Leaflet/booklet title	Number	Year
Capital gains tax. An introduction	CGT14	1997

480 - Expenses and benefits. A tax guide

This booklet explains the tax law relating to expenses payments and benefits received by employees earning more than £8,500 and directors. It tells you which expenses payments and benefits are taxable and which are not. It describes, among other things, dispensations, the use of cars, and entertaining expenses.

Personal Taxpayer Series IR110

A guide for people with savings

- how to stop paying tax on your interest
- how to claim tax back

Contents

What is this guide about?

Banks, building societies and local authorities are required to take income tax off the interest they pay to savers. However, people whose taxable income is covered by their tax allowances can register to get their interest 'gross' (that is, without tax taken off). It is also possible to claim tax back from the Inland Revenue if the tax taken off your interest is more than you are due to pay.

This guide explains how to work out

- if you can register to get your interest gross
- if you can claim tax back.

It also explains the tax rules about dividends from shares.

There is a special section on children's savings.

Please read this guide carefully to make sure you are paying the right amount of tax. We want you to pay only what is due.

What you can do depends on your own circumstances. If you are in any doubt about anything in this guide, or if you need any help, please do not hesitate to get in touch with us.

Ring or call in at any Tax Enquiry Centre or Tax Office. Details are in your phone book under 'Inland Revenue'

What income does it cover?

Interest on bank, building society and local authority savings As a general rule, banks, building societies and local authorities have to take income tax off your interest before they pay it to you. From 6 April 1996 they have taken tax off at the lower rate of 20 pence in the £. Before then they took tax off at the basic rate (25 pence in the £ in 1995-96). The interest you get is the amount left after that tax has been paid. Only higher rate taxpayers have to pay more tax on their interest.

If you should not be paying tax on your interest there are two things you might be able to do

- fill in a form that tells your bank, building society or local authority to stop taking tax off your interest. You can do this only if all your income - including your interest and any pension - is covered by your tax allowances
- claim tax back from the Inland Revenue. You can do this if tax has been taken off your interest that you didn't need to pay.

Dividends from shares

Income from shares - known as dividends - is different. If you have shares in a company, when you get your dividend cheque you also get a tax credit 'voucher'. This shows the amount of the dividend payable and the amount of the tax credit which goes with that dividend. (Your income for tax purposes is the dividend plus the tax credit.) The tax credit is not tax deducted, but it represents the fact that the company paying the dividend has paid tax on the profits used to pay the dividend. The tax credit can be set against your tax liability on the dividend. Depending on your income, you might be able to claim some or all of that tax credit from the Inland Revenue.

Foreign income dividends do not carry a tax credit. Instead, the 'voucher' will show income tax treated as paid on the dividend. You cannot claim back income tax treated as paid on a foreign income dividend.

Who needs to pay tax on income from savings?

Whether you need to pay tax at all depends on how much taxable income you have.

Whether you are male or female, married or single, young or old, you are entitled to a certain amount of income without paying tax. Your income includes your pensions, interest on your savings and dividends from shares.

The amount of income you can have before you start to pay tax depends on your tax allowances.

The way these work is explained in the section 'How do I know what my tax allowances are?'. For the moment, all you need to know is that everyone can have a certain amount of income before they start to pay tax. The table below tells you how much taxable income you can have before you actually start to pay tax.

If your taxable income is less than the amount shown in the table you can

- claim back tax taken off your income from savings
- register to get your interest paid gross in future.

The first thing to do is work out whether your taxable income is less than the income figure shown in the chart.

Amounts of taxable income you can have before you start to pay tax

	1997-98
People under 65	
a single person	£4,045 (about £77 a week)
a married man (1)	£5,417 (about £104 a week)
a single parent (2)	£5,417 (about £104 a week)
a married woman (1)	£4,045 (about £77 a week)
a widow or widower (3)	£4,045 (about £77 a week)
People aged 65-74	
a single person	£5,220 (about £100 a week)
a married man (1)	£7,608 (about £146 a week)
a married woman (1)	£5,220 (about £100 a week)
a widow or widower	£5,220 (about £100 a week)
People aged 75 and over	
a single person	£5,400 (about £103 a week)
a married man (1)	£7,818 (about £150 a week)
a married woman (1)	£5,400 (about £103 a week)
a widow or widower (3)	£5,400 (about £103 a week)

1 Married couples can decide whether the husband or wife gets the married couple's allowance or they can split it equally between them. In the examples given above the whole of the married couple's allowance has been taken into account in the figure for the married man's income. If you want to know more about the married couple's allowance ask for our leaflet IR80 'Income tax and married couples'.

2 Single, divorced or separated parents who have children living with them may benefit from an additional personal allowance. In the example above, additional personal allowance has been taken into account in the figure for the single parent's income. More information is given in our leaflet IR90 'Tax allowances and reliefs'.

3 In the year of her husband's death, and the following year, a widow is entitled to a widow's bereavement allowance. Widows bereaved since 6 April 1996 should add £1,372.50 (about £26 a week) to the figure shown above for their age.

Remember, tax allowances can change from year to year. A Tax Enquiry Centre or Tax Office will be glad to tell you what the allowances were for any other year. There is more about tax allowances in the section 'How do I know what my tax allowances

are?'.

How do I work out my 'taxable income'?

You need to know what things to include.

The first step is to work out your total 'gross' interest. You do this by adding together all the interest you get. If tax has been taken off you must add it back. For example, if you get £80 interest from a savings account and £20 tax has already been taken off, the 'gross' interest on the account is £80 + £20 = £100.

If no tax has been taken off your interest then what you receive is gross interest.

To work out your total gross interest, add up all the interest credited to your account(s) in the tax year (ie from 6 April to the following 5 April).

The second step is to add your total gross interest to all your other income (including any pensions), adding on any tax that has been taken off it to get the 'gross' income for the year. For dividends, you take the amount you receive and add on the tax credit or income tax treated as paid. This gives you the amount of your total taxable income.

If your total taxable income is less than the amount shown in the table before this one you should not be paying any tax.

What income is taxable?

The main things you need to include in working out your taxable income are

- gross interest from a bank, building society or local authority
- interest from National Savings investments (except National Savings Certificates and the first £70 of interest from ordinary accounts with the National Savings Bank)
- dividends from shares and income from unit trusts (remember to add on any tax credits or income tax treated as paid)
- old age pension
- widow's pension
- most other state pensions - but not war pensions
- pension from employer*
- earnings from a job or self-employment*
- unemployment benefit
- statutory sick pay - usually paid by your employer but sometimes paid by the Department of Social Security
- maternity pay
- widow's benefits
- invalid care allowance and invalidity addition paid with a retirement pension
- incapacity benefit - all benefit paid in respect of new claims from 13 April 1995 (except benefit paid during first 28 weeks of incapacity)
- widowed mother's allowance and widow's allowance

- income support (if paid when you are unemployed or on strike)
- student's earnings - but not student's grants and loans
- rent from letting property or rooms (but if you let rooms in your home the rental income may not be taxable. For more information see our leaflet IR87 'Letting and your home')
- income from trust funds
- income from outside the United Kingdom
- your share of any joint income.

* Don't forget to add on any tax taken off. Your employer (or former employer) should send you a form P60 every year which shows your earnings (or pension) and any tax taken off.

If you are in any doubt, please ask any Tax Enquiry Centre or Tax Office.

How do I get my interest in future without tax taken off?

If you have worked out that your taxable income is less than the amount you can have before you start to pay tax, you should arrange for your bank, building society or local authority to pay your interest without tax taken off.

Ask them for a Registration form or click on the Form R85 below. Whichever you use, once you have filled the form in, hand it in at your bank, building society or local authority. This is known as 'registering'. You will then start to get your interest 'gross' - that is, without tax taken off. It is important that you complete the form in full. Until you do this, interest cannot be paid gross.

If you have more than one account, you should fill in a separate Registration form for each account. If you open a new account, and you are still entitled to gross interest, you must complete a separate form R85 for the new account.

If the account is held in more than one name (including accounts in the name of husband and wife) you will be able to register only if

- each person registers, or
- the bank, building society or local authority will allow both net and gross account holders on the same account.

