
Professional Certificate in Payroll Management (United Kingdom)

Taxation (United Kingdom)

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Taxation in the United Kingdom refers to the system of levying taxes on individuals, businesses, and other entities by the government to fund public services and infrastructure. The UK tax system is complex and consists of various taxes imposed at different levels, including income tax, value-added tax (VAT), corporation tax, capital gains tax, and inheritance tax, among others.

Income Tax

Income tax is a tax levied on the income of individuals, sole traders, partnerships, and trusts. In the UK, income tax is collected by HM Revenue and Customs (HMRC) and is based on a progressive tax system, where the rate of tax increases as income increases. For the tax year 2021/2022, the income tax rates are as follows:

- Personal Allowance: £12,570 (tax-free)
- Basic Rate: 20% on income between £12,571 and £50,270
- Higher Rate: 40% on income between £50,271 and £150,000
- Additional Rate: 45% on income over £150,000

Income tax is deducted at source by employers through the Pay As You Earn (PAYE) system, where tax is calculated based on an individual's tax code and deducted from their salary before they receive it.

Value-Added Tax (VAT)

VAT is a consumption tax levied on the sale of goods and services in the UK. It is an indirect tax, meaning that the tax is ultimately borne by the end consumer. The standard rate of VAT in the UK is 20%, but there are also reduced rates of 5% and 0% for certain goods and services. VAT-registered businesses are required to charge VAT on their sales, collect the tax from customers, and then pay it to HMRC.

Corporation Tax

Corporation tax is a tax levied on the profits of limited companies and other corporate entities in the UK. The current rate of corporation tax is 19%, but this is set to increase to 25% for profits over £250,000 from April 2023. Companies are required to calculate their taxable profits, deduct any allowable expenses, and then pay corporation tax on the remaining amount.

Capital Gains Tax

Capital gains tax is a tax levied on the profit made from the sale of assets such as property, shares, and personal possessions. In the UK, individuals are entitled to an annual tax-free allowance known as the Capital Gains Tax Allowance, which for the tax year 2021/2022 is £12,300. Any gains above this allowance

are subject to capital gains tax at a rate of 10% or 20%, depending on the individual's income tax band.

Inheritance Tax

Inheritance tax is a tax levied on the estate of a deceased person in the UK. The current rate of inheritance tax is 40% on the value of the estate above the nil-rate band, which is £325,000 for individuals. Certain exemptions and reliefs may apply, such as the spouse or civil partner exemption and the residence nil-rate band, which can reduce the amount of inheritance tax payable.

Pay As You Earn (PAYE)

PAYE is the system used by employers in the UK to deduct income tax and National Insurance contributions from employees' salaries and pay them to HMRC on their behalf. Employers are required to operate PAYE if they have employees earning above the tax-free personal allowance. The PAYE system ensures that tax is collected throughout the year, rather than in a lump sum at the end of the tax year.

Real-Time Information (RTI)

Real-Time Information is a system introduced by HMRC in 2013 to improve the accuracy of payroll reporting and compliance with tax regulations. Under RTI, employers are required to submit payroll information to HMRC in real time, including details of employees' earnings, tax deductions, and National Insurance contributions. This enables HMRC to have up-to-date information on individuals' tax affairs and ensures that the correct amount of tax is deducted.

Employment Allowance

The Employment Allowance is a tax relief available to employers in the UK to reduce the amount of employer Class 1 National Insurance contributions they have to pay. In the tax year 2021/2022, eligible employers can claim up to £4,000 off their annual employer National Insurance bill. The allowance is claimed through the employer's payroll software and is deducted from the employer's overall National Insurance liability.

Statutory Payments

Statutory payments are payments made by employers to employees to cover periods of absence due to sickness, maternity, paternity, adoption, or shared parental leave. The main statutory payments in the UK are Statutory Sick Pay (SSP), Statutory Maternity Pay (SMP), Statutory Paternity Pay (SPP), Statutory Adoption Pay (SAP), and Statutory Shared Parental Pay (ShPP). Employers are responsible for calculating and paying these statutory payments to eligible employees.

Benefits in Kind

Benefits in kind are non-cash benefits provided by employers to employees in addition to their salary. These benefits are subject to tax and National Insurance contributions and must be reported to HMRC on the employee's P11D form. Common benefits in kind include company cars, private medical insurance, and accommodation provided by the employer. The value of the benefit is calculated based on specific rules set

out by HMRC.

