Additional personal allowance

Briefly, an allowance you qualify for if you have a 'qualifying child' living with you and either you are not married or living with your spouse, *or* you are a married man whose wife is 'totally incapacitated'.

Additional voluntary contributions

Extra contributions you choose to make to boost your pension and other benefits from a particular employer's pension scheme.

Age-related allowances

The higher personal and married couple's allowance you may be entitled to if you (or your spouse, for the married couple's allowance) are aged 65 or more at any time in the tax year.

Allowable expense

An expense on which you get tax relief (by deducting it from your income or capital gain before the tax is worked out).

Annuity

You pay a lump sum to an insurance company for an annuity: in return, the company gives you an income, usually for the rest of your life. The amount of the income is fixed at outset. You can't usually get any of your lump sum back.

In the 1998 Budget, the Chancellor announced tax allowances, reliefs and rates for 1998-99 and beyond. He also announced final details of a new tax-free investment - the individual savings account (ISA) - and reformed capital gains tax.

Tax basics

The Chancellor increased allowances in line with inflation but there were no changes to the rates of income tax. Future changes to some tax reliefs were also announced. Relief for the married couple's, additional personal and widow's bereavement allowance stays at 15 per cent in 1998-99 and these allowances were increased to £1,900. However, while the allowances for 1999-2000 haven't been announced, the value of the relief will be cut to 10 per cent in that tax year. Additional personal allowance was extended to women with children whose husbands are incapacitated. You can backdate claims to 6 April 1997.

Tax and work

Pay-as-you-earn codes for 1998-99 will change as a result of the Budget. If you get only the personal allowance, your employer or pension provider will adjust your code; you probably won't be sent a new coding notice. If you get other allowances, the Inland Revenue will send you an adjusted coding notice. National Insurance (NI) changes are shown below.

Fringe benefits

The changes to the tax charge for private fuel paid for by employers are shown in the Fuel taxable values table below. From 6 April 1999, the cost of converting company cars to run on road fuel gases (compressed natural gas or liquid petroleum gas) will be disregarded when working out the taxable value of the car. For new cars, that part of the price attributed to the equipment necessary to allow the car to run on road fuel gases will also be ignored.

Self-employment

The Budget extended the enhanced capital allowances given to small- and medium-sized businesses. A special first year writing-down allowance of 40 per cent on plant and machinery will be given in the year to 1 July 1999. A first year allowance of 50 per cent was previously given for the 12 months to 1 July 1998.

From 1 April 1998, the VAT-registration threshold increased from £49,000 to £50,000.

Pensions

The pensions earnings cap rises from £84,000 to £87,600 with effect from 6 April 1998. Maximum payments to occupational and personal pension plans, and the pension you can draw from them, are determined by your income. This cap is the maximum level of income that can be taken into account.

Tax at home

A new Working Families Tax Credit (WFTC) replaces Family Credit from October 1999. You must have a child to be eligible and either you or your partner (if you have one) must work 16 or more hours a week. You'll get the maximum amount of WFTC if your net income (excluding WFTC and child benefit) is less than £90 a week. Above this threshold, WFTC is reduced by 55p for every extra £1 of net income.

Tax and savings

There was no change to the tax charge on savings income, such as interest paid by banks and building societies. This stays at 20 per cent for basic-rate taxpayers and 40 per cent for higher rate taxpayers.

ISAs

The new Individual Savings Account (ISA) will start on 6 April 1999. It will work as follows:

- you can invest up to £5,000 a year
- each year, you can save up to £1,000 as cash and use up to £1,000 to buy life insurance (you can continue to buy life insurance outside an ISA as well). The rest of the annual investment limit must be used to buy share-based investments
- for the first year only, the maximum investment will be £7,000 and up to £3,000 can be saved as cash
- the £50,000 lifetime limit that had originally been proposed has been scrapped
- investments in ISAs will be exempt from income and capital gains tax. A 10 per cent tax credit on dividends from UK equities will be paid for the first five years of the scheme (until 5 April 2004)
- withdrawals can be made from the ISA at any time without losing the tax relief.

PEPs

Personal equity plans (PEPs) held at 5 April 1999 can continue and will have the same tax advantages as ISAs. No further PEP investments can be made after 5 April 1999 but you can switch PEP managers. In line with ISAs, a 10 per cent tax credit will be paid on dividends from UK equities for the first five years (until 5 April 2004). The value of your PEP investments will not affect the amount that you can invest in an ISA.

TESSAs

Tax Exempt Special Savings Accounts (TESSAs) taken out by 5 April 1999 can run for the full five-year term. You will be able to continue making payments to these TESSAs under the current rules. However, no new TESSAs can be taken out after that date. When your TESSA matures, you can transfer your capital (but not the accumulated interest) into the cash element of an ISA. Payments to an existing TESSA and capital transferred from a TESSA to an ISA will have no effect on the amount that can be paid to an ISA in that year.

Friendly societies

The tax credit for investment income given to ISAs and PEPs is being extended to friendly societies' qualifying small life policies and will run for five years.

Enterprise investment scheme

The level of investments in an EIS that attracts tax relief is increased from £100,000 to £150,000 for eligible shares issued on or after 6 April 1998.

Tax and giving

The tax-free limit for inheritance tax was increased by more than the rate of inflation. The limit is £223,000 (up from £215,000) after 6 April 1998.

Capital gains tax

The amount of gain that is exempt from capital gains tax (CGT) was increased from £6,500 to £6,800 from 6 April 1998. However, a major restructure of capital gains tax was announced. The proposed changes are:

- to withdraw indexation allowance for periods after April 1998. Instead, the amount of chargeable gain will be reduced, the longer you've held the asset. Business assets get a greater reduction than other assets
- to phase out retirement relief over a five-year period to prevent 'bed and breakfasting' (the practice of selling an asset and buying it back in order to use up a year's CGT allowance and establish a new, higher price for CGT purposes)
- to change the rules on 'share pooling'.

Tax and travel insurance

With effect from 1 August 1998, insurance premium tax (IPT) will be set at 17.5 per cent for all travel insurance policies. At the moment, this rate is charged only on policies sold by travel agents and tour operators. IPT on other companies' travel policies is currently just 4 per cent.

Tax and Gift Aid

The minimum amount that can be paid under Gift Aid is reduced to £100 on payments made to support education and anti-poverty projects in the world's poorest countries.

Income tax rates and allowances

Allowances

	1997-98 (£)	1998-99 (£)
Personal allowance	4,045	4,195
Personal allowance (age 65-74)	5,220	5,410
Personal allowance (age 75 plus)	5,400	5,600

Married couple's allowance, additional personal allowance and widow's bereavement allowance*	1,830	1900
Married couple's allowance (age 65-74)*	3,185	3,305
Married couple's allowance (age 75 plus)*	3,225	3,345
Blind person's allowance	1,280	1,330
Income limit for age-related allowances	15,600	16,200

* Allowances where relief is restricted to 15 per cent in 1999-99 and to 10 per cent from 6 April 1999.

Tax rates

Rate of tax (%)	Taxable income (£)	
	1997-98	**1998-99**
Lower (20)	up to 4,100	up to 4,300
Basic (23)	4,101 - 26,100	4,301 - 27,100
Higher (40)	over 26,100	over 27,100

Other reliefs

	1997-98	**1998-99**
Maintenance Relief	£1,830 relief restricted to 15 per cent	£1,900 relief restricted to 15 per cent
Mortgage Interest Relief	15 per cent of interest paid on first £30,000	10 per cent of interest paid on first £30,000

National Insurance Contributions from 6 April 1998

National Insurance Contributions - Employees
From 6 April 1998

	Contracted-in	**Contracted-out**
First £64 per week (previously £62 per week)	2 per cent	2 per cent
Next £485 per week	10 per cent	8.4 per cent

(previously £403 per week)

National Insurance Contributions - Self-employed
From 6 April 1998

Class 2 contributions	£6.35 per week (previously £6.15 per week. Exemption available if net earnings £3,590 or less (previously £3,480 pa)
Class 4 contributions	6 per cent of net profits between £7,310 and £25,220 - maximum £1074.60 (previously £7,010 and £24,180 maximum £1,030.20)

From 6 April 1999 no national insurance contributions will be payable by employees (or employers) on the first £81 per week of earnings. Employees earning above this minimum will pay 10 per cent on earnings up to the upper earnings limit (not yet announced for 1999-2000. Employers will pay 12.2 per cent on earnings between £81 per week and the upper earnings limit.

