

# Introduction to the **UK tax** system

A Guide for those working in the UK



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# Introduction

One of the first things that you should do when coming to live and work in the UK is to get to grips with the UK tax system. Being aware of what taxes you can be charged and what deductions and allowances are potentially available will help you comply with UK tax law and take full advantage of the tax reliefs potentially available to you.



We've put together this guide as an overview of the UK tax system. Each section presents a series of the most frequently asked questions about each topic.

It provides an overview of what you need to do and how we can help. It's not a comprehensive guide and we recommend you speak to your taxback.com contact before acting on any of the information presented here.

## Section 1: Overview of the UK tax system

### What dates does the UK tax year run from?

The income tax year in the UK runs from 6 April to the following 5 April so the 2017/18 tax year runs from 6 April 2017 to 5 April 2018.

### What is meant by the United Kingdom (UK) for tax purposes?

UK tax law applies throughout the UK. The UK comprises England, Scotland, Wales and Northern Ireland and most, but not all, of the smaller islands around the British coast. The tax system extends to offshore oil platforms in British territorial waters. The Channel Islands, the Isle of Man and the Republic of Ireland are not part of the UK for tax purposes. UK tax law applies throughout the UK but there are some specific provisions that recognise the different legal systems in Scotland and to a lesser extent, in Northern Ireland.



## How are husbands and wives treated?

A system of independent taxation operates in the UK, so husbands and wives are taxed separately.

## Who are HMRC?

Her Majesty's Revenue & Customs (HMRC) is the UK tax authority. HMRC provides a useful source of information for taxpayers and ensures that people comply with their obligations, without paying more tax than is legally due. It's worth making sure you comply with UK tax laws as there can be penalties for non compliance or failure to pay the correct amount of tax.

## How does my tax residency status affect my tax position in the UK?

You may get asked questions about your tax 'residency' status by HMRC for example, or an accountant. Whether you are deemed a tax resident or not determines how you will be taxed in the UK. Broadly, if you are UK resident, you are taxable on your worldwide income in the UK for the period you are resident. If you are UK non-resident, you are still taxable, but only on UK source income (e.g. employment income from a job in the UK).

**TOP TIP**

It's a good idea to keep a note or diary of movements in and out of the UK

**There is a Statutory Residence Test for tax, which applies from the tax year 2013/14. Different rules apply for the years up to 2012/13. However under both rules and without exception, you will always be UK tax resident if you spend 183 days or more in the UK in a tax year.**

The following factors can also affect your UK tax residence status:

- where your home is and if you have a home in the UK; working in the UK or abroad;
- family and other ties to the UK;
- how long you spend in the UK as compared with time spent in other countries and whether you have been resident in the UK in previous tax years. You should note that your residence status elsewhere is irrelevant in determining your UK tax residence and it is possible to be resident for tax purposes in two countries.

Residence is a complex area, so you will need to take advice for your specific circumstances.

## What taxes will I be charged when I'm working in the UK?

The main tax for individuals working in the UK is income tax on their earnings. This helps pay for services like education and healthcare. You will probably also required to pay UK social security. UK social security is called National Insurance and this helps pays for some benefits and the State Pension.

How much you pay - and how you pay - depends on how much you earn, and whether you work for someone (employed), or for yourself (self-employed).

## Do I have to pay tax on all my earnings?

You can normally earn a certain amount of money each year, without paying any income tax. This tax-free amount is called the "Personal Allowance". However some categories of non-EU visitors to the UK may not get this even if they are working here - ask your taxback.com contact for more information about this. You pay income tax on anything above this amount. The more you earn, the higher the amount of income tax you pay. Below are the key rates and allowances of income tax, personal allowance and National Insurance contributions.

