

The UK Tax System



WHAT I WISH I KNEW

Main types of tax in the UK...

Income Tax
NICs
VAT
Council Tax
Capital Gains Tax
Inheritance Tax
Corporation Tax

National Insurance

It is mandatory to pay NICs if you are 16+ and you earn over a particular amount of money each week. This threshold tends to change each tax year.

National Insurance is money collected by HMRC to help to build your entitlement towards certain state benefits such as State Pension (when you reach retirement age), Bereavement Support and Maternity Allowance.

This money is deducted from your payslip on a monthly basis, along with your Income Tax.

What is Income Tax?

Income Tax is the tax you pay on your personal income.



Personal allowance is the amount of money you are able to earn *tax-free*.

You pay income tax on any earnings **above** your personal allowance



In the UK, income tax is calculated as a percentage of the income you earn within different tax margins.

You don't pay the same amount of tax on everything you earn.



Income Tax is collected through your payslip via the PAYE system.

If you are self-employed, it is collected through the HMRC Self-Assessment process.

Tax Code



Tax codes are provided by HMRC.

Your tax code indicates how much Income Tax you should pay and tells your employer how much tax to deduct from your payslip each month.

A P60 is a form that shows you the tax you've paid on your salary within the previous tax year.

You receive a P60 at the start of each tax year, regardless of how long you've been working with your current employer.

If you have multiple employers, you receive a separate P60 for each one.

You can use a P60...

- To claim back overpaid tax
- To apply for tax credits
- As proof of income if you apply for a loan or a mortgage

What is VAT?

VAT is the tax paid when buying goods or services.

Within the UK, goods and services tend to already have VAT included in the price.

What is Council Tax?

Council Tax is a tax on domestic property that is collected by the Local Authority to pay for local services.

Some adults (18+) are exempt from paying Council Tax such as full-time students.



P45

A P45 is a form given to you by your employer when you stop working for them.

It shows how much tax you've paid on your salary so far within the current tax year and you are expected to give a copy of your P45 to your next employer or the Job Centre if you're not working.

P60

CGT

CGT is collected based on the amount of **profit** you have made on **asset(s)** sold or disposed of. The amount paid depends on your tax bracket and the type of asset.

CGT tends to be paid on assets such as:

- A second property
- Any buy-to-let properties
- Shares & funds
- The sale of a business
- Valuables (antiques, art, jewellery)



Inheritance Tax

Inheritance Tax is collected by HMRC when someone has died and has left an estate behind (*money, possessions, property*).

Inheritance Tax is collected when the value of the estate is above the threshold, but can also be paid by recipients of *gifts* given by the deceased

*(if the value of the gift is over the threshold and the gift is given within 7 years of the death).

Corporation Tax

In the UK, Corporation tax is paid by companies and unincorporated associations that operate in the UK.

This tax is based on annual profits.

All company profits are taxable but there are a number of expenses and deductions that can be claimed in order to reduce the tax bill.

***Sole traders pay income tax, not corporation tax.**



HMRC - Her Majesty's Revenue & Customs
PAYE - Pay As You Earn
NICs - National Insurance Contributions
VAT - Value Added Tax
CGT - Capital Gains Tax

References

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