Fuel Taxable Values

	Petrol 1997-98 (£)	Petrol 1998-99 (£)	Diesel 1997-98 (£)	Diesel 1998-99 (£)
Up to 1400cc	£800	£1,010	£740	£1,280
1401cc - 2000cc	£1,010	£1,280	£740	£1,280
2001cc and over	£1,490	£1,890	£940	£1,890

It was announced that the 1998-99 scale charges will be further increased by 20 per cent over and above the usual increases in pump prices (including fuel duty) in each of the tax years 1999-2000, 2000-01, 2001-02 and 2002-03.

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Capital allowances

A deduction from your business profits (and some other types of income) if you buy certain types of equipment and building for your business.

Over recent years, capital gains tax and income tax have become increasingly interlinked - for example, the rate of capital gains tax you pay depends on your income. TaxCalc takes both your income and capital gains into account.

The simplest example of making a capital gain is selling something you own at a profit. For example, you buy a Victorian etching for £10,000 and sell it a couple of years later for £12,000. Your capital gain (ignoring any allowance for inflation) is £2,000 or a bit less if you can claim some expenses of buying and selling. But you can make a capital gain even though no buying or selling is involved, eg if you give something away.

So here are the basic rules.

- You can make a capital gain (or loss) whenever you dispose of an asset, however you came to own it.
- Broadly, anything you own counts as an asset, eg houses, jewellery, shares and antiques.
- You dispose of an asset not only if you sell it, but also if you give it away, exchange it or lose it. You also dispose of an asset if: you sell rights to it, for example, grant a lease; it is destroyed or becomes worthless; you get compensation for damage to it, for example insurance money,and do not spend all the money on restoring it.
- If you are 'domiciled' in the UK, capital gains tax applies to gains you make anywhere in the world - eg the profit when you sell your holiday cottage in France. If the gains cannot be remitted to the UK (eg because of exchange or currency controls) you can ask the Inland Revenue to defer bringing them into the tax net until they can be remitted.
- Not every gain you make will be taxable, nor will every loss be allowed by the Revenue. However, in general, allowable losses can be used to reduce taxable gains.
- Gains made purely because of inflation are not taxable - this is allowed for by giving you an indexation allowance to deduct from your gain.
- There is no capital gains tax to pay when you die.
- Gifts between a husband and wife are not taxable at the time - instead any tax is deferred until the recipient disposes of it, when tax is worked out on the gain over the period both husband and wife owned it.
- There are special reliefs if you dispose of a business.
- For some disposals, you can avoid an immediate tax bill.

TaxCalc gives more information on capital gains tax in context-sensitive help. Click the **right-hand mouse button** or use F1 when you are looking at the capital gains tax screens.

Capital gains tax
A tax you may have to pay when you dispose of something for more than the cost of acquiring it.

Carry back

If you make contributions to a personal pension plan or retirement annuity, the premiums can be 'carried back' and treated as being paid in a previous tax year.

Carry forward

This facility allows an individual who has made (or intends to make) the maximum contribution to a personal pension plan for the current financial year to contribute more by carrying forward unused relief from the previous six years.

If your self assessment is amended following an enquiry into your return	The Revenue must explain how it arrived at the amendment and will try to reach agreement. If you do not understand, contact your Tax Office immediately, asking it to explain the calculations in more detail.
If you still don't agree with the amendment	You can appeal against any amendment the Revenue makes to your self assessment, or against any other assessment the Revenue makes if you do not think it is correct. You will have 30 days from the date you are advised on the amendment. (See IR leaflet IR37 for more information.)
If you cannot reach agreement with your Tax Office following the lodging of your appeal	You can appeal to independent Appeal Commissioners. General Commissioners deal with most cases. Special Commissioners deal with cases which require expertise. You may request that your case be heard by one of these. You can be represented by, for example, a lawyer, accountant or tax specialist (such as a member of the Chartered Institute of Taxation). While this can be expensive, it may make the difference between winning and losing.
If you don't agree with the Commissioners' decision on a point of fact	No further appeal normally, but you can complain about maladministration by the Revenue if applicable.
If you don't agree with the Commissioners' decision on a point of law	You can take your case to the High Court in England and Wales (the Court of Session in Scotland or the Court of Appeal in Northern Ireland). Tell the Commissioners' Clerk in writing within 30 days, enclosing £25. Consider the possible costs of this route, along with the interest building up on any tax due.

Company car
A car made available by an employer to an employee (or members of his family or household) for private use. Driving to and from work counts as private use.

Current-year basis
The system of charging tax on the income arising in the current tax year, as opposed to the preceding-year basis.

In the past few years, the Inland Revenue has been making concerted efforts to improve the way it treats taxpayers. However, it is a big organisation and from time to time things do go wrong. So in this section, we cover:

- your rights under the Taxpayer's Charter
- how to find and deal effectively with the appropriate part of the Inland Revenue, in finding your tax office
- telling the Revenue about your income and gains
- an explanation of the Pay As You Earn system (PAYE)
- paying your tax and a tax calendar
- what happens if you've paid too much tax, or if mistakes are made
- how to appeal against your tax assessment and how to sort out problems
- where to go for tax advice
- what happens if your tax return is chosen for an enquiry.

Deed of covenant

The document setting up a covenant.

Employer's pension scheme

A pension from a scheme run by an employer to provide pensions and other benefits on retirement to employees.

Types of enquiry

The Inland Revenue has the right to open an enquiry into anyone's tax return. Most of the returns it selects for enquiry will be those it thinks might be incorrect or incomplete. This could be because of previous years' tax records, or simply because of the information given on the return.

There are two types of enquiry. A 'full' enquiry involves looking into the return as a whole, whilst an 'aspect' enquiry will concentrate on one or more aspects of the return, for example, the amount paid to pension schemes, or the calculation of a capital gain.

Whether a full or aspect enquiry is conducted may well depend upon the type of taxpayer you are. The Revenue splits taxpayers into the following segments:

Business taxpayers	**Non-business taxpayers**
Small businesses	Complex
Medium businesses	Other
Large businesses	
Very large businesses	

Apart from enquiries into the large and very large business segments, which will usually concentrate on specific aspects, most enquiries into business returns will be full enquiries.

On the other hand, most enquiries into non-business returns (other than those selected at random) will be aspect enquiries.

Returns picked at random

Some 8,000 returns will be selected for full enquiry, entirely at random. The returns picked for random enquiry are chosen at the time they are despatched - so it makes no difference whether you file a return early or late, if it is one of the returns randomly chosen, an enquiry will be opened on it.

So, if your return is picked, it doesn't necessarily mean that something is wrong with your return or your self assessment - it may simply be one of the returns already chosen at random.

What happens when your return is filed?

> Your Tax Office use the figures on your self assessment tax return to establish the tax you should pay for the year, or the tax refunded to you.

If the Revenue finds any obvious mistakes, for example in the arithmetic, it may correct the mistake without opening an enquiry on your return. It will send you details of the corrected figures which you may challenge if you disagree. You can ask them to reverse or amend any changes made to your self assessment.