Student Loan Deductions

Student loan deductions are payments made by individuals who have taken out a student loan to fund their higher education. In the UK, student loan repayments are deducted from an individual's salary through the PAYE system if their income is above the threshold set by HMRC. There are two types of student loans in the UK: Plan 1 for loans taken out before 2012 and Plan 2 for loans taken out after 2012. The amount of student loan deduction is based on a percentage of the individual's income above the threshold.

Auto-Enrolment

Auto-enrolment is a legal requirement in the UK for employers to automatically enrol eligible employees into a workplace pension scheme and contribute to their pension savings. The aim of auto-enrolment is to encourage more people to save for their retirement and reduce reliance on the state pension. Employers must assess their workforce, enrol eligible employees into a qualifying pension scheme, and make contributions to the scheme on behalf of their employees.

Termination Payments

Termination payments are payments made by employers to employees when their employment is terminated, either through redundancy, dismissal, or mutual agreement. In the UK, certain elements of a termination payment may be tax-free, such as the statutory redundancy payment, while other elements may be subject to income tax and National Insurance contributions. It is important for employers to correctly calculate and report termination payments to HMRC to ensure compliance with tax regulations.

Off-Payroll Working (IR35)

Off-payroll working, also known as IR35, is a tax legislation designed to tackle tax avoidance by individuals who work through an intermediary, such as a limited company, but who would be considered employees if they were engaged directly. IR35 applies to individuals working for public sector clients and medium to large private sector clients. Under IR35, the end client is responsible for determining the employment status of the worker and deducting income tax and National Insurance contributions if the worker is deemed to be inside IR35.

Construction Industry Scheme (CIS)

The Construction Industry Scheme is a tax scheme in the UK that applies to contractors and subcontractors working in the construction industry. Under CIS, contractors are required to deduct a percentage of the subcontractor's payments and pay it to HMRC as advance tax. Subcontractors are then able to offset these deductions against their tax liability at the end of the tax year. CIS aims to prevent tax evasion and ensure that individuals working in the construction industry pay the correct amount of tax.

Annual Tax Return

An annual tax return is a form that individuals, self-employed individuals, and certain businesses in the UK

are required to submit to HMRC each year to report their income, expenses, and other financial details. The tax return is used by HMRC to calculate the individual's tax liability for the year and to ensure that the correct amount of tax has been paid. The deadline for submitting an annual tax return is 31st January following the end of the tax year.

Benefits Agency

The Benefits Agency was a government agency in the UK responsible for administering welfare benefits and pensions. It was part of the Department for Work and Pensions and was responsible for processing claims for benefits such as Jobseeker's Allowance, Employment and Support Allowance, and State Pensions. The Benefits Agency was replaced by the Department for Work and Pensions in 2001.

Company Car Tax

Company car tax is a tax levied on employees who are provided with a company car by their employer for personal use. The amount of tax payable is based on the list price of the car, its CO2 emissions, and the individual's income tax band. Company car tax is deducted through the PAYE system and is considered a benefit in kind. Employers are required to report company car benefits to HMRC on the employee's P11D form.

Cumulative Tax Code

A cumulative tax code is a tax code used in the UK to calculate an individual's income tax liability based on their total earnings for the tax year to date. With a cumulative tax code, any overpaid or underpaid tax is adjusted in subsequent pay periods, ensuring that the correct amount of tax is paid by the end of the tax year. Cumulative tax codes are often used for employees with multiple sources of income or irregular pay patterns.

Default Retirement Age

The default retirement age was a provision in UK law that allowed employers to retire employees at the age of 65 without the need for justification. The default retirement age was abolished in 2011, meaning that employers are no longer able to compulsorily retire employees based on their age. Employers are now required to have a legitimate reason for dismissing an employee, regardless of their age.

Emergency Tax Code

An emergency tax code is a temporary tax code used by HMRC to collect tax from individuals when their employer does not have enough information to assign the correct tax code. Emergency tax codes are usually used when an individual starts a new job or when they have not provided their employer with a P45 form from their previous job. Emergency tax codes result in higher tax deductions until the correct tax code is issued by HMRC.