### Key Rates and Allowances

#### Income tax rates

	2017/18	2016/17	2015/16
20%	£0-33,500	£0 - £32,000	£0 - £31,785
40%	£33,501-150,000	£32,001- £150,000	£31,786 - £150,000
45%	£150,000 +	£150,000 +	£150,000 +
50%+	N/A	N/A	N/A

#### Personal Allowance

	2017/18	2016/17	2015/16
Under 65	£11,500	£11,000	£10,600
Personal Allowance reduced by £1 for every £2 of income above:	£100,000.00	£100,000.00	£100,000.00

### HMRC Approved mileage rates (from 2011/12)

	First 10,000 business miles	Additional business miles
Cars and vans	45p	25p
Motor cycles	24p	24p
Bicycles	20p	20p

### National Insurance Contributions

	2017/18	2016/17	2015/16
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#### Class 1 Employed

NIC rate	12%	12%	12%
No NICs on the first:	£157 per week	£155 per week	£155 per week
NICs charged at 12% up to:	£866 per week	£827 per week	£815 per week
2% NICs on earnings over:	£866 per week	£827 per week	£815 per week

#### Class 2 Self-employed

Flat rate	£2.85 per week	£2.80 per week	£2.80 per week
Small earnings exemption			
Small Profits Threshold amount per year	£6,025	£5,965	£5,965

#### Class 4 Self-employed

9% on profits	£8,164 - £45,000	£8,060 - £43,000	£8,060 - £42,385
2% on profits	Over £45,001	Over £43,001	Over £42,385



## Section 2: Working for an employer

If you work for someone, you are 'employed' and the person you work for is your 'employer'. Your employer will deduct tax and National Insurance from your wages and pay it to HMRC.

### Do I need to get a National Insurance Number?

To work in the UK it is vital that you have a National Insurance number. If you do not already have a National Insurance number, you will need to apply for one. If you are already working it's advisable to get one as soon as possible as otherwise you could be taxed incorrectly.

### What is the National Minimum Wage?

Your employer has to pay you at least the minimum wage by law. There are different minimum wage rates for different groups of workers. Rates may change each year. The current wage rates can be found here: <https://www.gov.uk/national-minimum-wage-rates>.



TOP TIP

You can also phone the National Minimum Wage Helpline on 0800 917 2368

## How much tax will I pay?

In 2017/18, the main personal allowance is £11,500. HMRC uses a tax code to tell your employer what tax-free allowances you are entitled to so that the correct amount of tax is calculated on the balance.

As well as being taxed on your cash pay, you're also taxed on expenses and benefits your employer provides, such as a company car, or medical insurance (These may be summarised for you at the end of the tax year on a form P11d). You may also have to pay tax on any tips you receive as part of your job, so you should keep a record of these.

There are a number of other 'tax-free' and 'tax-deductible' allowances and reliefs you might be able to get to reduce the tax bill on your employment income. These include relief for pension and charitable contributions and some business expenses, incurred wholly, exclusively and necessarily in the performance of duties of the employment.

The sort of business expenses you might be able to get relief for include:

- travel and subsistence
- work tools or special clothing
- fees and subscriptions to professional bodies
- expenses associated with working at home

Records and evidence must be kept of any such expenditure.

## How much National Insurance will I pay?

If you are employed you will pay 'Class 1' National Insurance contributions if you earn above a certain amount. In the 2015/16 tax year, you will pay 12% in National Insurance contributions for income between £155 and £815 per week. For income more than £815 per week, you pay 2%.

## What is PAYE?

This system used to collect tax and National Insurance at source is called PAYE (Pay As You Earn). PAYE spreads your tax and National insurance over the tax year, rather than paying tax in one lump sum.

PAYE is an estimate, and is not necessarily the exact amount you are required to pay. The final amount may be more, or often less, than is taken into account during the year. Millions of UK taxpayers pay too much tax during the year through the PAYE system. PAYE refunds most commonly arise from the following circumstances:

- If you arrive or leave the UK during the tax year
- If you work less than the complete tax year
- If you've been working on a casual basis
- If you've had more than one job through the tax year
- If you are a student, working in the holidays.

## How can I claim any PAYE refund I am due?

We can check if you've overpaid tax and are due a PAYE refund. You can get a free, no obligation UK tax refund estimation from our website. If you're owed a refund, we apply on your behalf and look after your application from start to finish.

We will get you to complete a short questionnaire. This consists of questions about your residency status, your employment earnings and any other income you might have, e.g. bank interest or dividends etc to help ensure we prepare a complete and correct claim.

We will also ask you to provide various supporting documents, e.g. P60's/P45's and confirmation of your identity, for Anti Money Laundering purposes.