Following the routine checks if the Revenue thinks there is a risk that your return may be incorrect, or if it thinks something requires full explanation, an enquiry may be started.

However, don't forget that about 8,000 returns are chosen at random for enquiry. So if the Revenue open an enquiry into your return, it doesn't automatically mean it thinks something is wrong.

Your rights during an enquiry

The Revenue has issued a Code of Practice that it must abide by when making an enquiry into a tax return, see Code of Practice 11, available from Tax Enquiry Centres.

Broadly it must:

- tell you in writing that it intends to start an enquiry
- tell you what your rights and responsibilities are
- try to tell you at the same time the information it requires. If it can't do this initially, it must explain why and say when it can expect to tell you
- allow you to be professionally represented if you wish.

The Revenue must tell you within twelve months of the final filing date (or the date you submit your return if later) if it intends to start an enquiry. The final filing date for 1997-98 tax returns is 31 January 1999, therefore you should hear from the Revenue by 31 January 2000 if your 1997-98 tax return is to be enquired into.

Enterprise Investment Scheme

This scheme replaced the Business Expansion Scheme from 1 January 1994. You get tax relief at 20 per cent on investments up to £100,000 a year, the gains are free of capital gains tax if you hold the shares for at least five years, and any losses can be set against either income or capital gains tax. The scheme covers investment in shares in qualifying unquoted companies. For more details see Inland Revenue leaflet IR137.

Penalty of £100 for late return plus interest on any tax due will apply from now.

Your tax office will not necessarily be the one closest to you, especially under the following circumstances:

Employees
As a general rule, your tax office will be the one which deals with the area where your employer has its head office, or, more particularly, the place from which you are paid. However, there are exceptions - for example, if you work in London your tax office may well have been moved out of London.

Self-employed
If you are in business on your own, or in partnership, your tax office is usually the one nearest your business address.

Income from pensions
Your tax affairs are likely to be dealt with by the tax office dealing with the area in which the pension scheme paying your pension has its office. If you have pensions from more than one source, each may be dealt with by a different tax office, although this is gradually changing. Eventually most people will have only one office to deal with.

Income from investments
If your only sources of income are from investments, your tax office is the one that covers your home address.

Unemployed
You stay with the tax office of your last employer.

Special cases
Only a few tax offices can deal with some situations. For example, if you have to fill in a tax return in your capacity as a trustee, you will deal with one of the tax offices covering trusts and settlements, based in London, Truro, Nottingham, Edinburgh and Manchester.

There are also some specialist departments: For example, three Capital Taxes Offices deal with inheritance tax and the confusingly named Financial Intermediaries and Claims Office deals with a whole range of subjects such as the MIRAS scheme, Double Taxation Agreements and technical matters on TESSAs.

The upshot is that you may find yourself dealing with more than one tax office - although under the plans for the reorganisation of the Revenue this is likely to change in future. If you aren't sure where your tax office is, try asking anybody who pays you a salary or pension, or contact your local tax office (look in the phone book under 'Inland Revenue').

If you want to claim a tax refund and you are on PAYE or you normally complete a tax return, then you will usually deal with your own tax office. However, if you do not fall into one of these categories and you want to claim a tax refund, you will also deal with one of the five special offices mentioned above and you will need to complete form R40, available from any tax office.

An 'Officer in charge' is the person in charge of your tax office. He or she will be assisted by several Tax Inspectors, who specialise - for example, in Schedule D tax from the self-employed, or taxpayers taxed under PAYE. Revenue Executives come next in seniority, assisted by Revenue Officers. Revenue Assistants deal with the clerical work.

When writing to your tax office, address your letter to the Inland Revenue at the Tax District which is responsible for your tax affairs, quoting your tax reference number (which should be on any correspondence you receive from the Revenue) and/or National Insurance number. It is also helpful to head your letter with a brief reference to the subject of your letter. The Revenue aims to reply to all enquiries and letters within 28 days - see Tip 43 if it doesn't.

You should have the same reference numbers ready when you telephone. Always make a note of any calls, including the person you spoke to and the date. If your office is not local, and you would prefer a face-to-face discussion, you can ask for your file to be sent to a local office. However, for general enquiries, you do not have to contact your own tax office. There are a number of tax enquiry centres around the country (in your phone book under 'Inland Revenue').

If you think the Revenue owes you money, see If you've paid too much tax .

Freelance

A meaningless term for tax purposes - to the Inland Revenue, a freelance could be either employed or self-employed, depending on his/her freedom of action and financial risk.

Fringe benefit
Any 'perk of the job' for employees: in general, any such perk is taxable, although many are tax-free.

Gift Aid

A scheme allowing you to give one-off donations to charity (minimum £250, after basic-rate tax relief) on which you can claim tax relief at your top rate of tax.

[Problems with Tax Office administration](#)
[Changes to your assessment after an enquiry](#)

TaxCalc and the Inland Revenue may produce different figures for your tax liability. Small differences may be due to rounding. Before you assume that one or the other is wrong, check that you have given both the same information. In particular

Have you put the correct amount under 'Gross income' , ie is the figure you have given net of pension contributions to your employers scheme/and or payroll giving? If your income is gross of these two payments, you should include them in the relevant boxes - if it is net, ignore the boxes as TaxCalc deducts any figures entered into 'Pension contributions' and 'Payroll giving' from the figure given in gross income .

Are you working on a different estimate of income from that used by the Revenue? Have your circumstances changed in a way the Revenue doesn't yet know about, for example, have you changed your company car recently? Check that the interest you have entered as qualifying for tax relief really does so.

Have you double-entered tax already paid? There are sections to enter tax already paid on income from investments, for example, but if you have some income taxed under PAYE you might find that you have already entered it as tax deducted under PAYE

Have you entered the right year's income for 'Income from self-employment', ie have you worked out the basis period correctly?

Try running Tax Saver - there are some ways of saving tax for which you have to make elections by a particular date

If you cannot agree your assessment with the Revenue you still have the right of appeal. If you have a query about TaxCalc's figures, call 0645 830270.

The main reasons why people pay too much tax are because their situations have changed during the tax year (for example, they've stopped work or been widowed) or because the tax they've paid was based on an estimate of income (for example, when calculating their PAYE code, or if self-employed), or because they have received taxed investment income but aren't liable to as much tax as has been deducted.

If you have paid too much tax, TaxCalc will tell you how much you have overpaid. You now claim any refund via your tax return. Question 18 on the tax return form asks you if you want to calculate your own tax. You will need to answer this question in the TaxCalc screen entitled **Other tax matters** in the Other information section.

If you answer 'Yes' to Question 18, you will have to complete other questions in this section, which asks for details of any unpaid or overpaid tax for previous tax years. If, once you have completed this whole section, you believe you are due a refund, you can ask for this to be sent to you, or to a bank or building society account, or to your agent if you have one.

If you are a non-taxpayer, even after taking into account gross interest received, you can apply for interest on bank and building society accounts and some annuities to be paid gross. Ask the company paying the interest or your tax office for a form R85 - again, TaxCalc will prompt you if appropriate.

The Revenue will return overpaid tax by cheque, electronic fund transfer to your bank account or by offsetting the overpayment against tax you owe for a different year or on a different source of income. You will get interest on your refund, normally from the date of overpayment. The rate of interest can vary but is currently 4.75 per cent.

If you are due a refund and you do not tell the Revenue that you want this sent to you, it will automatically be offset against any tax due in future years.

Income limit

The amount of taxable income you can have before you start to lose something - usually used in the context of the age-related allowances, where you lose the extra allowance once your taxable income rises above £14,200 (in 1995-96).

This is a tax on income you get from earnings, pensions, investments and so on. However, you're unlikely to pay tax on the whole of your income. Almost everyone can claim some 'allowances', in other words, the amount of income you can receive before you pay tax.

