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The marriage allowance explained

How to make this tax break work for you.

Millions of married couples and civil partners in the UK are eligible for the marriage allowance, but take-up has remained subdued since the tax break came into force on 6 April 2015.

Almost half of the UK's eligible couples failed to claim their slice of £1.3 billion in marriage allowance cash in 2016/17, with many couples either unaware of the tax break or forgetting to claim it.

It's designed for couples where one partner pays the basic rate of income tax and the other is a non-taxpayer.

More than four million married couples and 15,000 civil partners are eligible to claim a tax break worth up to £238 in 2018/19, but how do you go about it?

Marriage allowance entitlement

Whichever person doesn't pay tax can choose to reduce their personal allowance by £1,190 in 2018/19 and transfer it to their husband, wife or civil partner.

It's possible for the taxpaying spouse or civil partner to increase their tax-free personal allowance to £13,040 in 2018/19.

You may benefit from the marriage allowance if:

- your spouse or civil partner has elected to reduce their personal allowance for the tax year and transfer it to you
- you are a basic rate taxpayer in 2018/19
- you meet the residence requirements and have the right to claim a personal allowance
- neither you nor your partner submits a claim to the married couple's allowance (MCA) in 2018/19.

You can only benefit from one tax reduction in any tax year.

Elderly exclusion

You may have noticed the exclusion of the MCA for elderly taxpayers in the list above, although this is only available to people born before 5 April 1935.

In cases where both the marriage allowance and the MCA are available, it is usually preferable to claim the MCA.

The MCA provides a potential tax deduction of between £336 and £869.50 a year, while the maximum benefit from the transfer of the marriage allowance in 2018/19 is restricted to £238.

Personal allowance

As long as you're married or in a civil partnership with the same person for the whole or part of the tax year at the time the claim is made, you can choose to reduce your personal allowance.

You must also only be liable to pay income tax at the basic rate, dividend nil or ordinary rate or the basic or starting rate for savings after your personal allowance has been reduced by the transfer.

You must elect to use the marriage allowance within four years after the end of a tax year, and it will remain in force until you give notice to withdraw it.

However, an election made after the end of a tax year applies only to the year of election.

This is the easiest way for us to operate the allowance for you, as it can be made when your tax return is prepared and once we know your income and your partner's for 2018/19.

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Separation and divorce

If you and your spouse or civil partner separate between the end of a tax year and the date your tax return is due, there's a slight chance you'll lose your eligibility for the marriage allowance.

Cancelling the marriage allowance normally takes effect from the next tax year unless the marriage or civil partnership has come to an end through:

- divorce (decree absolute)
- order of judicial separation
- decree of nullity
- in the case of a civil partnership, a dissolution order, order of nullity or order of separation.

In these circumstances, the withdrawal of the marriage allowance can be backdated to the start of the tax year.

Death of a partner

If a spouse or civil partner dies, it's possible to make a backdated claim for the marriage allowance providing the deceased spouse or civil partner was eligible for it when they were alive.

A claim can be made for any tax year in which you were both alive, including the tax year of death, although no claim can be made thereafter.

How does it work?

Working part-time

Tom's on an annual salary of £16,000 and is married to Isobel, who works part-time and earns £5,000 a year.

Isobel elects to reduce her personal allowance, which is transferred when Tom claims the marriage allowance. The benefit is 10% of the personal allowance rounded up to the next £10.

So the transferable amount is £1,190 in 2018/19, giving a tax saving of £238. This transfer does not impact on Tom's national insurance contributions.

Dividends income

Dicky is a director who pays himself an annual salary of £8,000 and receives a dividend payment of £30,000. His spouse, Katie, earns £10,000 a year.

Katie elects to reduce her personal allowance, enabling Dicky to submit a claim and increase his personal allowance by £1,190.

As Dicky's dividend income is taxed at 7.5%, the tax saved is £1,190 x 7.5% = £89.25.

Complications

Non-residential spouse

If your spouse or civil partner is a non-UK resident, but hails from the European Economic Area (EEA), an extra restriction requires the transferee's annual income to be less than the personal allowance.

Scottish rate of income tax

Scotland introduced additional rates of income tax for 2018/19 that do not apply anywhere else in the UK, including the intermediate rate of 21% tax on income between £24,001 and £43,430.

Married couples in Scotland can continue to receive the allowance, despite the introduction of these new income tax bands.

The only noticeable difference is that the transfer of the allowance isn't possible for income tax bands that exceed £43,430 in Scotland – despite the basic-rate threshold in the rest of the UK stretching further to £46,350.

Income from dividends and savings are not liable for the Scottish rate of income tax, so Westminster's basic-rate threshold and 20% rate applies.

Brexit

Less than a year before the UK is due to leave the EU an additional concern surrounds whether or not the UK retains membership of the EEA.

Should the UK withdraw from the EEA, the marriage allowance may be made redundant if your spouse or civil partner comes from an EEA nation.

The EEA countries comprise all 28 member states of the EU plus Liechtenstein, Norway and Iceland.

Get in touch to discuss the marriage allowance.