## When can I claim a PAYE refund?

You can claim a tax refund at the end of the financial year (April 5th) or when you have finished work and won't be working again in that financial year. Sometimes HMRC will try to reconcile a refund position themselves at the end of a tax year if they have not heard from you before the end of the tax year (although they have been known to get their sums wrong!). They may issue what is known as a P800 calculation and/or a cheque in GBP to an old UK address for example, rather than a current address. If this happens, or you receive a P800 calculation that looks like it has a mistake, or have no way of cashing a GBP cheque, then contact your taxback.com representative as we will be able to help!

## How do I check how much tax/National Insurance I have paid?

Each pay day you will get a pay slip which outlines how much you've been paid and how much tax has been deducted. At the end of the tax year, you will get a P60 form which is a record of how much you've been paid and the tax that has been deducted. Your employer must, by law, give you a P60 form by no later than 31 May if you were working for them on 5 April.



If you do not receive a P60, you should request one from your employer and keep it safe, as you may need it to claim back any overpaid PAYE. HMRC may not be able to refund any tax due without it.

## What happens if I leave my job?

When you leave a job your employer must give you a form called a P45. It's a record of your pay and the tax that has been deducted so far in the tax year.

It shows your:

- Tax code and PAYE (Pay As You Earn) reference number
- National Insurance number
- Leaving date
- Earnings in the tax year
- How much tax was deducted from your earnings.

Your employer will submit this 'leaver' information directly to HMRC, on the last date that they pay you.



It's important to have a P45 if you start a new job and it may also help you if you want to claim back any overpaid PAYE. HMRC may not be able to make any tax refund due without it.

## Section 3: Working for yourself

Being a 'sole trader' means that you are an individual who is self-employed. You will pay income tax through the self-assessment system, as well as Class 2 and Class 4 National Insurance

## How do I know if I'm self-employed?

If you are self-employed, HMRC would expect that you are carrying on your business with a genuine expectation of payment and in a regular, developed & organised way. They would expect that you have a client base and keep records of things like the hours you have worked for each of them and the hours you have billed to each of them. It is important to distinguish self-employment from something that you do as a hobby perhaps, or as a favour for a friend.

Sometimes the distinction between *employment* and self employment can be blurred but it is vital that you are clear on your status, for the purposes of understanding what your rights and obligations are. A person's work status is a matter of general law and depends on the overall circumstances.

Self-Employed	Employed
HMRC says you are probably self-employed if you run a business and take responsibility for its success or failure. You will probably have several customers at the same time and can decide how, when and where you work. You will provide the main items of equipment to do your work.	HMRC considers you employed if you work for one person at a time who is in charge of what you do and takes on the risks of the business. You will probably be told how, when and where you do your work, have to work a set number of hours and are paid a regular amount according to the hours you work.



If a business offers you work, it is their responsibility to determine your employment status, for the purposes of operating PAYE. It is not up to you to decide. If the business does not operate PAYE because it decides that you are self-employed, but HMRC later disagree with this, then typically HMRC should chase the business first. BUT - they could come after you too, if they think that you colluded with the business in the failure to operate PAYE.



## What do I need to do if I'm self-employed?

If you work for yourself, or have set up your own business in the UK, you must register as self-employed. You must normally do this by 5 October following the end of the tax year in question, otherwise you could incur a penalty.

The easiest way to do this is to phone the Newly Self-Employed Helpline 0845 915 4515. Lines are open from 8.00am to 8.00pm Monday to Friday. Or you can fill in the form *Becoming self-employed and registering for National Insurance contributions and/or tax (CWF1)*.

Upon registration you will receive a Unique Taxpayer Reference (UTR) a note of which, you should keep safe. You will still be required to obtain a National Insurance number as well, as outlined in the previous section.

**TOP TIP**

If you need any help completing or translating any forms you need to complete, [taxback.com](http://taxback.com) can help.

## How do I pay my taxes if I am self employed?

If you work for yourself, you will pay tax on your taxable profits under the Self Assessment tax return scheme, at the tax rates explained in Section 1. It is vital to keep records to show what you have earned and what you have spent. You will pay tax by filling in a form called a Self Assessment tax return at the end of the tax year. The form has sections for income and expenses. It is your responsibility to make sure that your tax return is completed accurately and on time, even if you get a tax practitioner to help you prepare it.