Allowances depend on your personal circumstances, for example, whether you are single, married or looking after a child on your own. Some allowances now give only restricted relief, so instead of deducting the whole allowance from your total income to reach 'taxable income', a fixed percentage of the allowance is deducted from your tax bill. For example, the married couple's allowance is probably the most common allowance that now gives restricted relief, although prior to tax year 1994-95 the whole amount was allowed against your total income. For 1997-98 the married couple's allowance is £1,1830 but only 15 per cent is given as relief. So, for 1997-98 the married couple's allowance is worth £274.50 (ie 15 per cent of £1,830) as a deduction against your tax bill - not your income.

These types of allowances are known as 'fixed relief allowances'. Other allowances that fall into this category are widow's bereavement allowance and the additional personal allowance, also known as the single person's allowance.

Apart from allowances, there may also be some outgoings that you can claim against income tax. Certain payments, such as allowable expenses in your job, can be deducted from your total income, but other payments only give partial relief and are deducted from your tax bill like fixed relief allowances. Broadly, it works like this:

Your money

ignore things which aren't income, for example:

inheritance
capital gains, eg on shares

this leaves your:

Income

ignore tax-free income, for example:

dividends from shares in a Personal Equity Plan or interest from a TESSA

this leaves your:

Income for tax purposes

subtract outgoings which qualify for full tax relief, for example:

allowable expenses in your job

this leaves your:

Total income

Subtract full relief allowances, for example

your personal allowance

this leaves your:

Taxable income

on which you pay tax at:

the lower rate of 20 per cent on the first £4,100
the basic rate of 23 per cent on the next slice of £22,000
the higher rate of 40 per cent on anything over £26,100

this leaves your:

Total tax before fixed relief allowances or outgoings

subtract 15 per cent of fixed relief allowances and
value of outgoings giving partial relief

this leaves your:

Final tax bill

Needless to say, it is not quite this simple - otherwise you wouldn't need TaxCalc. Tax law is littered with exceptions to the rules about what you can deduct where. TaxCalc is designed to make sure these rules work in your favour.

Life insurance

You make payments in the expectation of receiving a bigger payment on a certain event - either death, or at a pre-defined date in the future.

Maintenance

For tax purposes, a payment made at intervals (ie not an instalment of a lump sum) by one partner in a marriage for the support of the other partner or a child of the marriage, at a time when the two partners aren't living together.

Maintenance deduction

A kind of allowance which you qualify for if you make enforceable maintenance payments under an agreement set up after 14 March 1988.

Married couple's allowance

An allowance against tax which can be claimed by either partner of a marriage, or split between them. If a particular partner is not specified as the claimant, the allowance is automatically given to the husband.

If you have paid too much tax because of a mistake that you made on your return (such as failing to claim an allowable outgoing), you can claim a rebate up to six years later. So, if you tell your tax office before 6 April 1999, you can go back to assessments made in the year ending 5 April 1993 (even if they apply to earlier years).

If you have paid too much tax because of a mistake by the Inland Revenue or any other government department, you can claim a rebate for any year affected, up to 20 years ago. In addition, if you can get the Revenue to accept it has made a serious error, for example by taking a completely unreasonable view of the law, they will pay any reasonable costs you incur as a direct result. Even if the mistake isn't serious in itself, but you are plagued by a catalogue of errors, you may get some costs.

If the Inland Revenue fail to make proper and timely use of information supplied to them, they may have to waive some or all of the tax owed, for example, if there are arrears of income tax or capital gains tax but the Revenue has received information:

- from a taxpayer about his or her own income, gains or personal circumstances
- from an employer, where the information affects a taxpayer's coding, or
- from the Department of Social Security about a taxpayer's state retirement, disability or widow's pension.

Tax will normally be given up where the taxpayer:

- could reasonably have believed that his or her tax affairs were in order
- was notified of the arrears more than 12 months after the end of the tax year in which the Inland Revenue received the information indicating that more tax was due, or
- was notified of an over-repayment after the end of the tax year following the year in which the repayment was made.

In exceptional circumstances, the arrears of tax notified 12 months or less after the end of the relevant tax year may be given up if the Revenue:

- failed more than once to make proper use of the facts they had been given about one source of income
- allowed the arrears to build up over two whole tax years in succession by failing to make proper and timely use of information they had been given.

For full details see Inland Revenue leaflet Code of Practice 1, 'Mistakes by the Inland Revenue'.

Non-MIRAS loan

Loan which qualifies for tax relief but is not within the MIRAS scheme, because either the loan itself or the lender doesn't fulfill the necessary conditions.

PAYE
Pay As You Earn - the system by which tax is deducted from most income and pensions from employment before you get them.

The Revenue gives employers a PAYE code for each employee who earns more than the basic personal allowance. You are sent a notice of coding showing how your PAYE code is worked out, usually in January or February, but you will not necessarily get one each tax year unless your circumstances change. Your PAYE code, together with various tax tables, enables employers to deduct the right amount of tax from employees' pay.

A PAYE code consists of a letter and a number. The letter allows employers to alter employees codes automatically each year in line with budget changes. The main PAYE letters are:

L You get the basic personal allowance.

H You get the basic personal allowance plus either the additional personal allowance or the married couple's allowance, and are likely to pay basic-rate tax.

P You get the full age-related personal allowance for a single person aged 65 to 74

V You are aged 65 to 74, you are likely to pay basic-rate tax, and you are entitled to both the age-related personal and the married couple's allowances.

K Your allowances come to less than your deductions.

NT You will pay not tax on this income.

BR All your earnings are taxed at the basic rate.

DO All your earnings are taxed at the higher rate.

DT No allowances are available.

T This is used in all other cases where the number in your code stands for your allowances. You can ask for this code if you do not want your employer to know your age or marital status.

The number in your PAYE code tells your employer how much free-of-tax pay you're allowed in the whole tax year (unless it is a K code). The number is arrived at by working out which allowances and outgoings you are entitled to and then deducting amounts on which the Revenue wishes to collect tax - for example, a taxable fringe benefit, a state pension, or investment income received gross.

Your allowances less your deductions is the amount of free-of-tax pay to which you're entitled in the coming tax year. The last figure of the result (always assumed to be 9) is then substituted by a letter. If, for example, your code is 404L and you are paid monthly, each month you get one-twelfth of £4,049 of tax-free pay. So about £337 (£4,049 divided by 12) of your monthly pay will not be taxed.

Your deductions might come to more than your allowances. If so, you get a **K code**. From this your employer knows that you get no free-of-tax pay, and the figure shown by your code is added to your pay for the purposes of working out your tax bill.

The system for collecting tax changed radically under self assessment. Now, when you send in your tax return, you are giving the Revenue a breakdown of your tax position for the tax year just ended - so any over- or underpayments will be dealt with once your return has been filed.

How you pay your tax depends very much on the type of income you receive.

Income from employment

Even if most of your income is received net, you may not pay exactly the right amount of tax because, for instance, your PAYE code may have been based on an estimate of income which proved too low, or, if your circumstances changed, you may have received an allowance to which you were not entitled.

However, if most of your income is taxed under PAYE then there is no great change for you in how you pay your tax. If you have over or underpaid tax during the year, the Revenue will send you a statement telling you about your tax account, after your tax return has been filed, confirming how much you owe, or how much they owe you.

If tax owed is under £1,000 the Revenue will normally let you pay this via your PAYE code - but only if they received your tax return before 30 September. So if you think you may owe tax, get your tax return back early.

Income from self employment

You have always paid tax by two ‘interim payments'. These are now called ‘payments on account' and are due on 31 January of the tax year and 31 July just after the tax year has ended. For 1997-98, payments are due 31 January 1998 and 31 July 1998.