Before you can register any account you must expect the 'gross' interest from all your accounts, plus any other taxable income you get, including pensions, to be fully covered by your tax allowances.

If you are in doubt, please ask any Tax Enquiry Centre or Tax Office for help or call the special Inland Revenue Registration Helpline on 0645 800645. Your call will be charged at local rates.

What if my circumstances change after I've registered?

If for any reason your circumstances change, you may have to start paying tax. Remember that both your income and your tax allowances can change from year to year, so you may find that your taxable income is no longer fully covered by your tax allowances.

If this happens after you have registered to get your interest 'gross' (that is, without tax taken off), you must tell your bank, building society or local authority, in writing, to cancel your registration. They will then take tax off your interest before you get it. You must also tell your Tax Office if you think that you should have paid tax after all, and you have been getting interest 'gross'.

You can remain registered to get your interest 'gross', only so long as your taxable income is fully covered by your tax allowances.

If your savings increase or you start to receive income from a new source - for example, if you start getting a pension or you take up a job or start up in business - you may no longer be entitled to have your interest paid gross. it is very important to check that your taxable income is covered by your tax allowances from one year to the next. There is more information about your tax allowances in the section 'How do I know what my tax allowances are?.

If you are in doubt about what to do, please ask any Tax Enquiry Centre or Tax Office for help, or call the special Inland Revenue Registration Helpline on 0645 800645. Your call will be charged at local rates.

What if my taxable income is not fully covered by my tax allowances?

If you find that your taxable income is not fully covered by your tax allowances, you may still be able to claim back some of the tax that has been taken off your interest. This can happen if the tax taken off your interest is more than the tax you have to pay for the whole year on all your income.

The same thing could apply to dividends and tax credits, so you might be able to claim some of the tax credits, even if you can't claim them all.

Tax is taken off interest at the lower rate of 20 pence in the £ and, for the first £4,100 of your income not covered by your tax allowances, you pay tax only at the lower rate (20 pence in the £). (These are the rates for 1997-98. They may be different in other years).

We give some examples later on of people who can claim tax back in these circumstances.

How do I claim tax back?

If you know which Tax Office deals with your affairs, and you haven't received a Repayment Claim form, complete a form R40(SP)(M) which you can get from any Tax Enquiry Centre or Tax Office, together with guidance notes on how to complete it, and send it to your Tax Office. If you already receive a Repayment Claim form each year, your Tax Office will continue to send you a form automatically. All you have to do when you receive the form is fill it in and send it back.

If you don't know where your Tax Office is, look at the lists at the end of this guide. It shows which areas are dealt with by the Inland Revenue Offices that specialise in repayment claims. Complete the form R40 and send it to the Office that handles claims for your area.

For example, if you live in Norfolk send the form to Leicester 7.

When you send us your completed Repayment Claim form you also need to send us the certificate(s) showing the amount of tax that has been taken off your interest.

Some banks and building societies automatically give you certificates showing the amount of tax taken off your interest. If yours does not automatically issue certificates, you can get them by writing to the branch where your account is held. You should keep all these certificates in a safe place as you will need them to make a claim.

Companies which pay you dividends automatically send you a certificate (sometimes called a tax credit 'voucher') showing the dividend and any tax credit. Again, you should keep all these certificates.

When you make your claim, please send us the original certificates, not photocopies, along with your claim form. If you have not kept your certificates, ask your bank or building society for duplicates (though they might charge for these).

We will do all we can to send repayments out as quickly as possible, but we may not be able to avoid some delay, especially during April to September when most people send us their claims.

Children's savings

Children, like adults, are allowed to have a certain amount of income before they need to start paying tax. They are entitled to the same basic allowance as other single people. This means that they can get back the tax on their savings income if their total taxable income is less than £4,045.

Children under 16 in Scotland or under 18 in England, Wales and Northern Ireland cannot apply personally to get their tax back. It's up to a parent, guardian or trustee to do it for them.

When it comes to registering with a bank or building society to have the interest on a child's account paid without tax taken off, children under 16 cannot register themselves. A parent or guardian must complete the form R85 with the child's details and sign it on his or her behalf. If the child's account is in the name of someone else (for example, a grandparent) the form must still be signed by the child's parent or guardian.

If the child's total income, including interest, is expected to be less than the personal allowance, interest can be paid gross (that is, without tax taken off) until 5 April following the child's 16th birthday.

Be careful. There are special rules if the savings or shares have been given by a parent. If a gift or gifts from a parent produce more than £100 gross income a year, the whole of the income from the gift(s) is taxed as that parent's income. A child cannot get back any of the tax on that income. Nor can the account(s) be registered to have interest paid without tax taken off.

The £100 rule applies separately to the gifts each parent makes to each child.

Example
Mary Banks, aged 14, has £7,350 in her building society account. Her father had given her £2,500, her mother £1,250 and her uncle £3,600. The interest on the gift from her father comes to more than £100, so Mary's parents cannot register her account to get interest without tax taken off.

The interest Mary gets and the amount of tax that can be claimed back are as follows.

Father's gift

Her father's gift of £2,500 produced net interest (that is, after tax was taken off) of	£90
The amount the building society took of for tax was	£18
The gross interest is	£108

As the gross interest is over £100, none of the £18 can be claimed back. The interest is treated as income of Mary's father

Mother's gift

Her mother's gift of £1,250 produced net interest (that is, after tax was taken off) of	£45
The amount the building society took of for tax was	£9
The gross interest is	£54

As the gross interest is under £100, Mary's parents can claim back for her the £9 that was taken off.

Uncle's gift

Mary's uncle's gift of £3,600 produced net interest (that is, after tax was taken off) of	£130
The amount the building society took of for tax was	£26
The gross interest is	£156

As people other than parents are not affected by the £100 gift rule, Mary's parents can claim back for her the £26 tax that was taken off the interest from her uncle's gift.

The total Mary's parents can claim back for her is therefore £35 (£9 + £26).

If a child under 16 has other savings income, the £100 limit on gifts from the same parent applies to the total gross savings income on gifts from that parent. This applies even if the money is spread across more than one bank or building society account or other savings.

What happens when a child becomes 16?

A registration made for a child's account will allow interest to be paid without tax taken off only until 5 April following the child's 16th birthday.

If a child does not expect to have to pay income tax after that date - because his or her income will still be less than the personal allowance - he or she can register personally for interest to continue to be paid without tax taken off. This is known as 're-registering' and it can be done at any time in the tax year in which the child will reach 16.

If the account is not held in the child's name (for example, if it is in the name of a parent or grandparent), it must be transferred into the child's own name in time for the first interest payment in the tax year following the child's 16th birthday.

The £100 rule continues to apply to young people until they reach 18 or marry. They cannot register an account to get interest without tax taken off if it includes gifts from a parent which, alone or when added to other gifts from the same parent, will produce more than £100 income a year.

How do I know what my tax allowances are?

The first table near the start gives you a guide to the amount of income you can have before you start to pay tax. If you need to know more about tax allowances, the main allowances are described below. You can get a full list in our leaflet IR90 'Tax allowances and reliefs'.

The figures shown are for the tax year 1997-98, that is, from 6 April 1997 to 5 April 1998. If you would like to know the figures for any other tax year, please ask any Tax Enquiry Centre or Tax Office.

There are two types of allowance. Your personal allowance is the amount of income you can receive without having to pay any tax.

Personal allowance 1997-98	
Under 65	£4,405 (about £77 a week)
65-74	£5,220 (about £100 a week)
75 and over	£5,400 (about £103 a week)

If your taxable income us less than your personal allowance you should not be paying any tax.

The **married couple's allowance and certain other allowances** (the additional personal allowance, the widow's bereavement allowance, tax relief for maintenance payments) work differently. They reduce your **tax bill** by a certain amount.

married couple's allowance 1997-98	
Under 65	£1,830
65-74	£3,185

75 and over	£3,22 5

The allowance reduces the amount of tax you have to pay if you are a taxpayer. In 1997-98 it reduces the tax bill by 15% of the allowance, so the allowance is worth £274.50 (£1,830 x 15%) for someone under 65. Any unused part of the married couple's allowance can be transferred between partners. See our leaflet IR80 'Income tax and married couples' for details.

For people aged 65 or over, the married couple's allowance works in the same way.