From your second year of trading, HMRC will ask you to make payments on account. These are estimates of what your tax bill will be at the end of the year, based on the previous year's return.

**TOP TIP**

The [taxback.com](http://taxback.com) self-assessed team is on hand to give you more information about the payment on account system.

## What about National Insurance?

A self-employed person should pay 'Class 2' National Insurance at a flat rate of £2.80 per week for 2016/17. From April 2015 the National Insurance Contributions Class 2 are payable through the self-assessment tax return together with the Income Tax Liability and the National Insurance Class 4.

No NIC Class 2 are payable in case your profits are below £5,965. You no longer need to obtain a certificate of exemption in order to get this relief. The exemption is obtained with the completion and submission of your UK self-assessment tax return.

Class 4 contributions are due at 9% on profits over a certain level. They are paid through the tax return at the end of the year. Class 4 contributions do not count towards any benefits however, you still have to pay these if you are self-employed and have profits over a certain level.

## What if I work in the construction/building industry?

If you work under the Construction Industry Scheme (CIS) you are considered self-employed and are taxable under the self-assessment system. Registration under CIS is in addition to registration as self-employed for self-assessment, not instead of registering as self-employed. This means that there are two separate registrations, however both can be done at the same time. When you contact HMRC to register as self employed you need to ensure that you are also registered as a CIS subcontractor. The term 'construction' refers to almost anything done to permanent or temporary buildings, including alteration, decoration, repair or demolition.

The CIS requires subcontractors to register with HMRC as CIS and declare their self-employed status. Registered CIS workers receive their payments net of 20% tax. If a subcontractor is unregistered, they will receive their payment net of 30% tax.

Where tax is deducted, a refund will normally arise because of the expenses of the trade and because individuals will normally have personal allowances available.





TOP TIP

Taxback.com offers an end-to-end service for construction workers to register them for the CIS and declare themselves as self-employed.

## How will my taxable profits be calculated?

If you do not have a set of formal accounts drawn up by an accountant, then you will need to keep details of:

- all your turnover - i.e. your earnings/income
- all your purchases and expenses

Your 'taxable profit' will generally be the amount of turnover remaining after all business expenses have been deducted. You should be aware that it is not always possible for small businesses to calculate their profit in a way that resembles the way in which they generally keep track of business: what was earned, what was spent, what's left. The generally accepted accounting principles in the UK mean that some adjustments may need to be made to your income and expense figures to reach the bottom line for tax purposes.

TOP TIP

Taxback.com offers an accountancy service for self-employed people for a very reasonable cost.

## What are allowable business expenses?

Broadly speaking, all the costs you incur wholly and exclusively for the purpose of earning business profits can be deducted from your turnover. However, you cannot deduct costs which you incur for a non-business purpose, such as your own personal expenses. And you cannot deduct capital costs, that is, the cost of buying a one-off asset that lasts for several years (you may be able to claim a 'depreciation allowance' for such capital costs instead.)



## Common expenses you can claim:

Accountancy and professional fees	Cost of goods that you purchase to sell or provide a service	Rent, rates, power and water (business proportion only)
Advertising	Insurance	Uniform
Business bank, PayPal and credit card charges	Interest on business loans	Wages and salaries paid to staff plus other staff costs
Car, van and travel expenses	Irrecoverable debts	Postage
Stationery, phone and internet costs	Subscription to professional journals	Safety wear eg helmet, protective clothing

TOP TIP

If you use something for both business and private purposes, a mobile phone or a vehicle for example, you should keep evidence - mobile phone bills/mileage logs, so that the appropriate proportion of business use can be identified. Taxback.com provide a full guide to allowable self-employment expenses: [www.taxback.com/packs/uk/GuideSE.pdf](http://www.taxback.com/packs/uk/GuideSE.pdf)

## What records do I need to keep?

If you're self-employed you must keep business records such as invoices, receipts for expenses or bank statements, CIS tax slips and other records relating to your income and outgoings. You'll need these to help you complete your tax return or to answer any questions from HM Revenue & Customs (HMRC) about a return you've completed.