For the first year of self assessment the Revenue assessed how much you should pay 'on account' by simply splitting your 1995-96 tax bill into two. Half was due on 31 January 1997 and half on the 31 July 1997. For 1997-98 and future years it depends whether you calculate your own tax bill, or the Revenue does this for you as to who works out the payments on account you should make.

If you calculate your own tax bill, then on your tax return you will notify the Revenue of the amount you intend to pay as your first payment on account for the next tax year. If the Revenue work out your tax bill for you they will send you a statement of account which confirms the amount they think you should pay as your first payment on account.

Normally the two payments on account you pay for the next tax year equal your tax liability for the current year. So, the 1998-99 payments on account you would make would normally equal the amount of tax you were due to pay in 1997-98. However, it is possible to reduce your payments on account, if you think your tax liability for the next tax year will be lower than this year.

If you do reduce your payments on account, be careful. If you reduce your payments and your final tax bill is more than you thought, you will have to pay interest on the balance between the amount you paid and the amount you should have paid. You will pay interest on this 'underpayment' from the date due, ie from the 31 January and the 31 July of the year in question. This rate varies but is currently 9.5 per cent per annum.

Any balance of tax due for the year must be paid by the 31 January following the end of the tax year. This will be established once you have filed your tax return. For 1997-98 this ‘sweep-up' payment must be made by 31 January 1999 to avoid interest and surcharges on overdue tax. If you did not reduce your payments on account, and paid the amount requested by the Revenue, you will not pay interest on any balance of tax due - provided you pay it by the 31 January deadline.

If you have rental income or savings/investment income (not taxed at source)

If you have this type of income you should also have received a Statement of Account notifying you of the payments you must make for the 1997-98 tax year. You make two payments on account - just like the self-employed.

When payments on account do not apply

Irrespective of what type of income it is, you will not have to make payments on account if the tax you owe is less than £500 or if more than 80 per cent of your income has tax deducted from it. If this applies to you, then any tax owed must be paid by 31 January following the end of the tax year.

Penalties and charges

Under the new system the final date for sending back your tax form (if you decide to calculate your tax yourself) is 31 January following the end of the tax year. This deadline will probably apply to most TaxCalc users, as TaxCalc will be calculating your tax for you. However, if you prefer, the Revenue will still do the arithmetic for you and calculate your tax bill for the year, using the information you supply on your tax return. If you want the Revenue to calculate your tax you must send the return back by 30 September following the end of the tax year. (This is also the deadline for those people who owe tax under £1000 and want the Revenue to collect this via their PAYE code).

If you miss the final deadline of 31 January for sending back your form you will be charged a fixed penalty of £100. If the return is still outstanding six months later (by 31 July) you will be charged a further £100. Additional penalties of up to £60 a day can be applied in more serious cases.

If you do not pay your tax on time and it is still outstanding after 31 January following the end of the tax year, you will be charged interest. In addition, a five per cent surcharge will be applied on any tax unpaid by 28th February following the tax year. This surcharge will be increased to ten per cent if tax is still unpaid by the following 31 July.

You can appeal against the penalties and surcharges if you think you have a reasonable excuse for failing to meet the deadlines.

Tax calendar

Since April 1996 taxpayers have been required to keep records relevant to their tax affairs. Every taxpayer should do this, even those who don't normally receive a return. Employees and pensioners should keep records relating to the 1996-97 tax year until 31 January 1999 and records for 1997-98 until 31 January 2000. The self-employed, partners and those with property income should keep records relating to the 1996-97 tax year until 31 January 2003 and records for 1997-98 until 31 January 2004.

Use this calendar to check you have received all the documents that you need and have sent them back to the Revenue in time to avoid penalties.

When	What happens	Who is affected
January 1998	PAYE Coding Notices for 1998-99 tax year sent out	Taxpayers whose circumstances have changed, or who owe tax or are owed tax from previous years
31 January 1998	Final deadline for sending back your 1996-97 tax return and paying any remaining tax due for 1996-97. (A penalty of £100 for late return plus interest on any tax due will apply from now)	Everyone who gets a tax return
	First payment on account for 1997-98 tax year is due	Taxpayers who make payments on account
April 1998	Self assessment tax returns for 1997-98 tax year despatched	Everyone who gets a tax return
by 31 May 1998	P60s issued (providing details of your taxable pay and tax paid for 1997-98)	All employees. Also pensioners receiving an income from a previous employer's pension scheme or private pension plan
by 6 July 1998	P11Ds issued (providing details of your taxable fringe benefits and expenses for tax year 1997-98)	Employees and directors earning £8,500 or more and receiving fringe benefits and/or expenses
31 July 1998	Second payment on account for 1997-98 tax year is due	Taxpayers who make payments on account
30 September 1998	Completed 1997-98 tax return must be back to your tax office by now	Taxpayers who want the Revenue to calculate their tax due for 1997-98. Also people who want underpayments of tax up to £1,000 collected via PAYE.
31 January 1999	Final deadline for sending back your tax return and paying any outstanding tax due for 1997-98.	Everyone who gets a return

First payment on account for 1998-99 tax year.	Taxpayers who make payments on account.
The Revenue must tell you by now if they intend to start an enquiry into your 1996-97 tax return.	Taxpayers picked at random or where there may be a problem on the return.

Payroll giving
A scheme which gives employees full tax relief on donations to charity, by deducting the payments from salaries and wages before tax is worked out.

Personal pension plan

Pension scheme usually from an insurance company and not linked to any particular job, where the benefits paid out depend on the amount contributed, how well the contributions are invested, and annuity rates on retirement.

Preceding-year basis

The system of charging tax on the income received in the preceding tax year, so that tax for 1995-96, say, depends on income received in 1995-96.

Are you worried that too much tax is being deducted from your salary or pension, or that your allowances are wrong?	Make sure you've got the facts right about the allowances you are entitled to. Check your latest notice of coding and payslip to ensure that your employer is using the correct PAYE code.
Still puzzled?	Ring your Tax Office or local Tax Enquiry Centre to check the rules. Get it to say exactly which rules it thinks apply.
Approach your tax inspector	Give your name, National Insurance number and tax reference number. Take down the Tax Inspector's name. Keep copies of letters.
Have you met with delay, rudeness, maladministration or incompetence?	Remind the Inspector of your rights under the Taxpayer's Charter. Six to eight weeks delay is worth complaining about.
Still got nowhere?	Write to the Officer in Charge at your Tax Office whose name is on tax office letters. Head your letter 'Complaint'.
If this fails	Write to the Regional Controller for the area responsible for your Tax Office. Your Tax Office will tell you how.
No joy with the Controller?	Contact The Revenue Adjudicator's Office, Haymarket House, 28 Haymarket, London SW1Y 4SP. You can telephone them first to make sure they can look into your complaint Tel no: 0171 930 2292.
Still unhappy, or have you met with extreme delay or maladministration?	Through an MP you can complain to the Parliamentary Commissioner for Administration (the Ombudsman).

Rent a Room scheme

If you let furnished rooms in your only or main home in the UK, you can get the first £4,250 tax-free under the Rent a Room scheme. See Inland Revenue leaflet IR87, "Rooms to let", for full details.

Retirement relief

A form of tax relief on the capital gains you may realise on the disposal of a business_when aged 55 or over or retiring before then due to ill-health.

Schedule D

Case I: Profits of being self-employed in a trade, eg shopkeeper, manufacturer.

Case II: Profits from being self-employed in a profession, eg barrister, accountant.

Case III: Main items covered include interest from National Savings and interest from loans, income from annuities and any government securities not taxed under Schedule C. also annual payments (eg covenants, maintenance payments).

Case IV: Income from foreign securities unless covered by Schedule C.

Case V: Most other overseas income, eg rents and pensions from abroad.

Case VI: Includes income from furnished holiday lettings, income from occasional freelance work, and work after a business or partnership ends.

