

## 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. 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 BANDS & RATES FOR 2019/20

Everyone in the UK receives a tax-free ‘Personal Allowance’ of £12,500 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 - £37,500	20%
Higher Rate	£37,501 - £150,000	40%
Additional Rate	£150,001	45%

### TAX ON DIVIDENDS

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 - £37,500	7.5%
Higher Rate	£37,501 - £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.

## TAX ON SAVINGS INCOME

Savings income is income such as bank and building society interest. The Savings Allowance, applies to savings income and the available allowance in a tax year depends on the individual's marginal rate of income tax. Broadly, individuals taxed at up to the Basic Rate of tax have an allowance of £1,000. For Higher Rate taxpayers the allowance is £500. No allowance is due to Additional Rate taxpayers. Some individuals qualify for a 0% Starting Rate of tax on savings income up to £5,000. However, the rate is not available if taxable non-savings income (generally earnings, pensions, trading profits and property income less allocated allowances and reliefs) exceeds £5,000.

## 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 may need to file a tax return if:

- You are a company director;
- You are self-employed (a sole-trader) or a partner in a partnership business;
- You receive £2,500 or more in untaxed income, for example, interest that is not taxed before it is paid to you or rental income;
- You receive regular annual income from a trust or settlement, or you receive income from the estate of a deceased person and further tax is due;
- You have taxable foreign income whether or not you are resident in the UK. This includes non-UK resident landlords;
- You have income from savings and investments of £10,000 or more before tax;
- You have annual income of £100,000 or more before tax;
- You or your partner receive Child Benefit and your income is over £50,000;
- You have tax due at the end of the year that cannot be collected via your PAYE coding notice in a later year;
- Your untaxed income is £2,500 or more – but if you are a pensioner you may be able to pay your tax through your PAYE Coding Notice;
- Your claims for expenses are £2,500 or more;
- You have capital gains where:
  - You have given away or sold assets worth £48,000 or more for 2019/20; or
  - You have a capital loss but your gains net of any losses are more than the annual exemption for 2019/20 of £12,000; or
  - You have no losses to claim but your gains are more than the annual exemption for 2019/20 of £12,000; or
  - You need to make any other capital gains tax claim or election for the year.

HMRC may also want you to complete a return for other reasons. If you are unsure, then please contact us.

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 6<sup>th</sup> April to 5<sup>th</sup> April. The tax return for this period is then due by the following 31<sup>st</sup> January.

If your company was incorporated or you did not start trading until the period 6<sup>th</sup> April 2019 – 5<sup>th</sup> April 2020, your first tax return will not be due until 31<sup>st</sup> January 2021.

HMRC have strict guidelines for taxpayers who fail to file a return on time. Failing to file by 31<sup>st</sup> 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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