It's important that you keep your business and personal records separate, so that you can work out exactly what relates to your business.

Without proper records, you could end up paying the wrong amount of tax - either not enough, which incurs penalties or too much, which damages your business. Record keeping is a legal requirement (penalties of £3,000 could be incurred otherwise!) and it also makes it easier to complete your tax return.

## What if I cease self-employment?

You should tell HMRC when you have ceased self-employment, otherwise they will just assume your self-employment is ongoing and will continue to issue you tax returns to complete and send you demands for Class 2 NIC's. You will need to fill in a tax return for the year your self-employment ends. The date that you stopped being self-employed should be shown on the tax return.

If you're looking for a very quick introduction to record keeping, you can refer to this table:

**Record keeping at a glance:**

What records to keep	Anything to do with your business, such as: <ul style="list-style-type: none"> <li>• invoices</li> <li>• cash books (to record any cash payments received)</li> <li>• business mileage records</li> <li>• bank/building society statements</li> <li>• receipts for business purchases/expenses</li> <li>• CIS vouchers</li> </ul>
How to keep your records	If a document started life on paper, e.g. a mobile phone bill, you should always keep hold of the original, even if you have since transferred it to a computer. For electronic records, e.g. correspondence sent via email or posted on websites, it's sufficient to save a copy on the computer itself. However, you must: <ul style="list-style-type: none"> <li>• capture all the information (front and back)</li> <li>• save information in a readable format</li> <li>• keep a back-up</li> </ul>
How long to keep records	As a general rule for a minimum of six years.



**Section 4: Other considerations**

Do I really need to file a UK tax return?

Most employees working in the UK pay all their tax through their company's payroll system and are not required to file a tax return. You may however, need to complete a tax return because for example, you have income from property abroad or your tax affairs are complicated in some other way (e.g. by being on an expatriate assignment to the UK.) If you're self-employed, you always have to complete a tax return. In the UK, the onus is generally on the taxpayer to tell HMRC if they think they need to complete a tax return, but sometimes HMRC will issue a tax return to be completed based on information provided to them by third parties (e.g. employers of expatriates.)

A tax return is a legal document and is an annual reconciliation of taxable income and gains. It is important not to leave out any sources of income - no matter how small or whether tax at source has been operated.

If you are issued with a tax return that you do not consider you need to complete, because, for example, you have left the UK or paid all your tax under PAYE, you can phone HMRC and ask for the tax return to be withdrawn. If they agree, you will no longer need to file it and any penalties for missing the filing deadline will be set aside.



Taxback.com can confirm the exact circumstances in which you have to file a self-assessed tax return.

Is there a deadline for filling a tax return?

You must file your tax return by:

- 31 October following the end of the tax year if you are filing the tax return in paper format. In this case the UK tax authorities will compute your tax liability. Any residual liability must be paid at the latest by the following 31 January, or
- 31 January following the end of the tax year if you or your accountant file the tax return electronically and compute the tax liability as part of that process. Any residual tax due must also be paid by this date.

Automatic interest and penalties apply for failure to file your tax return and pay your tax on time. Since 2010/11 HMRC have introduced a significantly tougher penalty regime for tax returns that are filed late - even if you have no tax to pay or are due a refund!



Taxback.com can help you with filling your tax return for very competitive fee.





## What if I get into tax 'debt' when I am in the UK?

There are a number of reasons that you may end up owing money to HMRC. For example, if you are self-employed and don't save up for your tax bill at the end of the year or if you are employed and have two jobs - each of which is giving you the tax free personal allowance or you receive allowances through PAYE that you are not entitled to.

Your situation may not be as bad as you think, but you should act quickly if you receive a letter from HMRC about a tax 'debt'. If you do nothing at all and return home then you could face legal action and be met with problems and a large bill upon your return to UK. HMRC can also pursue tax debts in your home country. It is important not to ignore tax 'debt'. If you have problems paying your tax - talk to us, HMRC or a free advisory service like the Citizens Advice Bureau.

