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Pay As You Earn taxes in the UK



Your Guide to the PAYE Tax System

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UK Taxes - Intro



Most workers in the UK pay income tax through the PAYE (Pay As You Earn System) system. Your employer uses this to withhold income tax and national insurance contributions from your wages which are paid directly to HMRC (HM Revenue & Customs).

TAX CODE

Your tax code is issued by HMRC and is used by your employer to work out how much income tax you should pay. This tax code changes every year and you may be paying the incorrect amount of tax if you're on the wrong tax code. You may be able to claim a rebate if you've paid too much. You'll find the code on your payslips.

How Much Do I Pay?

The amount of income tax you pay depends on:

1. How much you earn over your Personal Allowance
2. How much of your income falls within each tax band

TAX-FREE PERSONAL ALLOWANCE

The Personal Allowance is the amount of income an individual is entitled to receive free of tax each tax year. This amount changes each tax year. The standard personal allowance for the current 2016/17 tax year (this is the period from 6 April 2016 until 5 April 2017) is £11,000.

Your Personal Allowance may be higher if you claim Marriage Allowance or Blind Person's Allowance or smaller if your income exceeds £100,000.

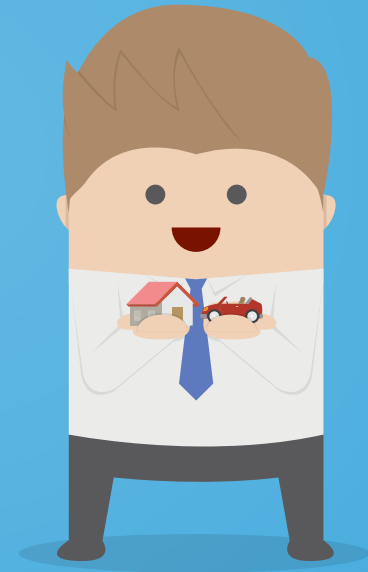


Income Tax Rates and Bands

Income tax rates and bands for 2016/17:

BAND	TAXABLE INCOME	TAX RATE
Personal Allowance	Up to £11,000	0%
Basic Rate	£11,001 - £32,000	20%
Higher Rate	£32,001 - £150,000	40%
Additional Rate	Over £150,000	45%

If your gross income exceeds £100,000, your personal allowance is reduced by £1 for every £2 earned above £100,000.



National Insurance Contributions

Your employer will also deduct National Insurance contributions, which you will see on your payslip.

NATIONAL INSURANCE CONTRIBUTIONS ARE PAID TOWARDS THE COST OF CERTAIN BENEFITS INCLUDING:

- » Basic state pension
- » Additional state pension
- » New state pension
- » Contribution-based jobseeker's allowance
- » Contribution-based employment and support allowance
- » Maternity allowance
- » Bereavement benefits



The amount you pay depends on your employment status and the level of your income. As an employee, you pay Class 1 National Insurance Contributions.

Rates for 2016/17:

Weekly Pay	Class 1 National Insurance rate
Below £155	0%
£155-£827	12%
Over £827	2%

You'll pay less if you're a married woman or widow with a 'certificate of election' or if you're deferring National Insurance contributions as you have more than one job.

YOU MUST TELL HMRC IF YOU:

- Change your personal details (name, address, etc).
- Become self-employed/stop being self-employed.

If you become unemployed or can't work due to illness, you may be able to apply for National Insurance credits to fill any gaps in your contributions.

Your Payslip Explained

CONFUSED BY ALL THOSE TERMS ON YOUR PAYE PAYSリップ?



We've listed the most common ones and their meanings on the next page...

1. If you pay money into a company pension scheme or make student loan repayments, the amounts taken will show here.

2. PAYE -Pay As You Earn. This is the system of paying tax and National Insurance contributions automatically from your wages.

3. Check your personal details are correct in case your employer needs to send you anything in the post.

4. Gross pay -your pay before anything gets taken off it, like tax or National Insurance contributions.

5. Your tax code is used by your employer to work out how much tax to take from your wages.

Sample PAYE payslip

Big Company Ltd.

Employee No.	Employee	Date		National Insurance No.	
01234	Miss MY Name			AB123456C	
Payments	Units	Rate	Amount	Deductions	Amount
Basic	1.00	744.90	744.90	PAYE Tax	41.06
				Nic	29.51
				Pension	0.00
				Student loan	0.00
				Total deductions	70.57
Miss MY Name 1, My Road My Street My Town MT1 1AA		Totals this period: Total Gross Pay 744.90 Gross for Tax 744.90		Totals year to date: Total Gross Pay TO 1489.80 Cross for Tax TO 1489.80 Tax paid 82.12 NIC TO 59.02 Pension TO 0.00	
Tax Code: 647L		Payment Method: BACS		Net Pay: 674.32	

6. BACS -Bank Automated Clearing System. This means the money will be transferred direct to your bank account. BACS usually takes 3 working days to clear so remember to check your statement.