Schedule E

This is earned income, taxed on a current-year basis. It covers income form employment, pensions from employers, taxable social security benefits and freelance earnings under a contract of employment (rather a grey area). There are three cases, Case I covering income if you are resident and ordinarily resident in the UK, Case II earnings arising in the UK for people who normally live and work abroad, and Case III income remitted to the UK by people resident in the UK but working abroad.

Self assessment, a major change to the way tax is assessed and collected, took effect from the 1996-97 tax year. It affects everyone who completes a tax return (approximately nine million people in the UK) including the self-employed, people in partnership, directors, and employees and pensioners who pay higher rate tax or who have more complex tax affairs.

If you receive your salary or pension from your employer or pension provider with tax already deducted via the PAYE system, and you do not receive a tax return to complete, then the new system will not really affect you. However, if you receive any additional income that the Revenue may not know about, you are obliged by law to notify them within six months of the end of the tax year to which the new income relates, ie by 5 October 1998 for any additional income earned in tax year 1997-98. There is also a new legal requirement which came into effect in April 1996 for everyone (individuals as well as those in business) to keep records of their income and capital gains. The Revenue can impose fines on those who ignore this rule. For more information see self assessment leaflets SA/BK 3 and SA/BK 4.

Broadly, under the new system, as a taxpayer you will take more control over your tax affairs as the responsibility for creating the correct legal charge to tax (the assessment) will lie with you, and not the Revenue as it used to do. You will effectively make a self assessment of your tax affairs by gathering together all the relevant information relating to your income and capital gains; claiming tax reliefs and allowances against them and presenting this to the Revenue in a new style tax return.

The first new tax return was issued in April 1997 and related to the 1996-97 tax year. The return issued in April 1998 relates to the 1997-98 tax year - the second year of self assessment.

The self assessment tax return is designed to be more tailored to individual taxpayers' circumstances and comprises a tax form and additional forms called 'supplementary pages' which are appropriate to different types of income. Therefore, a typical employee might need to complete the eight page tax return form and the 'employment pages'. The self assessment tax return must be completed fully - statements like 'as per employer' or 'as per accounts' will no longer be allowed.

Along with the self assessment form comes a document which allows the taxpayer to calculate the tax due and gives full instructions of how to do this. However, this is not compulsory, the Revenue will still do this calculation for you if you ask them to but you will have to return your tax form to them by 30 September 1998 for the 1997-98 tax year.

The self-employed and partners were the individuals most affected by self assessment, particularly last year when special rules applied to cover them whilst they were in transition from the old tax system to the new. Previously, some businesses paid tax on income received in the accounting year which ended in the previous tax year - this was known as a 'preceding-year basis'. Now all businesses should be taxed on what is known as a 'current-year basis'. This means that tax for the 1997-98 tax year is due on business income received in the accounting year which ends in the 1997-98 tax year.

Penalties and surcharges apply if your tax return is late and tax itself is late, although you do have the right of appeal.

If you feel you will need to take professional advice, remember anyone can call themselves a 'tax adviser'. Speak to a suitably qualified professional such as a chartered or certified accountant, or look for a chartered tax adviser with a Chartered Institute of Taxation (ATII or FTII) qualification or an adviser with an Association of Taxation Technicians (ATT) qualification. Alternatively, try one of the Inland Revenue's Tax Enquiry Centres.

Which? Tax Saving Guide

Included in 'Which?' subscription

This section covers Schedule A, Schedule D Cases i & ii, Case iii, Cases iv& v, Case vi, Schedule E, Schedule F.

Tax Schedules go back to the earliest days of income tax and are a way of dividing income up into different types. For example, earnings from your job are taxed under Schedule E, whereas earnings from being self-employed are taxed under Schedule D. Some of the Schedules are further divided up into Cases, which are traditionally given Roman numerals, Case i, Case vi, for example.

Schedules affect the expenses you can deduct from your income before tax is worked out. Different Schedules and Cases have different rules. They also distinguish investment income from earned income. The distinction can be important. For instance, you can't claim tax relief on pension contributions by deducting them from investment income.

Schedule A
Income charged under this schedule is investment income and is now normally taxed on a current-year basis. In other words, you pay tax on the income you received during the tax year. It covers rental income from UK land and buildings, including income from furnished holiday lettings paid to individuals (rather than companies). Although income from property is taxed as investment income it is treated broadly in the same way as business income for the purpose of deducting allowable expenses.

Schedule D Case I and Case II
This is earned income, from self-employment. Case I covers the profits of being self-employed in a trade, eg shopkeeper, manufacturer. If the profits are from a profession (eg barrister, accountant), you're taxed under Case II. However, the rules for the two cases are virtually identical.

Schedule D Case III
This covers certain types of investment income. The main items it covers are interest from taxable National Savings products and interest from loans, income from annuities and any government securities including those which used to be taxed under Schedule C. Other things taxed under this Case are annual payments (eg covenants or maintenance payments).

Schedule D Case IV and Case V
This is investment income (unless it comes from carrying on a business). Both are concerned with income from abroad. Case IV covers income from foreign securities, including securities which used to be covered by Schedule C. Case V covers most other income from abroad, eg rents and dividends.

Schedule D Case VI
Case VI is a rag-bag of odd bits of income which do not fit in anywhere else. It includes income from occasional freelance work, and work after a business or partnership ends.

Schedule E
This is earned income from employment, pensions from employers, taxable social security benefits and freelance earnings under a contract of employment (rather a grey area). There

are three cases, Case I covering income if you are resident and ordinarily resident in the UK, Case II earnings arising in the UK for people who normally live and work abroad, and Case III income remitted to the UK by people resident in the UK but working abroad.

Schedule F

This is investment income in the form of share dividends from companies resident in the UK, and distributions from unit trusts resident in the UK.

> **Note**
>
> There is no Schedule B or Schedule C. Schedule B was abolished from 1988 and Schedule C from 1996.

In the UK the main taxes include:

Income tax - on earned and investment income

National Insurance - if you are an employee, self-employed, or have employees

Capital gains tax - when you dispose of an asset (such as a possession or investment), eg by selling it or giving it away

Inheritance tax - on your estate after you die, and on some gifts that you make during your life

Council tax - charged by your local authority

Value-added tax - added to the cost of most goods and services

Excise duties - on some goods you buy, particularly alcohol and tobacco

Stamp duty - a tax on documents required for the change of ownership of property, ie houses, land, leases and shares

Corporation tax - on the profits of companies.

Taxes give the government most of its money. By far the biggest source is income tax. TaxCalc covers income tax and capital gains tax.

Who pays UK tax?

Generally speaking, anyone (children included) who is domiciled or resident in the UK, or who has income which comes from the UK. The tax laws cover England, Wales, Scotland and Northern Ireland, but the Channel Islands, the Isle of Man and Eire have their own, separate, tax laws.

Your domicile is, broadly speaking, the country where you have chosen to end your days. It can be quite different from the country where you are living.

The tax year

Tax years run from 6 April in one year to 5 April in the following year. This edition of TaxCalc covers the 1997-98 tax year - which runs from 6 April 1997 to 5 April 1998. Your income tax bill is now based on the income you receive during a tax year.

Tax law and tax changes

Tax law is set out in a series of Finance Acts - usually one for each Budget. From time to time existing tax law is gathered together and published as a new Act: this last happened for income tax in 1988, when the Income and Corporation Taxes Act 1988 was published. For capital gains tax this last happened in 1992, with the Taxation of Chargeable Gains Act 1992. Each new Finance Act makes changes to these 'consolidated' Acts (or to subsequent Finance Acts) adding new sections and deleting or altering others.

However, there is more to tax law than Finance Acts. The courts interpret the Acts, so you have to watch out for what judges have said. For example, the 1988 Income and Corporation Taxes Act (chummily abbreviated to 'ICTA') says that you can get tax relief on expenses incurred 'wholly, exclusively and necessarily' in doing your job. But it gives very few examples - it has been left to the judges to decide exactly what qualifies.