Employer National Insurance Contributions

Employer National Insurance contributions are payments made by employers in the UK to fund the National

Insurance system. Employers are required to pay employer National Insurance contributions on their employees' earnings above the secondary threshold. The current rate of employer National Insurance contributions is 13.8%, but there are different rates and thresholds depending on the employee's earnings and employment status.

Employer Pension Contributions

Employer pension contributions are payments made by employers into their employees' pension schemes to help fund their retirement savings. Under auto-enrolment regulations, employers are required to contribute a minimum percentage of their employees' qualifying earnings into a workplace pension scheme. The current minimum contribution rates are 3% from the employer and 5% from the employee, but these rates are subject to change.

Employment Status

Employment status refers to the classification of an individual's working relationship with an employer, which determines their rights, obligations, and tax treatment. In the UK, there are three main categories of employment status: employee, worker, and self-employed. The employment status of an individual is determined by factors such as control, supervision, and mutuality of obligation. It is important for employers to correctly determine the employment status of their workers to comply with tax and employment laws.

National Insurance Contributions

National Insurance contributions are payments made by individuals and employers in the UK to fund the National Insurance system, which provides state benefits such as the State Pension, Jobseeker's Allowance, and Maternity Allowance. There are different classes of National Insurance contributions, including Class 1 for employees, Class 2 for self-employed individuals, and Class 4 for self-employed individuals on profits above a certain threshold. The rates and thresholds for National Insurance contributions vary depending on the individual's earnings and employment status.

Payroll Year-End

Payroll year-end is the process of finalizing payroll for the tax year and submitting reports to HMRC. Employers are required to provide employees with a P60 form summarizing their earnings and deductions for the year and submit a Full Payment Submission (FPS) to HMRC. Employers must also report any benefits in kind, expenses, and other taxable payments on the employee's P11D form. Payroll year-end typically occurs in April at the end of the tax year.

PAYE Settlement Agreement (PSA)

A PAYE Settlement Agreement is an arrangement between an employer and HMRC to pay tax and National Insurance on certain expenses and benefits provided to employees. Under a PSA, the employer agrees to pay tax on behalf of their employees on items that are not covered by the normal payroll process, such as staff entertaining expenses or minor benefits. The advantage of a PSA is that it simplifies the tax treatment

of these items and avoids the need for employees to pay tax on them.

Real-Time Information (RTI) Penalties

Real-Time Information (RTI) penalties are fines imposed by HMRC on employers who fail to comply with RTI reporting requirements. Penalties may be issued for late or incorrect submissions, failure to report on time, or failure to pay the correct amount of PAYE tax and National Insurance contributions. The amount of the penalty depends on the size of the employer and the severity of the breach. Employers should ensure that they adhere to RTI regulations to avoid incurring penalties.

Starter Checklist

A starter checklist is a form used by employers in the UK to gather information from new employees about their tax status and National Insurance contributions. The starter checklist replaces the previous P46 form and helps employers determine the correct tax code to apply to the employee. The starter checklist includes questions about the employee's previous employment, benefits, and student loan status. Employers must keep a record of the starter checklist for each new employee.

Tax Code

A tax code is a series of letters and numbers used by employers to calculate the amount of income tax to deduct from an employee's salary. The tax code is based on the individual's personal allowance, any adjustments for benefits in kind or other income, and their tax-free allowances. The tax code is provided by HMRC and is used by the employer to calculate the correct amount of tax to deduct through the PAYE system. Examples of tax codes include 1257L for the standard tax code and BR for the basic rate tax code.

Tax Year

The tax year in the UK runs from 6th April to 5th April the following year and is used to calculate an individual's income tax liability. The tax year is divided into tax periods, with each period representing a week or month of the tax year. Employers are required to report their employees' earnings and deductions to HMRC for each tax period and submit annual reports at the end of the tax year. Understanding the tax year is important for employers to ensure compliance with tax regulations and reporting requirements.

Universal Credit

Universal Credit is a social security benefit in the UK that provides financial support to people who are out of work or on a low income. Universal Credit replaces six existing benefits, including Jobseeker's Allowance, Housing Benefit, and Working Tax Credit, with a single monthly payment. The amount of Universal Credit a person receives is based on their circumstances, such as income, savings, and housing costs. Employers may need to provide information to HMRC about their employees' earnings to determine their eligibility for Universal Credit.