## What benefits might I be entitled to if I work?

### Tax Credits

Tax credits are payments from the government. If you're responsible for at least one child or young person, you may qualify for Child Tax Credit. If you work, but are on a low income, you may qualify for Working Tax Credit. You can often get both types of tax credits. In either case, the amount that HMRC will pay is based on your individual circumstances and household income. They aren't taxable. To claim tax credits you have to fill in a claim form. You can get a tax credits claim pack from the Tax Credit Helpline on 0845 300 3900.

Tax Credits will eventually be replaced by Universal Credit - under Universal Credit, you normally have to meet certain work-related requirements. These are the things you'll have to do to help you get back into work, or to find more or better paid work.

### Jobseekers Allowance

Jobseeker's Allowance (JSA) is a benefit paid to eligible people who are currently unemployed but who are looking for work. There are two types of Jobseeker's Allowance. The first type is 'contribution-based Jobseeker's Allowance'. You may be entitled to this if you've paid enough National Insurance contributions in the last two complete tax years. Generally, self-employed contributions will not help you qualify for contribution-based Jobseeker's Allowance. The second type is 'income-based Jobseeker's Allowance'. It's based on your income and savings.

You may be sent forms P60U or P45U by the job centre, summarising how much JSA you have been paid. You should keep these safe, in case you need them in the future.

## What shall I do if I leave the UK?

It is always sensible to advise HMRC about your departure from the UK, so they can determine if there is anything formal you need to do in relation to your exit.

If you complete a tax return you should put your date of departure in the tax returns so HMRC can close down your self-assessment record and stop sending you tax returns to complete.

If you are not already in touch with taxback.com you should also speak to us, so that we can advise you if you might be due a tax refund or if there is anything else you need to do in relation to your tax affairs. You can contact us through our website [www.taxback.com](http://www.taxback.com).

It is very important that you keep both your tax adviser and HMRC up to date with your overseas contact/correspondence details. You can advise HMRC of a change of address in many different ways - even by email: <http://www.hmrc.gov.uk/individuals/change-of-circs.htm>

## Where can I find more information on living and working in the UK?

Taxback.com is a one-stop-shop for everything you need to know about life in the UK. From bank accounts, to job hunting, they have it all covered. You may also find the following contact details useful:

- **www.hmrc.gov.uk:** 0845 300 0627 or +44 135 535 9022 if you're calling from abroad. HMRC will allow a friend or family member to interpret for customers who don't speak English as a first language or they offer a free language interpretation service.
- **www.gov.uk** - The place to find government services and information
- **www.adviceguide.org.uk** - The Citizens Advice service helps people resolve their legal, money and other problems by providing free, independent and confidential advice.

And don't forget: Taxback.com's accredited, knowledgeable, friendly and professional advisers are here for all your UK tax needs!!





## UK Tax in Action



Mary is an employee in a factory in Bristol. She worked for 52 weeks of the 2015/16 tax year and earned £25,000 for the year (£480 per week).

Mary's tax and National Insurance are worked out as follows.

### Tax

£25,000

(£10,600) Personal Allowance

£14,400

**Tax @ 20% = £2,880**

### National Insurance

£25,000

(£8,060) Class 1 NIC Threshold

£16,940

**Class 1 NIC @ 12% = £2,032.8**

As Mary gets paid weekly, the employer will take the tax and National Insurance from Mary's wages each week, via the PAYE system and pay it to HMRC.

Mary will receive approximately £386 each week after tax and NIC



Alfred is a self-employed architect. He earned £55,000 during the 2015/16 tax year and incurred expenses of £9000 through running his business.

His tax and National Insurance will be worked out as follows:

### Tax

£46,000 (net profit)

(£10,600) Personal Allowance

£35,400

**Tax on £31,785 @ 20% = £6,357**

**Tax on £3,615 @ 40% = £1,446**

**Total Tax = £7,803**

### National Insurance

£46,000

(£8,060) Class 4 NIC Threshold

£37,940

**Class 4 NIC = £37,940 @ 9% = £3,414.60**

**Class 2 NIC flat rate = 52 weeks x £2.80 = £145.60**

**Total NIC = £3,560.20**

Tax and NIC Classes 2 and 4 NIC will be paid to HMRC by Alfred through the self-assessment system in January 2017.