Your questions answered

Here are the questions we are most often asked (some of the answers have already been partly covered). If you want to talk to someone about them, or you have any other queries, please contact any Tax Enquiry Centre or Tax Office. The address and telephone number of your nearest one is in your local phone book under 'Inland Revenue'.

For which years can I claim back tax on my bank or building society interest?
From 6 April 1996 Self Assessment was introduced.

For tax years before Self Assessment was introduced, you have up to six years to claim tax back. For example, if you have paid more tax than you need to for the tax year 1991/92, you have until 5 April 1998 to claim tax back.

Under Self Assessment you have only 5 years and 10 months to claim tax back. For example, if you have paid more tax than you need to for the tax year 1996/97, you have until 31 January 2003 to claim tax back.

What about dividends?
You can claim some or all of the tax credit you receive with your dividends from shares if the amount of the credit is more than the tax you have to pay for the year.

You can claim for the same years as bank and building society interest (see answer to previous question).

Who can claim tax back for someone else?
You can claim tax back on behalf of someone else if

- you are the parent, guardian, or trustee of an account holder who is a minor (that is, under 18 in England, Wales and Northern Ireland, and under 16 in Scotland)
- you have power of attorney for the account holder
- you are a receiver or person appointed by any court in the United Kingdom to handle the affairs of an account holder who is incapable of managing his or her own affairs
- you are the next of kin of an account holder who is incapable of managing his or her own affairs*
- you have been appointed by the Department of Social Security to claim or receive

benefits on behalf of an account holder who is incapable of managing his or her own affairs*.

In some circumstances you can claim tax back if

- you are the relative of an account holder who would have difficulty making a claim, for example, an elderly person in poor health.

In any of these cases, do not complete the Repayment Claim form R40(SP)(M) but contact one of the Inland Revenue Offices that specialise in repayment claims, or your nearest Tax Enquiry Centre or Tax Office. If you don't know which Inland Revenue Office (IRO) to contact, look at the list at the end of this guide to see which IRO deals with your area to get its address or telephone number. If you know which IRO or Tax Office deals with the account holder's affairs, then contact that one. Whichever office you contact, they will need to know

- the name, address and date of birth of the person on whose behalf you are claiming
- the reason why he or she cannot claim personally
- your name and address.

* There is a limit to how much tax you can claim back if you are the account holder's next of kin or a DSS appointee. The Tax Office you contact will let you know what the limit is.

When can I make a claim to get tax back?
That depends on the amount you are claiming, and whether you also register for gross interest - see the question 'When I register '.

If you are claiming back £50 or less, you should apply at the end of the tax year. If the amount is more than £50, you can claim it back during the tax year. Either way, you'll receive your money by cheque once we have received your completed Repayment Claim form R40 (SP)(M) and certificate(s).

Can I claim tax back on savings held jointly?
Yes. You can claim for tax to be repaid to you on your share of income from savings held jointly with someone else.

If you are both entitled to a repayment you must make separate claims.

The first person claiming should ask us to return the tax certificate provided by the bank or building society so that the other account holder can claim tax back on his or her share of the interest.

Who can register for 'gross' interest?
You can register for interest without tax taken off if

- you are the account holder, you are 16 or over, and the money belongs to you
- you are the parent or guardian of an account holder under 16 years of age
- you have power of attorney for the account holder
- you are the parent, guardian, spouse, or child aged 16 or over, of a person who is

incapable of managing his or her own affairs

you are a receiver or person appointed by any court in the United Kingdom to handle the affairs of a person who is incapable of managing his or her own affairs

you have been appointed by the Department of Social Security to claim or receive benefits on behalf of a person who is incapable of managing his or her own affairs.

Remember, you can register only if the total taxable income of the person entitled to the interest - you, or, if you are doing it for someone else, the person on whose behalf you are acting - is covered by his or her tax allowances. You cannot register accounts which include gifts from a parent which, either alone or when added to other gifts from the same parent, produce more than £100 income a year. If you are in any doubt, don't register. Ask any Tax Enquiry Centre or Tax Office for help first, or call the Inland Revenue Registration Helpline on 0645 800645. Your call will be charged at local rates.

The Registration form asks for my National Insurance number. Where can I find it?
You need your National Insurance (NI) number only if you have been employed or self-employed in the UK in the last three years.

Your NI number looks similar to this - TN 11 10 53 F

Some of the places you will find it are

your pension book

form P45 or P60, or a letter from the Tax Office

a payslip

a letter from the Department of Social Security

a letter awarding unemployment benefit.

If you have worked in the UK in the last three years but you cannot find your NI number, leave the box on the Registration form blank. Complete the rest of the form and send it to

Inland Revenue,
NINO Tracing,
FREEPOST,
Bootle,
L69 9HA

(You won't need a stamp)

The NI number (or official stamp) will be entered on the form which we will return to you to give to your bank or building society. This service is available only for Registration form R85.

If I have several accounts, can I register just one account for gross interest?
If your taxable income, including any pension and income from all your savings, is fully covered by your tax allowances, you can register all your accounts. If your taxable income is not fully covered by your tax allowances, you cannot register any account to receive gross interest.

You can claim back some of the tax taken off your interest if it is more than the amount you should have to pay for the year.

If I have a joint account, say with my husband or wife, can I register for gross interest?

Yes. If neither of you has to pay tax, you should each complete a Registration form. It will help your bank, building society or local authority if the forms are sent together.

If one of you doesn't have to pay tax but the other does, then it depends on whether your bank, building society or local authority will accept 'split' registrations. If they can't arrange this, you can still claim tax back from us in the usual way.

When I register, should I also claim back tax already paid that year?
When you complete a Registration form, some banks, building societies and local authorities may pay back tax already taken off your interest during that tax year. For example, your building society interest might be credited to you on 31 December 1997 with tax already taken off. If you hand in the Registration form to the building society before 5 April 1998 you might be able to get the tax back from them. You would not then need to apply to us to get the tax back.

If your bank, building society or local authority doesn't give you this tax back, you can claim it back from us in the usual way.

How often do I need to complete a Registration form R85?
You normally have to complete only one form for each account (though children have to register in their own right to continue getting gross interest after their 16th birthday). Registration then continues indefinitely unless you or we cancel it.

You can get more Registration forms from your bank, building society or local authority or from any Tax Enquiry Centre or Tax Office.

Can I register to have dividends paid 'gross'?

No. Unlike bank and building society interest and local authority bonds, you cannot register to have dividends paid 'gross'.

I have an account earning interest, but the interest won't be paid until the next tax year. Do I include the gross interest earned this year when working out my taxable income?
No. Your interest is taxable in the tax year that it is paid to you, or credited to your account, even if part of it has been earned in the previous tax year.

How is interest taxed if a person with a bank or building society account dies?
Interest is taxable when it is paid or credited to an account.

When people die, interest credited to their account before the date of death is treated as their income. The personal representatives (executors) can claim tax back if the tax taken off that interest was more than the person who has died was due to pay.

Interest credited to someone's account after the date of death is treated as the income of the deceased person's estate. The personal representatives, who administer the estate, cannot normally claim tax back on this interest. However, they may make payments to beneficiaries who are entitled to the income of the residue of the estate. These payments are treated as made after deduction of tax at the basic or lower rate as appropriate. The personal representatives can provide a certificate showing how much tax is involved.

A beneficiary who is a non-taxpayer may be able to claim back the tax. The amount of tax that can be claimed will depend on the total taxable income of the beneficiary and the amount of his or her allowances. Where there is more than one beneficiary entitled to the income of the residue of the estate, each one is treated as receiving his or her share of the income and may be able to claim tax back on the share, depending on the particular circumstances.

What can I do if I am not happy with the way my tax affairs have been handled?
Naturally, we hope this will not arise, on repayment or any other tax matters. However, if you have a complaint which the Officer in Charge of your own Tax Office or Inland Revenue Office cannot settle, you should contact the Inland Revenue Director responsible for the area dealing with your tax affairs. Our leaflet IR120 'You and the Inland Revenue' tells you how to do that. It is available from any Tax Enquiry Centre or Tax Office.

