

GUIDE TO PERSONAL TAXATION

Albert Einstein is quoted as saying “The hardest thing in the world to understand is income tax”. That’s where we step in! Income tax is precisely that – a tax on income. Whether it’s your salary, income from a property you rent out – or even bank interest – it is all taxable. In the UK, specific reliefs and allowances mean we may pay nothing on certain sources of income, and other sources are taxed in tiers meaning the highest earners amongst us pay the most tax.

TAX RATES

Everyone in the UK receives a tax-free ‘Personal Allowance’ of £11,850 which increases each year in line with inflation. Income above this is then taxed at the following rates

Tax Band	Thresholds	Income Tax Rate
Basic Rate	£0 - £34,500	20%
Higher Rate	£34,501 - £150,000	40%
Additional Rate	£150,001	45%

As a director of a limited company, you have the ability to distribute dividends to shareholders from retained profits. Dividends are a key factor in the increased tax efficiency of using a limited company. Dividends are taxed at a lower rate in addition to not suffering National Insurance.

Dividends are taxed as per the tax bands above but at the following rates:

Tax Band	Thresholds	Dividend Tax Rate
Basic Rate	£0 - £34,500	7.5%
Higher Rate	£34,501 - £150,000	32.5%
Additional Rate	£150,001	38.1%

In addition to these rates, you also receive £2,000 tax-free dividend allowance. Regardless of your other income, if you receive £2,000 or less of dividends in a given tax year, it will not attract income tax.

SELF ASSESSMENT

Self Assessment is the system utilised by HM Revenue & Customs (HMRC) to collect income tax. Not all sources of income suffer tax at source. Your salary has tax and NI withheld before you receive your 'net' salary. Dividends and often rental income, do not have any income withheld – this is then reported to HMRC via Self Assessment. HMRC take a snapshot of your affairs for a given tax year via the tax return (SA100 form) and any tax you owe is calculated and paid over to HMRC.

You'll need to send a tax return if, in the last tax year:

- you were a company director
- you were self-employed - you can deduct allowable expenses
- you got £2,500 or more in untaxed income, for example from tips or renting out a property
- your income from savings or investments was £10,000 or more
- your income from dividends from shares was £10,000 or more before tax
- you made profits from selling things like shares, a second home or other chargeable assets and need to pay Capital Gains Tax
- your income (or your partner's) was over £50,000 and one of you claimed Child Benefit
- you had income from abroad that you needed to pay tax on
- you lived abroad and had a UK income
- your taxable income was over £100,000
- you were a trustee of a trust or registered pension scheme
- you had a P800 from HMRC saying you didn't pay enough tax last year - and you didn't pay what you owe through your tax code or with a voluntary payment
- your State Pension was more than your Personal Allowance and was your only source of income - unless you started getting your pension on or after 6 April 2016

Your personal tax return differs from any VAT, PAYE or Corporation Tax requirements you may have for a limited company. Any liabilities due are payable by you personally and not your employer or limited company. The UK tax year covers the year 6th April to 5th April. The tax return for this period is then due by the following 31st January.

If your company was incorporated in the period 6th April 2017 – 5th April 2018 you will need to file a 2017/18 tax return by 31st January 2019.

If your company was incorporated in the period 6th April 2018 – 5th April 2019, your first tax return will not be due until 31st January 2020.

HMRC have strict guidelines for taxpayers who fail to file a return on time. Failing to file by 31st January results in an immediate £100 penalty. This applies regardless if you actually owe any additional tax. HMRC can then apply daily penalties of £10 per day up to a maximum of £900. This is in addition to further percentage based penalties based on the tax owed when your return is finally submitted.

HOW MYACCOUNTANT CAN HELP

MyAccountant.co.uk have a dedicated Personal Tax team to assist with your tax returns and for tax advice in general. Our Self Assessment service is an option package charged separately to any limited company fees – we send reminders throughout the year to all of our clients which detail our sliding scale fee package which offers preferential prices to those who provide information promptly and with less complex affairs. The service includes:

- Registering with HMRC to liaise directly with them on your behalf
- Registering you for Self Assessment itself and online filing
- Preparation of your tax return and tax computations – clearly outlining what tax is due and when, and providing further tax guidance
- Calculation of additional taxes due such as Capital Gains Tax

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