There are also Inland Revenue statements of practice and extra-statutory concessions. Statements of practice do not have any legal force, but they tell you how the Inland Revenue will deal with different tax situations. If you want to challenge a statement of practice you'll almost certainly have to fight it in the courts. Statements of practice are listed in the Inland Revenue booklet IR131.

Extra-statutory concessions work to your advantage. In them, the Revenue says that, in certain cases, it will not collect the tax which is technically due. These concessions are listed in the Inland Revenue booklet IR1.

The Inland Revenue

This is the government department which deals with the taxes covered by TaxCalc. Your tax affairs are dealt with by a tax office - sometimes by more than one. Each tax office has a handful of tax inspectors, assisted by tax officers and others. Their job is to assess the amount of tax you pay. With the coming of self assessment, the Inland Revenue has started to streamline its operation, with the intention that each taxpayer should eventually have to deal with only one tax office. For the ins and outs of dealing with the Revenue, the forms you may get from them, your rights and responsibilities, see 'Dealing with the Inland Revenue'.

When you have used TaxCalc to work out your tax liability, running the Tax Saver module may point out some ways in which you might be able to save tax. Alternatively, here are over 40 ways to pay less tax.

Your family

Are you married? Make sure you claim the married couple's allowance.

Unmarried and caring for a child? You should claim the additional personal allowance.

Married this year? If you are a man (but not a woman) claiming the additional personal allowance you can choose to keep it for the tax year in which you get married instead of claiming the married couple's allowance. This is worth doing as you will get the whole allowance no matter when you got married, whereas if you marry after 5 May, the married couple's allowance is reduced by one-twelfth for each month in the tax year during which you remained single.

Paying maintenance under the old rules? You might save tax by opting for the maintenance deduction instead. Broadly, under the old rules the amount of relief you get is pegged forever to the amount on which you were getting relief in 1988-89, unless the court order provided for automatic increases in payments. If your payments have risen since then, but you are still paying less than the maximum maintenance deduction under the new rules (£1,900 in 1998-99) you will save tax by switching to the new rules. However, you need to balance against any tax relief you are getting on payments made direct to a child, which would be lost if you move to the maintenance deduction. If you are getting tax relief on more than £1,900 you should stick with the old rules, or you will lose relief. See leaflet IR93, 'Separation, divorce & maintenance payments' for more details.

Recently widowed? Make sure you claim all your allowances. As well as personal allowance:

After the death of his wife, the husband continues to get the married couple's allowance for the rest of the tax year (unless he remarries).

After the death of her husband, a wife gets any of the married couple's allowance which her husband had not used against his income up to the date of his death **plus** the widow's bereavement allowance **plus**, if she has a dependent child, additional personal allowance. She continues to get the widow's bereavement allowance in the following year (unless she marries before the start of the year, plus, if appropriate, additional personal allowance).

If you are married, does one of you own all the investments? Husbands and wives are taxed separately, and if one of you pays tax at a lower rate than the other there could be less tax to pay if you transferred some of the income-producing investments to the lower-income partner.

Does your child use his or her tax allowance? Any child, no matter how young, can have income of £4,045 (in 1997-98) without paying tax. But note that if you give your child assets which produce income of more than £100 a year, the income is taxed as your own.

In a job?

Can you get any fringe benefits? Many are taxed at much less than their value to you. See **'Employment - other fringe benefits'** in context-sensitive help

Getting a company car? The taxation of this perk has become less favourable. Now might be the time to see whether you could save money by opting for extra pay instead of a car. Moving to a cheaper model will certainly save you tax.

Can you set any expenses against tax? For details of allowable expenses, see **'Employment - expenses'** in context-sensitive help.

Approaching retirement? It may be worth making additional voluntary contributions to your employer's pension scheme.

Not eligible for an employer's pension scheme? You can get tax relief (at your top rate) on premiums paid into a personal pension plan. Making use of the carry forward and carry back rules can maximise the relief.

In business?

Self-employed? You may be able to save tax by employing your spouse if he or she isn't working at the moment. If your spouse has no other income, you can pay them up to £4,195 in the 1998-99 tax year before any tax is due on it - but if weekly earnings exceed £64 (in 1998-99) both of you will have to pay National Insurance. Your spouse must genuinely do the work for which the pay is given. This tip also works if you are living with someone without being married.

Loans for your business? Check whether they qualify for tax relief.

Entitled to capital allowances? It will pay you not to claim more than you need to reduce your tax bill to zero, and instead to roll on the balance to succeeding years.

Are you claiming all your expenses? See **'Self-employment - income and allowable expenses'** in context-sensitive help.

Business losses? You can use losses to reduce your overall tax liability now or in the future. They can even be used to reduce profits made in earlier tax years or carried forward to future years.

On a low income?

Not a taxpayer? If you've got money in a bank or building society, register to get the interest paid gross. Ask your bank, building society or tax office for form R85.

Tax to claim back? Make your claim as soon as possible using the new tax return or form R40. Form R40 can be printed out from TaxCalc and filled in by hand, or you can get a copy from your tax office. See If you've paid too much tax.

Getting on in years?

Approaching 65? You can claim age-related allowances for the whole of the tax year in which you (or your spouse) reach 65: you do not have to wait for your 65th birthday.

Not getting the full age-related allowances? Consider switching some of your income-producing investments to tax-free schemes. Beware of cashing in a life insurance policy where the return is taxable.

Need more income? Remember that annuities which aren't linked to a pension produce an income which is partly tax-free.

Can you make use of your husband's National Insurance contributions? A married woman may be able to get a state retirement pension based on her husband's contributions. This is worth doing if it would give her a higher pension than she gets on her own contributions. And, since the extra is taxed as her own income (while any pension her husband gets for her is taxed as his income) it could save tax if she hasn't fully used her personal allowance.

Retiring from business? You may be able to claim retirement relief from capital gains tax.

Coming up to retirement - and with a personal pension plan? You may be able to get yourself a larger pension and cut your recent tax bills by making use of the carry back and carry forward rules.

Investments and life insurance

Buying British Government stocks? From April 1998 new holders of all types of government stock will automatically receive the interest gross, rather than after deduction of tax. Previously, this only applied to stockholders who puchased stock via the National Savings Stock Register. However, you can make the election to have the interest paid net if you prefer this.

Have you made use of the annual capital gains tax-free slice? If you haven't, investing for capital gains, rather than income, may give you a better after-tax return. (Context-sensitive help in the 'Capital Gains' screens has more information.)

Getting tax relief on a life insurance policy taken out before 14 March 1984? Beware of extending the policy, or of altering it to increase the benefits. You may lose your life assurance premium relief.

Self-employed, or in a job but not in an employer's pension scheme? You can get tax relief on some types of life insurance policy if they are linked to your pension.

Willing to take a risk? Venture Capital Trusts or the Enterprise Investment Scheme give you tax relief on your investments.

Made a loss when you sold some shares (not held in a PEP) or other investments? Keep a record of any losses. You may be able to use the loss to cut down any capital gains tax in this or future years.

Even if you cannot tie up your money for five years, do not dismiss TESSAs. Even if you have to cash them in early and pay tax on the interest they often pay up to two or three per cent more than ordinary deposit savings accounts. However, choose one with no early redemption penalties, otherwise you could lose any extra interest you receive on charges. Don't forget you only have until 5 April 1999 to take out a TESSA.

You and your home

Letting a room in your home? The income could be tax-free under the Rent a Room scheme.

Borrowing to buy a home which you let out? There is tax relief on some loans to buy let property.

Selling your house and garden separately? Sell the garden first, because if you sell the home and retain some of the land, the gain you make on the land from the time when it stopped being part of your garden may be liable to capital gains tax.