If the Director does not settle your complaint to your satisfaction, you can ask the Adjudicator to look into it and recommend appropriate action. The Adjudicator, whose services are free, is an impartial referee whose recommendations are independent. The address is

The Adjudicator's Office
Haymarket House
28 Haymarket
London
SW1Y 4SP

Telephone: 0171 930 2292
Fax: 0171 930 2298

Finally, you can ask a Member of Parliament to refer a complaint to the independent Parliamentary Commissioner for Administration, commonly known as the 'Ombudsman', whose address is

The Parliamentary Commissioner for Administration
Church House
Great Smith Street
London
SW1P 3BW

Telephone: 0171 276 2130/3000

Examples

In these examples the figures are for the tax year 1997-98 unless otherwise stated.

Example 1
Paul King is a single person aged 76 who has a State pension and a small pension from his former employer. Added together, his pensions come to £4,900. He also has £1,000 bank interest from which the bank has taken off lower rate tax at 20%. Paul's total taxable income comes to slightly more than his personal allowances. He is liable to pay only at the lower tax rate of 20% on the first £4,100 of income above his allowances. As more tax has been taken off his bank interest than he is due to pay, he can claim back some of the tax.

Pensions	£4,900		
Gross bank interest (that is before tax is taken off)	£1000	Tax taken off at 20%	£200
Total income	£5,900		
Less Paul's personal allowance	£5,400		
	£500	Tax due at 20%	£100
		Tax overpaid	£100

Paul can claim back £100 by completing a form R40(SP)(M), which (with guidance notes on how to complete it) he can get from any Tax Enquiry Centre or Tax Office, and sending it to us.

Example 2
Anne Smith is a widow aged 66. She has £10,000 in a building society account which she has not registered to get her interest paid gross (with no tax taken off) because she didn't know she could do that.

Someone has told Anne that because her income is small she can probably claim back the amount of tax that has been taken off her interest. First, Anne needs to work out what her total taxable income is likely to be. To do this she needs to add in the amount that was taken off her interest for tax.

Gross building society interest (that is, before tax is taken off)	£500	Tax taken off at 20%	£100
Plus other annual income including her pension money	£3,120		
Total income	£3,620		

As a widow of 66, Anne's personal allowance is £5,220, so she can have income up to that amount without paying tax. As her income is less than her personal allowance, she can fill in the green Registration form R85 in this guide, hand it in at her building society, and they will stop taking tax off her interest. They may also be able to repay any tax already taken off in that year.

If the building society can't repay the tax taken off, Anne should also fill in a Repayment

Claim form R40 (SP)(M), which (with guidance notes on how to complete it) she can get from any Tax Enquiry Centre or Tax Office, and send it to us as explained earlier. She should also send the certificate from her building society showing how much tax has been taken off her interest. She will get back all the £100.

She can also claim tax back for the last five years (1992-93 to 1996-97) if her circumstances were more or less the same.

Example 3
Peter and Susan Brown are a married couple. Peter is 61 and works part-time. Susan is 57 and also works. They have a joint bank account. They have decided that the whole of the married couple's allowance should be set against Peter's income.

In 1997-98, Peter's income and allowances are as follows.

Wages	£4,000.00		
Peter's half of the £800 gross bank interest (that is before tax is taken off)	£400.00	tax taken off (at 20%)	£80
Peter's total income is	£4,400.00		
Less his personal allowance	£4,045.00		
Amount taxable	£355.00		
Tax due on £355 at 20%	£71.00		
Less married couple's allowance £1,830 at 15%	£274.50		
Amount of married couple's allowance unused (£274.50 - £71.00)	£203.50		

Provided the bank will accept a split registration, Peter can register, on the green form R85 in this guide, to have half the interest on the joint bank account paid with no tax taken off. He can reclaim the £80 tax already taken off his interest if the bank cannot re-credit it to the account or does not accept split registrations. He should use a Repayment Claim form R40(SP)(M), which (with guidance notes on how to complete it) he can get from any Tax Enquiry Centre or Tax Office, and send it to us. He can also transfer the unused part of the married couple's allowance to Susan to set against her tax bill. Peter should contact his Tax Office to arrange this.

Susan's income and allowances are as follows.

Wages	£5,700.00		
Susan's half of the £800 gross bank interest (that is before tax is taken off)	£400.00	tax taken off (at 20%)	£80
Susan's total income is	£6,100.00		
Less her personal allowance	£4,045.00		
Amount taxable	£2,055.00		

Tax due on £2,055 at 20%	£411.00
Less unused married couple's allowance transferred from Peter	£203.50
Susan's final tax bill	£207.50
Less tax taken off bank interest	£80.00
Tax to pay	£127.50

Example 4
Henry Green is a married man aged 58. He has part-time earnings and some savings in a building society. Henry and his wife have decided that the whole of the married couple's allowance should be set against Henry's income.
In 1996-97 he registered to get his interest paid gross (that is, with no tax taken off) because his taxable income was fully covered by his tax allowances.

1996-97

Earnings	£4,180.00
Gross building society interest (with no tax taken off)	£400.00
Henry's total income was	£4,580.00
Less Henry's personal allowance	£3,765.00
Amount taxable	£815.00
Tax due on £815 at 20%	£163.00
Less married couple's allowance £1,790 at 15%	£268.50
Amount unused	£105.50

As the tax due on £815 was fully covered by the married couple's allowance, Henry had no liability to tax in 1996-97. The £105.50 unused balance of the married couple's allowance was passed to Henry's wife to set against her tax bill.

For 1997-98 the married couple's allowance is £1,830. In Henry's case the value of the allowance goes from £268.50 (£1,790 x 15%) in 1996-97 to £274.50 (£1,830 x 15%) in 1997-98. If Henry's income goes up he might become liable to tax as in the following.

1997-98

Earnings	£5,100.00
Gross building society interest (with no tax taken off)	£400.00
Henry's total income is	£5,500.00
Less Henry's personal allowance	£4,045.00
Amount taxable	£1,455.00
Tax due on £815 at 20%	£291.00
Less married couple's allowance £1,790 at 15%	£274.50
Tax to pay	£16.50

He should therefore tell his building society to start deducting tax from his interest from 6

April 1997 onwards. The building society will deduct £80 tax from his interest (£400 at 20%). Paul will be able to claim back the tax deducted which exceeds his tax bill of £16.50, that is £63.50 (£80 - £16.50).

He should use a Repayment Claim form R40(SP)(M) which (with guidance notes on how to complete it) he can get from any Tax Enquiry Centre or Tax Office, and send it to us.

Example 5
Hazra Patel has income from her part-time job, dividends on some shares, and building society interest from an account held jointly with her husband.

Hazra is 37 and entitled to a Personal Allowance of £4,045. She and her husband have decided that the whole of the married couple's allowance should be set against her husband's income.

When Hazra works out what her total taxable income is, she must add in what has been taken off for tax already.

Earnings	£2,875		
Dividends and tax credit	£750	tax credit	£150
Her half of the £1,200 gross building society interest (that is before tax is taken off)	£600	tax taken off	<u>£120</u>
Total income	£4,225	total tax paid	£270
Less her personal allowance	<u>£4,045</u>		
Amount taxable	£180	tax due at 20%	£36
Excess of tax credit and tax taken off over tax due			£234

Hazra should claim the £234. If her circumstances in the years 1992-93 to 1996-97 were similar, she will also be able to make claims for those years.

Hazra cannot ask for her building society interest to be paid gross as her taxable income is not covered by her tax allowances. She will have to go on making claims but we will send her claim forms for future years. She can make an initial claim by using a Repayment Claim form R40(SP)(M) which (with guidance notes on how to complete it) she can get from any Tax Enquiry Centre or Tax Office, and sending it to us .