7. NET pay -your pay after deductions like tax have been taken off. Often called 'take-home pay'.



Taxable and Tax-Free Benefits

BENEFITS YOU PAY TAX ON:

- » State Pension
- » Jobseeker's Allowance
- » Carer's Allowance
- » Incapacity Benefit (from the 29th week you get it)
- » Bereavement allowance
- » Widow's Pension
- » Widowed Parent's allowance
- » Pensions paid by the Industrial Death Benefit scheme
- » Employment & Support Allowance (contributions based)

TAX-FREE STATE BENEFITS:

- » Working tax credit
- » Child tax credit
- » Housing benefit
- » Guardian's Allowance
- » Pension credit
- » Winter fuel and bonus scheme
- » Disability Living Allowance
- » Employment and Support Allowance (income related)
- » Maternity Allowance



Marriage Allowance

If you get married, you may want to apply for Marriage Allowance. This lets you transfer £1,100 of your Personal Allowance to your spouse or civil partner. This will reduce their tax by up to £220 each tax year.

You can also backdate your claim to the date of marriage.

To be eligible for this allowance, your partner must earn between £11,001 and £43,000 a year before tax and you must not earn anything or your income must be under £11,000.

If you or your partner was born before 6 April 1935, you may benefit more from Married Couple's Allowance.



Income Tax for Non-Residents

The Statutory 'Residence' Test can help you determine whether you are resident or not.

Non-residents only pay tax on their UK income - they don't normally pay UK tax on their foreign income.

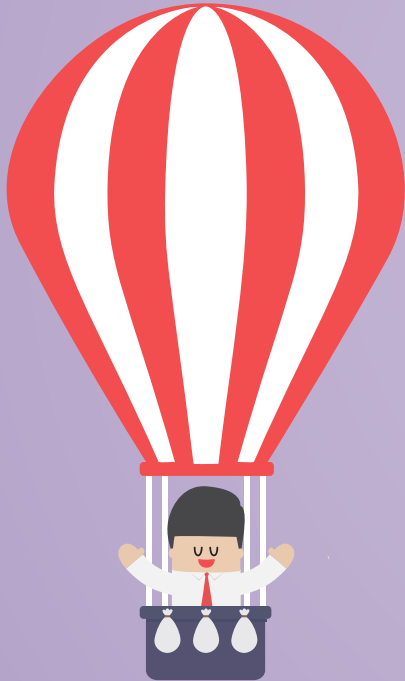
Residents pay UK tax on all their income, no matter whether it's from the UK or abroad. However, there are special rules for UK residents whose permanent home 'domicile' is abroad.

NON-RESIDENTS DON'T USUALLY PAY UK TAX ON:

- » State Pension
- » Interest from UK Government securities 'Gilts'



Living Abroad



You may be taxed on your income in the UK and in the country you reside in.

However, the country you're resident in may have a double taxation agreement with the UK in which case you may not have to pay tax in both jurisdictions.

Depending on this agreement you can:

- » Apply for partial or full relief before you're taxed
- » Apply for a refund after you've been taxed

Do I need to file a Tax Return?

Most employees in the UK pay tax through their company's payroll system and are not required to file a Self-Assessment tax return.



REASONS YOU MAY NEED TO FILE:

- » You're self-employed
- » You're in partnership or a company director
- » You're a higher rate taxpayer with annual income of £100,000 or more
- » You have investment income of £10,000 or more
- » You have capital gains in excess of the exempt amount (£11,100 for the 2016/17 tax year)
- » You earned foreign income
- » You have rental income
- » You have a tax liability but no PAYE source of income

You should tell the HMRC if you think you need to file a tax return, however sometimes HMRC may issue a tax return for completion based on information from third parties (e.g. employers of expatriates).

If you are unsure whether you should file a tax return or not, you can contact [Taxback.com](https://www.taxback.com)

Leaving Employment

If you leave your job your employer must give you a form called a P45. This is a document which shows your gross pay and the amount of the tax which was deducted at source from your pay during the tax year.

It shows your:

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

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

If you do not get a P45, you should request one from your employer and keep it safe, as you may need it to claim back any overpaid PAYE income tax. HMRC may not be able to refund any tax refund due without it.

It's important to have a P45 if you start a new job and it may also help you if you want to claim a tax rebate.



Getting a Tax Rebate

YOU MAY BE ABLE TO CLAIM A TAX REBATE IF YOU:

- » Arrive or leave the UK during the tax year
- » Work less than the full tax year
- » Have been working on a casual basis
- » Had more than one job during the tax year
- » Are a student working in the holidays
- » Sent a tax return and paid too much tax
- » Overpaid tax on pension payments
- » Bought a life annuity
- » Live in one country and earn income in another





Claiming Your Rebate

1 in 3 workers in the UK are due a tax rebate and the average rebate is **£963**.

To apply for a UK tax rebate you will need either your **P45** or **P60** and details of any work-related expenses.

Find out if you're due a tax rebate now for free using our [online tax calculator](#) or email info@taxback.com for more info.

Useful Resources



[taxback.com](https://www.taxback.com)

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☎ Freephone: 0808 2381 611

✉ info@taxback.com

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