Income Tax Explained

This form of taxation in to be used by individuals and those who run a business that is not incorporated (Sole trader). The Topic is very broad and involves many aspects of income, however the most common forms of income assessed are as follows:

1. **Other income:**

   - Employment: This is would be income received from your employment (refer to excel)
   - Trading income: this would be your adjusted net profit from your business (refer to excel)
   - Property income: This would be income you would receive by renting out your property for example. It is recorded in your tax return on an accrued basis (eg. the rent you should have received not on the physical money you did receive) Refer to excel.)

2. **Saving income:**

   - Bank and building society interest - This is interest received from your bank account for example. You would receive it net of Tax. Therefore when you fill out your tax forms & computations, you would need to be gross it up (eg. £80 x 100/80 = £100.) This £100 is what you would enter on the tax return.

3. **Dividend income:**

This is Dividends received from UK & foreign companies for example. You would receive it net of Tax. Therefore when you fill out your tax forms & computations, you would need to be gross it up (e.g. £90 x 100/90 = £100.) This £100 is what you would enter on the tax return.

*Note: Although your grossing up your Dividend and Interest income, you will then less the credits on accounts (in other words subtract off the amounts you grossed up by in your tax form/computations.)

Saving income received = £80.00
Saving income declared on you tax forms/computations = £100.00
Amount grossed up = £20.00
The credit to be taken off = £20.00

The reason for this is, because the bank had already deducted the tax element before crediting you bank account. Hence in theory you had already paid the tax on the interest received.

Key aspects to be aware of:

Losses: If you operate a business and incurred losses in previous tax years, you can bring forward those losses to offset/decrease your tax liability this year.

Credits: Just as we deducted the credits for Interest and dividend income earlier. Other credits to be deducted off your tax liability would be PAYE (this is subtracted off your payslip if you are an employee.) These credits are referred to as tax deducted at source.

Personal Annual Allowance: Every Individual is entitled to a personal allowance every tax year. The PAA is subject to change and is normally changed on an annual basis; details of rates and allowances can be found in our resources section. Bear in mind that you cannot carry forward your PA. If you do not use it all up in the tax year, then it is lost.

Personal age allowance: If you were born before 6 April 1938 you may be eligible for an additional allowance, details of rates and allowances can be found in our resources section..

If you fall into one of these age brackets you are entitled to the following allowance instead of you

Adjusted Net Income: this is the figure you use for your Personal age allowance and Reduction to Personal allowance workings.

Reduction of Personal Age allowance for High income Individuals: If you are an individual who earns more than £100K (all your income combined) you will be subjected to a reduction of Personal allowance. If your income exceeds a certain level then your personal allowance will be lost, details of rates and allowances can be found in our resources section.