List of Inland Revenue Offices dealing with Repayment Claim forms

Area	**Inland Revenue Office**
Former Avon	St Austell 2
Bedfordshire	Bootle 1
Berkshire	St Austell 2

Buckinghamshire	Bootle 1
Cambridgeshire	Bootle 1
Cheshire	Glenrothes
Former Cleveland	Bootle 1
Cornwall/Isles of Scilly	St Austell 2
Cumbria	Bootle 1
Derbyshire	Leicester 7
Devon	St Austell 2
Dorset	St Austell 2
Durham	Bootle 1
East Sussex	Belfast 7
Essex	Leicester 7
Gloucestershire	Belfast 7
Greater Manchester	Glenrothes
Hampshire	St Austell 2
Hereford/Worcester	Belfast 7
Hertfordshire	Leicester 7
Former Humberside	Bootle 1
Isle of Wight	St Austell 2
Kent	Belfast 7
Lancashire	Bootle 1
Leicestershire	Leicester 7
Lincolnshire	Leicester 7
Merseyside	Bootle 1
Middlesex	Bootle 1
Norfolk	Leicester 7
Northamptonshire	Bootle 1
Northumberland	Bootle 1
North Yorkshire/York	Bootle 1
Nottinghamshire	Leicester 7
Oxfordshire	Belfast 7
Shropshire	Belfast 7
Somerset	St Austell 2
South Yorkshire	Leicester 7
Staffordshire	Belfast 7
Suffolk	Leicester 7
Surrey	Glenrothes
Tyne and Wear	Bootle 1
Warwickshire	Belfast 7
West Midlands	Belfast 7
West Sussex	St Austell 2
West Yorkshire	Leicester 7
Wiltshire	St Austell 2
Wales	Belfast 7
Northern Ireland	Belfast 7
Scotland	Glenrothes
London	
E1-18, EC1-4, N1-22	Leicester 7
SW1, 3, 5-7, 10, 13-14, 19-20, W1-4	Bootle 1
SE1-29, SW2, 4, 8-9, 11-12, 15-18	Glenrothes
WC1 & 2, NW1-11	Bootle 1

Inland Revenue Office Addresses

St Austell 2	Penhaligon House, Trinity Street, St Austell, Cornwall PL25 5BA 01726 70707
Bootle 1	1st Floor, The Triad, Stanley Road, Bootle, Merseyside L69 9HB 0151 300 5000
Glenrothes	Saltire House, Pentland Park, Glenrothes, Fife KY6 2AL 01592 610757
Leicester 7	Attenborough House, 109-119 Charles Street, Leicester LE1 1FY 0116 2624445
Belfast 7	Dorchester House, 52-58 Great Victoria Street, Belfast BT2 7QG 01232 236633

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect any right of appeal.

Issued by the External Communications Unit of the Inland Revenue
November 1997

AO1 - How to complain about the Inland Revenue

This leaflet explains how you can complain to the Adjudicator if you are unhappy about the way your tax affairs have been dealt with. The Adjudicator, whose services are free, acts as an impartial referee and hears both sides of a complaint and, if she considers it justified, makes recommendations about putting matters right.

This leaflet (with code **RAO**) is also available in the following languages: Bengali, Chinese, Greek, Gujarati, Hindi, Punjabi, Turkish, Urdu and Vietnamese.

Leaflet/booklet title	Number	Year
Mortgage interest relief. Buying your home	IR123	1996
Letting and your home. Including the 'Rent a Room' scheme and letting your previous home when you live elsewhere	IR87	1997
Taxation of rents. A guide to property income	IR150	1996

Leaflet/booklet title	Number	Year
17th March 1998 Budget Proposals	IR (Insert) 1998-99	1998
Extra-statutory concessions	IR1	1996
IR1 Supplement	IR1 Supp	1997
Tax allowances and reliefs	IR90	1997
Tax relief for vocational training	IR119	1997
Residents and non-residents. Liability to tax in the UK	IR20	1996

Leaflet/booklet title	Number	Year
Income tax and job seekers	IR41	1996
Income tax and Incapacity Benefit	IR144	1995
Lay-offs and short-time work	IR42	1992
Income tax and students	IR60	1997

CGT14 - Capital gains tax. An introduction

This booklet is a general guide for people who need information about capital gains tax (CGT). It will also be useful if you have disposed of any assets and need to know whether to report any gains or losses to your Tax Office.

COP1 - Code of Practice 1. Mistakes by the Inland Revenue

There are occasions when the Revenue makes mistakes. This booklet sets out how a taxpayer may claim some redress when, for instance there is a delay, or the Revenue persists in getting something wrong.

Code of Practice 10 - Information and advice

It is the Revenue's policy to help taxpayers, including businesses, to understand their rights and obligations, to get their tax affairs right and to pay their tax on time. This Code of Practice sets out the various ways in which the Revenue aims to achieve this.

Code of Practice 11 - Enquiries into tax returns by local Tax Offices

This Code of Practice tells you how local Tax Offices will carry out enquiries into Self Assessment tax returns issued from April 1997. It promises you fair treatment under the law and in accordance with the Taxpayer's Charter, which is reproduced at the back of the booklet.

Code of Practice 2 - Investigations

If your affairs are being investigated, you still have the same rights as any other taxpayer. This booklet tells your how local Tax Offices carry out an investigation. It promises that you will be treated fairly and courteously, in accordance with the law and Taxpayer's Charter.

Code of Practice 3 - Reviews of employers' and contractors' records

The Revenue inspects a sample of employers' and contractors' records to make sure they are correct and complete. This booklet tells you how the inspections are carried out. It also explains the rules that are worked to and your rights and responsibilities in particular situations.

England & Wales

Capital Taxes Office
Inland Revenue
Ferrers House
PO Box 38
Castle Meadow Road
NOTTINGHAM
NG2 1BB

Tel: 0115 974 2400

Northern Ireland
Capital Taxes Office
Inland Revenue
Dorchester House
52-58 Great Victoria Street
BELFAST
BT2 7QL

Tel: 01232 315556

Scotland

Capital Taxes Office
Inland Revenue
Mulberry House
16 Picardy Place
EDINBURGH
EH1 3NB

Tel: 0131 556 8511

CWG1 - Employer's quick guide to Pay As You Earn and National Insurance contributions

This is a series of cards for use by employers. They tell you what you need to know about working out, recording and paying income tax, Class 1 and Class 1A NICs, Statutory Sick Pay and Statutory Maternity Pay. These cards replace CA27 'National Insurance quick guide for employers' and P8 'Employer's basic guide to PAYE'.

CWL1 - Starting your own business?

Part of the Closer Working series produced jointly by the Inland Revenue, HM Customs and Excise and the Contributions Agency.

This booklet is for anyone setting up in business and deals with income tax, VAT and National Insurance contributions. It tells you what you need to tell the Revenue and how to get things right from the start. It contains a form that you can use to notify all three departments when you start your business.

FULL TEXT

CWL1
Starting your own business?

Here are the forms and information you need!

This booklet replaces the March 1996 edition. It contains a new section on Excise and Inland Customs and also the following forms

CWF1 (coloured green) which you must fill in to tell us about your self-employment, and

CA5601 (coloured peach) which you should also fill in if you wish to pay your Class 2 National Insurance contributions by direct debit. Both forms must be completed if you wish to pay by direct debit.

Please note that the above forms, CWF1 and CA5601, are not included in this Help file. If you need them you should obtain a hard copy of the booklet.

Here's three lots of help in one!

This leaflet is for anyone setting up in business in a self-employed capacity.

It deals with

- income tax
- National Insurance contributions (NICs)
- Value Added Tax (VAT), Excise and Inland Customs.

It is issued by the Inland Revenue, Contributions Agency (Contributions Unit in Northern Ireland) and HM Customs and Excise who are working together to provide a better service to businesses.

It tells you

- what you need to tell us
- what you need to do to get things right from the start
- how you can get more free help and information.

Quick Guide

Basics

How do I know whether I am self-employed?

Income Tax

National Insurance

VAT

Excise and Inland Customs

Basics

How do I know whether I am self-employed?

By 'self-employed' we mean people who run a business on their own, or in partnership with one or more people. Self-employed people are those who work for themselves, and are not working for an employer.

For example, an individual running his or her own shop is likely to be self-employed, but a worker engaged to assist in the shop is likely to be an employee.

If you are unsure about whether you are self-employed or not, leaflet IR56/NI39 'Employed or self-employed? A guide for tax and National Insurance' will help.

Who do I need to tell I've started a business?

As soon as you start a business you must tell

- your local Tax Office
- the Contributions Agency
- Customs and Excise: if your taxable turnover (total sales) is more than £48,000 per annum, you must register for VAT

your Job Centre if you are registered with one. (In Northern Ireland it would be the Training and Employment Agency.)

