% = £1,374
Kath's income tax liability is £12,070 less £11,310 = £760 @ 20% = £152

Joint liability is £1,526, a saving of £100 which is the equivalent of her unused allowance: £500 @ 20%

The process to get the allowance is;

- Person transferring the PA applies to HMRC on line
- Other partner will be asked to confirm their acceptance
- The transfer will be backdated to the start of the tax year (assuming they were married at the start of the tax year)
- It can be claimed for the current together with the last four tax years.
- It will continue until it is revoked, they divorce or one of them dies.

The initial payment will be sent by cheque to the person receiving the transfer and then the tax codes of both will be adjusted but if one is self-employed it will be delivered through self-assessment

Marriage Allowance and starting rate for savings income

Individuals qualify for the 0% savings rate if any of their **savings income** falls in the first £5,000 above the PA so it might seem that if a PA has been transferred then the £5,000 above the PA and transferred PA (£13,830) would qualify for the 0% rate. This is not the case.

Tom and Viv are both retired. Tom has a pension of £9,000, Viv £13,000. Tom transfers £1,260 of his unused PA to Viv to give her an effective PA of £13,830 This results in Viv paying no tax on her pension.

In addition she has £6,000 of savings income and it might appear that she can benefit from the £5,000 0% savings rate. However, you cannot benefit from both the 0% starting rate and the marriage allowance so the starting rate is reduced by the amount of the transferred PA. In most cases this will be £3,740 (£5,000 less £1,260)

Her tax liability will be:

Non savings £13,000 @ 0%	0
Savings (balance of PA) £830 @ 0%	0
Reduced starting rate £3,740 @ 0%	0
PSA £1,000 @ 0%	0
£430 @ 20%	£86
Total	£100

Married Couple's Allowance

This is available for married couples if **either** spouse/CP was born on or before 5 April 1935. This date is fixed so anyone born after that date, will never qualify.

The amount is £9,415 but it is not deducted from a person's gross income. It is treated as a **tax reducer.** This means that the final figure is deducted from the individual's tax bill. Relief is given at 10% so the maximum reduction is £941.50.

MCA will be reduced if **Adjustable Net Income is greater than £31,400.** The reduction is £1 for every £2 above ANI. As individuals over 75 cannot get tax relief on pension contributions the only allowable deduction will be Gift Aid.

Albert is 87 and qualifies for the MCA. His ANI is £36,400 which is £5,000 above the earnings threshold so the MCA is reduced by £2,500 to £6,915

This gives a reduction in his tax bill of £691.50

The MCA can never fall below £3,640 which would give a reduction in tax of £364. This will occur if ANI is more than £42,950

If the marriage took place before 5 December 2005 it is given to the husband even if his wife has a higher income. However, having calculated the tax reduction it can be transferred to the spouse

Jack and Annie qualify for the MCA. They married in 1958 so it is given to Jack. His income is £12,000 and as he doesn't pay tax, the reduction of £941.50 is of no use to him. His wife has a pension income of £20,000, and a tax payer, so Jack transfers the tax reducer to her.

If the marriage or CP took place on or after 5 December 2005 it is given to the highest earner which can have an adverse effect.

Peter married Sarah in 2008. Peter was born in 1934 and Sarah in 1940. Peter's income is £20,000 and Sarah's £43,400. Sarah will get the MCA but as her income is £12,000 above the income threshold, it is reduced by £6,000 so she gets the minimum of £3,640 or a reduction of £364 in her tax If they had married before 5 December 2005, it would have gone to Peter who would have got the full reduction of £941.50

Children and income tax

Children have an income tax personal allowance from birth. Of course, children are unlikely to have income from working but they may have investment income. How this is taxed will depend on who provided the initial capital.

If the money came from either parent and the annual income is **more than £100, all the income is taxed as the parent's.** This is sometimes referred to as the £100 income rule.

If the money came from anyone else, say the grandparents or aunts and uncles, then the income is taxed as the child's. This means they can use their personal allowance, 0% starting rate and PSA. If the capital was invested in shares the dividend allowance could also be used.

You should now understand

- The difference between. The Married Couple's Allowance and the Marriage Allowance.
- How to apply them in a calculation.
- How children's income is taxed

Sources and further reading

https://www.gov.uk/marriage-allowance
https://www.moneyadviceservice.org.uk/en/articles/marriage-and-married-couples-allowance