



# TAXES

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*In this chapter you will find out how the tax system works in the UK, information on income tax and information on other taxes that you may have to pay.*

### **How does the tax system work in the UK?**

If you are working for an employer who is deducting PAYE (Pay As You Earn) tax and national insurance from your wages and you do not have any other income you do not need to complete a tax return form.

By law everyone needs to keep records of their income, gains and expenditures so that they can complete a tax return if they get one. If HM Revenue and Customs (HMRC) suspects you may have income which needs to be taxed under self-assessment they will send you a tax return to complete.

## What is income tax?

Income tax is a tax paid on income. Employees and people who are self-employed are liable to pay tax on their income and salary. You may also be liable to pay tax if you are unemployed but you have an income, such as a retirement pension or an occupational pension.

Not all income is taxable and not all of your income is taxed. There is no minimum age at which a person becomes liable to pay income tax. What matters is your income. If this is below a certain level, no tax is payable. The way the tax must be paid will depend on which schedule it falls into. The most common schedules are Schedule E for employees and Schedule D for the self-employed.

## What income is exempt from tax?

Some income is exempt from income tax, which means that tax is never paid on this income. This income should therefore be put to one side before any tax calculation can be done. Examples of income which is exempt from tax include premium bond prizes, housing benefit, child benefit and profit-related pay.

## What are tax reliefs?

As well as your personal tax allowances income you spend on certain things can be ignored when calculating tax - this is known as tax relief on outgoings. These reliefs can be set against a tax bill to reduce it. Tax reliefs for employees are spread throughout the year in the same way as personal tax allowances.

## What are income tax rates?

Income is taxed at different percentage rates depending on the amount of taxable income.

## What are tax allowances?

Everyone is entitled to a basic personal tax allowance. You may also be entitled to other allowances on top of your basic allowance. This means that some of your income, which would otherwise be taxable, will be tax-free.

If you are an employee and so are taxed under Pay As You Earn (PAYE) your personal allowance(s) will be spread throughout the year, so that each week or month you will be left with a certain amount of tax-free income after the tax has been deducted.

### **You can claim the following allowances from 6 April 2007:**

- Personal allowance with any age-related additions
- Blind person's allowance and any age-related addition to it for people aged 75 years and over (see below)
- Married couple's allowance for a couple if either is aged 72 years and over by 6<sup>th</sup> April 2007 and any age-related addition to it for people aged 75 years and over.

### **National Insurance Contributions**

When checking whether your tax has been correctly calculated it may also be useful to calculate the National Insurance Contributions that you have to pay, as this will give the figure for your take-home pay. National Insurance Contributions are calculated on gross income. National Insurance Contributions for employees are deducted at different rates depending on your pension arrangements and on your level of income.

## **Tax relief on 'rent a room' property**

A 'rent a room' tax relief is available for owner-occupiers and tenants who let furnished rooms in their homes. Under this scheme, no tax is payable on rent received provided the rent does not exceed a certain level per tax year.

If the 'rent a room' scheme does not apply, tax relief can still be claimed, but under a different system. Expenses for maintaining a property which is let out can be claimed as relief against tax.

## What will I need to do when I start a new job?

When you start a new job your employer needs to know your tax code. If you have a P45 from a previous job in the same tax year your employer will use the information on this to deduct the right amount of tax.

If you were unemployed and receiving jobseeker's allowance you should give your new employer the P45U you were given by the Employment Service Jobcentre.

You may not have a P45 or P45U. This may be because:

- You are starting your first job or
- You were unemployed but not receiving jobseeker's allowance and therefore do not have a P45U or
- You have lost the P45 or P45U or
- You were not given a P45 by your last employer.

If you cannot give the employer a P45 or a P45U, your employer will give you a P46 form which, when completed, allows your employer to deduct tax on an emergency code until the right amount of tax to be deducted is worked out.

## **What will happen if I am unemployed, on short-time working or on strike?**

If you are unemployed, on short-time working or on strike you may be entitled to a rebate of tax at the end of the tax year. This is because the amount of tax you have paid may be too high for the amount of earnings you are now likely to receive over the tax year. However, if you get Jobseeker's Allowance that has to be taxed the rebate may be cancelled out.

If you are temporarily on short time working your employer should make whatever tax rebate you are entitled to on your normal paydays.

If you are on strike or involved in a trade dispute you will not be able to claim a tax rebate while you are on strike. You will have to wait to get your rebate when you either leave the job or return to work.

## Are there other taxes I need to know of?

### **VAT (Value Added Tax)**

Generally VAT is already included in the cost of goods you buy (normally 17.5%). It is not payable on certain goods and services such as rent and children's clothing.

### **Council Tax**

Council Tax is a system of local taxation collected by local authorities. It is a tax on domestic property. Generally the bigger the property is the more tax will be charged. Some property will be exempt from Council Tax.

## How can I pay my Council Tax?

You should receive your Council Tax bill by the end of April each year. You can pay by 10 installments, depending on the Local Authority either by weekly or fortnightly payments. If you pay the bill in full some Local Authorities reduce the total of the bill.

If you do not pay an installment of Council Tax on the date it is due your Local Authority will issue a reminder asking for payment within 7 days. If you fail to pay within this period you lose the right to pay by installments and a full year's Council Tax becomes payable.

If you do not pay this within the next seven days, your Local Authority can ask the magistrates to issue a liability order. A liability order allows the Local Authority to make arrangements for the arrears to be paid by deduction from your wages or payment, for example, Income Support and Jobseeker's Allowance.