How do I let you know I am now self-employed?

We have designed a special form to enable you to tell your Tax Office, the Contributions Agency and Customs and Excise that you have started in business. The form, CWF1 *'Notification of self-employment'*, can be found at the back of this leaflet. It tells all three of us in one go, and registers you for tax and Class 2 (self-employed) National Insurance. **Just fill it in and send it to the Contributions Agency.**

Make sure that you know your National Insurance (NI) number as you will need it to complete the form. It is your own unique reference number which you keep all your working life. Your number is made up of two letters, six figures, followed by a letter A, B, C or D and will look like this: AB 123456 C.

To help you remember your NI number we can give you a plastic NI number card. The card is usually issued automatically just before a person's 16th birthday or after he or she applies to be registered for NI. If you do not know your number and would like a plastic card, contact your local Social Security Office.

Send the completed form CWF1 to the Contributions Agency. If you have left a previous job or have signed off from your local Job Centre, you should enclose parts 2 and 3 of the form P45 given to you by your last employer or the Job Centre. (In Northern Ireland it will be given to you by your Social Security Office.) There is no need to send in form CWF1 until you are about to start self-employment. However, if you do not intend to start straight away, you should send parts 2 and 3 of your P45, in advance, to your local Tax Office. In all cases, keep part 1A of your P45 for your own records.

Your local VAT Business Advice Centre, VAT Registration Unit or Enquiry Unit will advise you whether you need to register for VAT. They are listed under 'Customs and Excise' in the phone book.

The Contributions Agency will automatically pass the information about your self-employment to the Inland Revenue and Customs and Excise.

Income Tax

What is income tax?

The main tax most people have to pay is income tax, which is charged on earnings of all kinds as well as on investment income like bank interest. If you are an employee, your employer deducts your tax weekly or monthly from your pay, but when you are self-employed you are responsible for paying your own tax. That's why you need to keep full and accurate records of all your business transactions.

If you are thinking of employing someone for the first time there is further information below.

What accounting date should I use?

You may not wish to draw up accounts. The Tax Office will require a return of your business income and expenses in standard format, and you may decide that you will not need accounts as well. If you do decide to make up accounts, the date to which you make them up is for you to decide, but if you have an accountant, ask for advice. For example, you can make up your accounts from the date your business started

- to the end of your first year's trading
- to the end of a particular month
- for the calendar year ending on 31 December, or
- to the end of the tax year on 5 April.

You should bear in mind that accounts may be required for reasons unconnected with tax. For example, your bank may want to see accounts when considering an application for a business loan.

If your business is a seasonal one, it may suit you to choose a date when trade is slack and stocks are low. Whatever date you choose, it is best to stick to it and to make up accounts every twelve months.

How are my profits taxed?

Tax calculations are made for tax years which run from 6 April. For example, the tax year 1997/98 runs from 6 April 1997 to 5 April 1998.

Broadly speaking, your tax calculation for any year will be based on your business profits for the accounting year which ends in that same tax year.

This means that if you work out your profits to, say, 30 September each year, your 1998/99 calculation will be based on your profits for the accounting year which ends on 30 September 1998.

Special rules apply when you start in business and when your business ends.

For your first year, you are taxed on the profits for the period from the date you started to the following 5 April.

For the second year, you are taxed on the profits of the twelve months to your accounting date in that year, providing that date falls twelve months or more after the date on which you started in business. If your accounting date in the second year falls less than twelve months after the date on which you started in business, you will be taxed instead on the profits of the first twelve months of your business.

For the third year, you are taxed on the profits for your accounting year ending in that year.

If these rules result in some of your profit being used more than once, you are entitled to an adjustment known as 'overlap relief' when your business ends. This adjustment ensures that over the lifetime of your business you are taxed on the profits made by the business, no more and no less.

Our leaflet IR105 *'How your business profits are taxed'* explains this in more detail.

When do I have to pay?

Each year, in April, you will receive a tax return. This will ask you for all the information required to calculate your income tax and capital gains tax bill for the year. If you want you can calculate this bill yourself - there will be notes explaining how to do this with the return - or you can ask us to calculate it for you. It is entirely up to you. If you want us to calculate your bill for you, you must send back your completed tax return by 30 September. If you want to calculate the bill yourself you have four months longer, until 31 January, to send back your return.

The tax return will also explain how you calculate any Class 4 NI contributions that are due. These contributions should be paid at the same time as your tax.

You should set aside money regularly, so that you will be able to pay your tax and Class 4 NI contributions when they become due. After your first year in business you will be required to make two payments on account towards your tax bill each year, one on 31 January, one on 31 July. A final payment of the balance of any tax due will be required on the following 31 January.

If you make a loss you may be able to set it against any other taxable income you have, or the loss may be carried forward to offset your profits in later years.

How do I prepare my accounts?

Your accountant, if you have one, will draw up your accounts. Whoever prepares them, you are still responsible for their accuracy and correctly declaring the amount of the profits.

Under Self Assessment, you will not have to send in your accounts with your tax return. Instead you will be asked to include the accounts information in a special section in the return. Your Tax Office may ask to see your accounts (if you have had them prepared) with your business records, to check the figures in your return.

Accounts are usually in two parts

- the profit and loss account, which is a summary of the year's trading transactions
- the balance sheet, which shows the assets and the liabilities of the business.

Simple tax accounts

If your business turnover (total sales) before expenses is below £15,000 for a full year, you will not have to provide detailed accounts information in the return. Instead, a simple three-line summary will do. For example

Turnover	£13,847
Less purchases and expenses	£3,017
Net profits	£10,830

Our leaflet IR104 *'Simple tax accounts'* will help you prepare your own summary.

Partnerships

There are special rules that apply for income tax purposes if you are in business with a partner. Basically your tax bill is calculated as if your share of the partnership is profits that you have made in business on your own. Ask your Tax Office for more details.

What does 'Self Assessment' mean?

We are making the tax system clearer for people who get tax returns. The new system is called 'Self Assessment'. It is a more straightforward, efficient and clear way of working out tax. It is not a new tax.

Self Assessment applies from 6 April 1996, the start of the tax year 1996/97, and new style Self Assessment tax returns will be issued in April 1997.

Our leaflet SA/BK2 'Self Assessment. A Guide for the self-employed' explains how things will work under Self Assessment.

National Insurance

What are National Insurance contributions?

Most people who work are liable to pay National Insurance contributions unless they come into any of the groups excepted from liability to pay.

There are five classes of contributions in all, and the class you pay depends on whether you are an employee, self-employed, non-employed or an employer. Depending on your status, you may have to pay more than one class of contribution at the same time. Some contributions count towards benefits such as Incapacity Benefit and Retirement Pension.

Self-employed people are liable to pay two classes of contributions

- Class 2 contributions, **and**
- Class 4 contributions, which are paid on profits and gains at, or above, a set level.

If you are thinking of employing someone for the first time there is further information below.

Class 2 contributions

Class 2 contributions are a flat rate payment collected by the Contributions Agency. The weekly Class 2 contribution rate for 1997/98 is £6.15.

Class 2 contributions do not count for contribution-based Jobseeker's Allowance (which replaced Unemployment Benefit from October 1996) but they do count for Incapacity Benefit, Retirement Pension, Widow's Benefit and Maternity Allowance.

Unless you have either been excused payment because of low earnings, or are a married woman or widow with reduced liability, you must pay Class 2 contributions in respect of each week, including holiday periods, if you are

- normally self-employed and

age 16 or over and

under pension age (60 for a woman, 65 for a man).

How do I pay my Class 2 contributions?

You can pay Class 2 contributions either by

direct debit every month, or

on receipt of a quarterly bill every 13 weeks.

Both methods involve payment in arrears. You will not be asked for contributions in advance, but whichever method you choose, liability for Class 2 contributions will arise weekly.

It is your responsibility to ensure that your Class 2 National Insurance contributions are up to date. If you do not pay them on time then you may have to pay them at a higher rate. Late payment may also affect any benefit claim that you make. The Contributions Agency will take whatever action it considers necessary to obtain payment.

