



# NUTSHELL GUIDE TO UK INCOME TAX

## **Income Chargeable to Tax**

Income Tax is charged on all forms of income be they from employment, self-employment, savings and investment or rental income received during the tax year that runs from 6 April to the following 5 April.

*Employment* income is based on the gross wage or salary received from the employer and would normally be evidenced by a form P60 issued by the employer at the end of each tax year. In addition employment income will also include any benefits in kind received from the employment during the year such as car or fuel benefit, housing benefit, low interest loans or medical insurance. Such benefits are normally recorded on form P11D which is also issued by the employer at the end of the tax year. It is a legal responsibility of employers to issue a P60 and P11D where payments have been made during the year.

*Self-employment* income is based on a set of accounts prepared for an accounting period ended within the tax year ended 5 April. For example, an accounting period ended 31 December 2013 would fall within the tax year to 5 April 2014 (2013/14). The accounts include all income less expenses for the year which are then adjusted for tax purposes to account for items that are specifically disallowed by law and to include adjustments for additionally allowed tax incentives.

*Savings and investment* income include deposit interest, dividends and rental income. Although some interest and dividend are received gross, most savings and dividends are received after deduction of tax and it is the gross amount before such deductions that is included as income (the tax deducted is allowed against the final tax liability).

*Rental* Income is generally received gross and the amount to be included as income is calculated after deduction of allowable expenses.

## **Tax Return**

All income received during the year to 5 April will be included on a Tax Return which is due to be submitted by the following 31 January and failing to do so will result in an automatic penalty of £100.

**Total Taxable Income**

The overall taxable income is determined by adding together all sources of income and deducting allowable items such as losses and allowable loan interest.

Almost everyone is entitled to an annual allowance each year which is deducted from the overall income although this is restricted where overall earnings exceed the threshold – to see current rates click [here](#).

**Tax Calculation**

The resultant taxable income is then split into the tax bands at the relevant tax rates for those bands, to calculate the overall tax liability – click [here](#) for the current rates.

From this is deducted any tax already paid (by deduction at source under PAYE or from interest/dividend) to arrive at the income tax liability for the year.

Any National Insurance due is then added and the result is the overall tax due for the year – click [here](#) for the current rates.

**Payment Dates**

Payments on account are due on 31 January and 31 July during and just after the tax year end of 5 April. Each payment on account is equal to 50% of the actual liability for the previous tax year, for example for the tax year to 5 April 2014, payments on account are due on 31 January 2014 and 31 July 2014.

Once the actual liability for the tax year is determined (on submission of the tax return), any balance in excess of the payments on account already made is then payable on the following 31 January – the same date as the tax return is due to be submitted (in the earlier example any balance of tax due for the year to 5 April 2014 would be payable on 31 January 2015).