Working at home? You may be able to claim some allowable expenses, see under **'Employment - expenses'** in context-sensitive help.

More than one home? Your 'main home' is free of capital gains tax, so be careful about which home you choose as your main home. See 'Which? Way to Save Tax 1998' for details.

Now that mortgage interest relief is so limited and you can no longer deduct mortgage interest from your total income for the purposes of working out age-related allowances, paying off your mortgage on retirement or redundancy has become more attractive.

Moving house? You can get tax relief on two loans at once.

Moving house when you marry? You may be able to get tax relief on three loans.

Do you have a non-MIRAS loan to buy your only or main home? If so, and you have a low income, you may be losing tax relief. Contact your tax office about concessionary ways of getting tax relief.

Giving to charity?

Your gift could cost you less if you pay by deed of covenant or payroll giving.

Considering a large gift to charity? Gifts of at least £250 (after basic-rate tax) under the Gift Aid scheme give the charity more at less cost to you. Note that the Budget reduced the minimum to £100 for certain gifts - see March 1998 Budget summary.

If you are a non-taxpayer or lower-rate taxpayer (or become one) do not give to charity under a deed of covenant or Gift Aid. The Inland Revenue can ask you to account for the basic-rate tax you deducted before handing over your donation.

Dealing with the Revenue

Certain matters are given priority, eg repayments. So if you consider that you are entitled to a repayment, write 'repayment claim' at the top of your letter. Your claim is then more likely to be dealt with quickly.

The Inland Revenue aims to reply to enquiries or letters within 28 days. If, for no good reason, they take more than six months beyond their 28-day target, their 'Code of Practice 1' says they will waive interest on any tax you owe them, pay you interest on anything they owe you during the delay, and pay any reasonable costs you incurred because of the delay.

It is worth checking your tax bill for errors. The mistakes are as likely to be discovered by taxpayers as by the Revenue.

Mistakes - remember that you can go back six years, if you've made a mistake, or 20 years if the Inland Revenue has.

Mostly the self-employed and also people with rental income and/or investment income which is paid gross.

Even if you are not sent a tax return, you still have a legal duty to tell the Revenue about any taxable capital gain or any income which is not tax-free, including income from abroad. You can use TaxCalc to produce a Revenue-approved tax return. Tax returns are generally sent out just after the end of the tax year (5 April). For the 1997-98 tax year you must send back your return by 30 September 1998 if you want the Revenue to calculate your tax, or by 31 January 1999 if you calculate the tax bill yourself.

Your tax return is not the Revenue's only source of information. For example, employers have to send statements of how much they have paid their employees (including, for directors or anybody earning £8,500 or more, a P11D statement of any fringe benefits given). Savings institutions have to notify the Revenue of all accounts where more than a certain amount of interest is paid. The Revenue may start a formal investigation into your affairs if it suspects fraud.

Paying tax at source

Many people no longer get tax returns because most taxable income is now paid out after at least some tax has been deducted. Investments and savings accounts usually pay income after tax at the lower rate (20 per cent) has been deducted, although non-taxpayers can register to have income paid gross using form R85 (available from your bank, building society or tax office).

Under this general principle, if you pay out an income to somebody else, eg under a deed of covenant or trust for which you are a trustee, or even the rent on a UK property owned by somebody who lives abroad, you may be expected to deduct tax and account for it to the Revenue.

However, the biggest class of income from which tax is deducted at source is that taxed under the Pay As You Earn system (PAYE). This is most income from employment, including income from an employer's pension scheme. See Inland Revenue leaflet IR34 (Pay As You Earn).

When dealing with the Revenue, remember that there is a now a Taxpayer's Charter. This says that:

You are entitled to expect the Inland Revenue

To be fair

By settling your tax affairs impartially

By expecting you to pay only what is due under the law

By treating everyone with equal fairness

To help you

To get your tax affairs right

To understand your rights and obligations

By providing clear leaflets and forms

By giving you information and assistance at enquiry offices

By being courteous at all times

To provide an efficient service

By settling your tax affairs promptly and accurately

By keeping your private affairs strictly confidential

By using the information you give only as allowed by law

By keeping to a minimum your costs of complying with the law

By keeping its own costs down

To be accountable

By setting standards and publishing how well it lives up to them

If you are not satisfied

To tell you exactly how to complain

You can ask for your tax affairs to be looked at again

You can appeal to an independent tribunal

Your MP can refer your complaint to the Ombudsman

In return, you need

To be honest

To give the Revenue accurate information

To pay your tax on time

Tip 42

If you are a non-taxpayer (or become one) do not give to charity under a deed of covenant. The Inland Revenue can ask you to account for the basic-rate tax you deducted before handing over your donation.

Tip 43

Certain matters are given priority, eg repayments. So if you consider that you are entitled to a repayment, write 'repayment claim' at the top of your letter. Your claim is then more likely to get priority.

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Trust
A legal arrangement whereby property is held by trustees on behalf of one or more beneficiaries to be used in accordance with the deeds and rules of the trust.

Venture Capital Trusts

A new sort of company, broadly similar to investment trust companies but investing in small unquoted trading companies. From 6 April 1995, tax relief is available if you buy shares in a VCT.

We have tried hard, when writing TaxCalc for Windows, to anticipate users' questions and to give appropriate advice. But it cannot tell you every possible way of saving tax, and this edition covers only the 1997-98 tax year. If you have the time to do your own research, try:

- your local tax enquiry centre
- the 'Which? Tax-Saving Guide' or 'Which? Way to Save Tax 1998'
- the tax books for professionals published by Tolley Publishing Co Ltd and other specialist publishers
- finding what part of tax law applies and tackling the tax statutes themselves in your local reference library.

If you want professional help, then the most normal route is via a certified or chartered accountant. Most accountants are extremely well-versed in all aspects of tax. Some solicitors also offer a tax service within their practice.

There are other professionals known simply as 'tax consultants' or 'tax advisers' who specialise in providing tax advice, however, do note that these are nebulous titles which anybody can award themselves. Two respected and widely recognised professional qualifications for tax advisers are either, Associate of the Taxation Institute Incorporate (the Chartered Institute of Taxation), denoted by the letters ATII, or Associate of Taxation Technicians (ATT).

Therefore, if your tax adviser is not a qualified accountant it may be wise to check that one of these qualifications has been obtained.

Tax Aid

There is also Tax Aid - a charitable trust dedicated to providing a free and independent tax service - offering advice, assistance and advocacy to individuals on low income and in need, who cannot afford to pay for professional advice. Tax Aid can be contacted on 0171 624 3768 between 10am and 12 noon, Monday to Thursday.

Which? Way to Save Tax 1998

Available from Consumers' Association - call Freephone 0800 252100.

Widow's bereavement allowance

An allowance which a widow gets in the tax year of her husband's death, and in the following year, providing she does not remarry before the start of the tax year.

Using TaxCalc means that you don't have to get to grips with the ins and outs of tax law. But for a brief introduction to how the Inland Revenue (and TaxCalc) works out your tax bill, run the video clip, *How the Inland Revenue works out your tax*

As a taxpayer you are a 'customer' of the Inland Revenue and as with any product or service it will pay you to understand the details of the system and how it works.

These help files can be printed out if you have a printer attached (use menu command File| Print Topic). As some of these files are quite long you may find it easier to read a printed copy than from the screen.

Tax basics

Dealing with the Inland Revenue

March 1998 Budget summary

Self assessment

Tax tips

Notice of assessment
A form the Inland Revenue may send you to explain how your tax bill for a particular year has been worked out.

Tax-free slice

TaxCalc uses this to mean the amount of net taxable capital gains which you can make each tax year before you have to pay capital gains tax. For 1995-96 the tax-free slice is £5,800, rising to £6,000 for 1995-96.