Paying your Class 2 NICs by direct debit

Direct debit has many advantages. It is easy to set up, runs automatically, and can help your budgeting. The majority of self-employed customers (over 1.5 million) have already chosen this method. An application form CA5601 can be found at the back of this leaflet. We regret that the facility to pay by direct debit is not available to share fishermen.

How do I apply to pay by direct debit?

If you have not previously told us of your self-employment you must fill in form CWF1 'Notification of self-employment' in addition to the direct debit application form CA5601.

You **must** return **both** forms to the Contributions Agency.

How will payments be made?

The application form asks you if you wish to pay by direct debit from the start of your self-employment. In most cases this means that all contributions due from the start of your self-employment will be collected with the first payment from your bank or building society.

If you do not wish to pay direct debit from the start of your self-employment or we cannot arrange this, your direct debit will be started from a current date. We will then send you a separate bill for any contributions due from the start of your self-employment to the date your direct debit begins.

Although we act at once to set up your direct debit, it may take some weeks before the first National Insurance contributions are collected from your account. We will write to tell you when the first payment will be made. Please ensure that you have enough funds in your account to meet your first payment.

After that, payments

will be made automatically for as long as you wish, and

will normally be deducted from your account on the second Friday of each month.

These payments will cover National Insurance contributions for either four or five weeks, depending on the number of Sundays in the preceding tax month. The tax month ends on the 5th of each month.

What happens if I am ill?

You do not pay National Insurance contributions for any complete weeks (Sunday to Saturday) of illness. If you want to be credited with National Insurance contributions for these weeks you must claim Incapacity Benefit. We will reduce your direct debit payments to take into account full weeks of sickness as quickly as possible. You must still pay National Insurance contributions for any part weeks of illness.

What do I do if I change my bank or building society

You should tell us if you change your bank or building society. You will have to fill in another direct debit application form as direct debits cannot be transferred between banks or building societies. However, this is not necessary if you are only changing branches of the same bank or building society.

The Direct Debit Guarantee

This guarantee is offered by all banks and building societies that take part in the direct debit scheme.

The efficiency and security of the scheme is monitored and protected by your own bank or building society.

If the amounts to be paid or the payment dates change, you will be told of this at least 14 days in advance as agreed.

If an error is made by the Contributions Agency or your bank or building society, you are guaranteed a full immediate refund from your branch of the amount paid.

You can cancel a direct debit at any time by writing to your bank or building society. Please send a copy of your letter to the Contributions Agency

What if I do not want to pay my Class 2 contributions by direct debit?

If you do not choose to pay by direct debit you will be sent quarterly bills. These are normally issued in January, April, July and October of each year and can be paid

- at a bank
- by Girobank, if you have a Girobank account (you will not be charged for the transaction), or
- at any Post Office. You will not be charged for the transaction.

Full details of how to pay are given on each bill.

Small Earnings Exception

You can apply for exception from paying Class 2 contributions if your net earnings from self-employment (that is, your profits after deducting expenses) will be less than a fixed amount.

Known as the 'exception limit', it is set in advance of each tax year. For 1997/98 it is £3,480.

Our leaflet CA02 *National Insurance contributions for self-employed people with small earnings* gives more information and also contains an application form CF10.

Working abroad

If you will be going abroad to work you should contact the Contributions Agency International Services for advice about liability to pay Class 2 contributions while working abroad. Their telephone number is 06451 54811.

You will need to give details about the country you will be working in, when you propose to go and for how long.

Class 4 contributions

If your profits are over a certain amount, you may have to pay Class 4 contributions as well as Class 2 contributions.

Class 4 contributions are based on a percentage of annual profits between a lower and upper profit level. The levels are set each year by the Chancellor in the Budget. For the 1997/98 tax year the percentage rate and profit levels are

percentage rate	6.0%
lower profit level	£7,010
upper profit level	£24,180

Class 4 contributions are normally assessed and collected by the Inland Revenue together with Schedule D tax. As with tax, if payment is overdue, you may have to pay interest.

Class 4 contributions do not entitle you to any benefit, but they do help to share the cost of funding the benefits paid to all self-employed people in the fairest way.

Deferring payments

If you are both employed and/or self-employed and expect to pay, or have paid, more than a fixed amount of National Insurance contributions for any tax year, you may be able either to

- defer payment of your Class 2 and Class 4 National Insurance contributions until your true liability has been worked out at the end of the relevant tax year, or
- get a refund of any overpaid contributions.

The minimum amount you need to pay before being granted deferment is linked to the contribution rates in force for any given year. For the 1997/98 tax year

- your Class 4 contributions will be deferred if you can show that you are likely to pay more than a total of £1,356.15 in Class 1 and Class 2 contributions, and
- your Class 2 contributions will also be deferred if you show that you are likely to pay more than a total of £2,201.62 in Class 1 contributions.

Initial applications for deferment of payment of Class 2 and Class 4 National Insurance contributions are made on form CA72B. This, together with more information about deferment and refunds, is contained in leaflet CA72 *'National Insurance contributions. Deferring payment'*.

Share fishermen

Special rules and Class 2 contribution rates apply to share fishermen. Our leaflet CA11 *'National Insurance for share fishermen'* gives more information.

If you are starting work as a share fisherman you should still complete form CWF1 and send it to the Contributions Agency. They will then write to you with more information. We regret that the facility to pay by direct debit is not available to share fishermen.

Change of circumstances

You must inform the Contributions Agency in writing if you change address or if you stop being self-employed so we can amend your National Insurance account.

Other changes that should be reported are

- change of name
- change of marital status - women only
- change of home or business address
- change of bank (if paying by direct debit)
- change of business name
- change of telephone number.

If you pay your Class 2 contributions by direct debit, write to Self Employment Group (Direct Debit Section), Contributions Agency, Longbenton, Newcastle upon Tyne NE98 1YX.

If you pay Class 2 contributions by quarterly bill, write to Self Employment Group (Quarterly Billing Section), Contributions Agency, Longbenton, Newcastle upon Tyne, NE98 1YX.

VAT

What is VAT?

VAT stands for 'Value Added Tax'. It is a tax charged on most goods and services by the suppliers of those goods and services.

Almost any business transaction can constitute what is known as a 'taxable supply' for VAT purposes, for example

- sale of goods
- performance of services
- an exchange of goods or services
- a gift in kind.

Not all supplies are liable to VAT. For example, no tax applies to certain services such as finance, education, etc. These are known as 'exempt supplies'.

Taxable supplies can be chargeable to VAT at the following rates.

Zero rate
Nil percentage rate applies. Certain goods such as food, children's clothing, etc. come under this heading.

Reduced rate
This is 8% and is limited to domestic fuel and power.

Standard rate
The current rate is 17.5% and is applied to all goods and services that are not exempt or liable at the zero or reduced rates.

'Exempt' and 'zero' are not the same. Exempt supplies are supplies of goods or services which have no VAT charged on them at either the standard, reduced or zero rate. There are further details in VAT Notice 700 *'The VAT Guide'*.

How does VAT work?
Briefly, VAT is based on what are known as 'output tax' and 'input tax'. If you are a business registered for VAT, output tax is the VAT charged by you to your customers and input tax is the VAT charged to you by your suppliers.

Who collects VAT?
VAT is collected at every stage in the distribution of goods and services by 'taxable persons' registered with Customs and Excise. The term 'taxable person' includes self-employed individuals, partnerships, limited companies, clubs, etc.

Do I have to register with Customs and Excise?
If you are in business and your taxable supplies to customers exceed, or are likely to exceed, a set limit in a 12 month period, then you will have to register with Customs and Excise. The limit is currently £48,000, but this is reviewed annually.

You may have to register if you make acquisitions from other European Community countries or supply goods under the distance - selling arrangements to the UK.

You cannot register, however, if you only supply goods or services exempt from VAT.

You must register if

> at the end of any month, the total value of the taxable supplies you have made **in the past twelve months** or less is more than £48,000, or
>
> at any time you expect that the value of your taxable supplies will be more than £48,000 **in the next 30 days**.

What happens if I have taken over a business from someone else?

You must look carefully at the taxable turnover of the business under the last owner to decide whether you need to register. It does not matter whether the last owner was registered or not. If the business is trading at a level above the limit then you will need to register. Your date of registration will be the day on which you take over the business.

If you have to register, please do not delay your application, as there may be a financial penalty for late registration. You will find out more about this in VAT Notice 700/41 'Late registration penalty'.

Can I be registered if my turnover is below the limits?

If your taxable turnover is below the limits you can apply for voluntary registration. You will have to prove to us that what you do is a business for VAT purposes. Before you apply you should think carefully whether registering will benefit you. Once you are registered you will have to account for output tax on all your taxable supplies, but you can also take credit for any input tax on those taxable supplies. You will also have to send in VAT returns regularly and keep proper accounts so that VAT officers can inspect them.

Can I be registered before I make taxable supplies?

If you are not yet making taxable supplies, but have started a business, you can register before you start as long as you are going to make supplies in the future. You will also have to prove to us that you are going to make taxable supplies as part of your business.

How do I account for VAT?

If your business is like most businesses, you will collect more VAT from your customers than you pay to your suppliers. You can fill in a VAT return every quarter and pay the surplus VAT to Customs and Excise, or you can opt to complete an annual return, provided that the annual value of your taxable supplies is less than £300,000.

If, regularly, you pay out more VAT than you collect, you may fill in a return every month and Customs and Excise will make a refund.

Special schemes

There are special schemes to help make things easier. For example

> *'The Annual Accounting scheme'*. Instead of completing returns and paying quarterly, once you have been registered for a year you can pay a number of monthly payments by direct debit and send in just one return. There are details in VAT Notice 732 'Annual Accounting'.
>
> *'The Cash Accounting scheme'* lets you account for VAT on the basis of payments received and made, rather than tax invoices issued and received. The scheme gives automatic bad debt relief and is useful if you intend to give periods of credit. There are details in VAT Notice 731 *'Cash Accounting'*.

Can I claim VAT back?

You can claim back your input tax from Customs and Excise, but there are a number of exceptions. For example, you cannot reclaim input tax

- paid on your purchases if you supply only exempt goods or services
- on some motor cars
- paid on certain business and entertainment expenses.

Excise and Inland Customs

What is Excise?

Excise is a duty payable on goods and services.

Goods liable to Excise duty are

- beer
- wine
- spirits
- mineral oils
- tobacco

Services liable to Excise duty generally fall under the heading of 'Betting and Gaming'. The exceptions to this are air passenger duty, landfill tax and insurance premium tax. The six betting and gaming services which attract Excise duty are

- general betting
- bingo
- casinos
- gaming machines
- pool betting
- lottery

It is possible to claim reliefs from Excise duty. Primarily these ensure that UK commercial interests are not disadvantaged by having to pay duty in the course of a manufacturing process, storage, or on goods produced for export.

What is Inland Customs?

Inland Customs refers to duties levied in respect of imported goods. These duties also have a number of reliefs and special schemes designed to relieve the burdens on business.

Do I have to register with Customs and Excise?

If you are carrying out an Excise or Inland Customs activity you must notify Customs and Excise. Depending on the nature of your business, you may be asked to register with Customs and Excise, provide a financial security or complete returns.

Your local Excise and Inland Customs Advice Centre will supply you with public notices and forms about Excise and Inland Customs. You can find them listed in the phone book under 'Customs and Excise'.

You might find the following notices useful

206	*Excise Traders*
501	*Guide to Exports*
502	*Guide to Imports*

There are also notices about each specific duty and relief. Your Advice Centre will be able to provide you with the appropriate notice.

Keeping Records

What do I need to do about keeping records?

Keeping clear and accurate records is very important. You should

- record all your business transactions
- keep documents like receipts, bills, bank statements and cheque stubs to back them up
- separate your business transactions from your personal finances.

You can get various account books for recording the figures. Some of these books are designed specially for small businesses. It may also be helpful to have an accountant.

How long should I keep my records?

Under Self Assessment you are obliged by law to keep records of your income and capital gains. These records have to be kept in case your Tax Office needs to check the figures in your return.

If you are self-employed, whether on your own or in partnership, you will have to keep your business records for five years. This period starts from the date on which your annual tax return is due back (normally the 31 January in the year following the year to which the return relates).

Our leaflet SA/BK3 *'Self Assessment. A guide to keeping records for the self-employed'* tells you more about this and about what records to keep.

What if I decide to register for VAT?

If you become registered for VAT you must keep a record of all the supplies you make and receive and a summary of VAT for each tax period covered by your tax returns. The summary is called the 'VAT account'.

Records do not have to be kept in any set way, but they must be up to date and the figures that you use to fill in your VAT return must be easy to find. Usually, your normal business records can quite easily be adapted to give this information. Invoices or daily takings normally form the basis of your records.

Our VAT Notice 700/21 *'Keeping records and accounts'* tells you more about this.

If you register for VAT you will normally be expected to keep your records for six years.

Other Help

What if I decide to employ someone?

If you are thinking of employing someone for the first time, you should tell your Tax Office. The Tax Office dealing with your business may be different from the one that will deal with your employees' tax. If you tell your Tax Office, they will send the information on to the right office. The Tax Office will then automatically send you a New Employer's Starter Pack which contains all the instructions, tables and forms you will need.

As an employer, you will be responsible for deducting tax and Class 1 National Insurance contributions from the pay of your employees under the Pay As You Earn system (PAYE). You send the tax and National Insurance contributions you have deducted to the Inland Revenue Accounts Office.

So you will need to

- work out the tax and NICs due each pay day
- pay this over to the Inland Revenue Accounts Office each month. This can be done quarterly if your average monthly payments of tax and NICs are below £600
- tell your Tax Office at the end of each tax year how much each employee has earned and how much tax and NICs you have deducted. You must also give details of benefits paid
- give your employees statements showing their earnings, tax and NICs deductions made for the year and any benefits provided.

If you employ someone abroad, advice about Class 1 NI contributions should be obtained from the Contributions Agency on **06451 54811**.

Where can I get your leaflets and forms?

Your local Tax Office, or Tax Enquiry Centre will supply you with leaflets and forms about tax. Their addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 9am to 5pm Monday to Friday. Some are also open outside these hours.

Some leaflets you may find useful are

IR List	Catalogue of leaflets and booklets
IR56/NI39	Employed or self-employed? #
IR104	Simple tax accounts #
IR105	How your business profits are taxed#
IR120	You and the Inland Revenue * #
IR125	Using your own car for work

CWG1	Employer's quick guide to PAYE and NICs
CWG2	Employer's further guide to Pay As You Earn and National Insurance contributions

- These leaflets are also available in Welsh
* - Available in Bengali, Chinese, Greek, Gujarati, Hindi, Punjabi, Turkish, Urdu and Vietnamese

In addition the Inland Revenue have produced the following leaflets on Self Assessment

SA/BK1	Self Assessment. A general guide
SA/BK2	Self Assessment. A guide for the self-employed
SA/BK3	Self Assessment. A guide to keeping records for the self-employed
SA/BK4	Self Assessment. A general guide to keeping records

Your local Social Security Office (the Contributions Unit in Northern Ireland) or the Contributions Agency will supply you with leaflets and forms relating to National Insurance contributions.

Some leaflets you may find useful are

CA01	National Insurance contributions for employees #
CA02	National Insurance contributions for self-employed people with small earnings #
CA04	National Insurance contributions. Class 2 and Class 3 Direct Debit. The easier way to pay #
CA07	National Insurance contributions - unpaid and late paid contributions
CA08	National Insurance contributions. Voluntary contributions
CA09	National Insurance contributions for widows
CA11	National Insurance contributions for share fishermen
CA13	National Insurance contributions for married women
CA25	National Insurance contributions for agencies and agency-supplied workers

CA48	Useful contacts and leaflets*
CA62	Unhappy with our service?* #
CA72	Deferring payment #
CWG1	Employer's quick guide to PAYE and NICs
CWG2	Employer's further guide to Pay As You Earn and National Insurance contributions
FB30	Self-employed? A guide to NI contributions and Social Security benefits #
NI38	Social Security abroad
NI132	National Insurance abroad. A guide for employers of people working abroad
PP3	Personal pensions for the self-employed #

- These leaflets are also available in Welsh
* - Not available in Northern Ireland

Your local VAT Business Advice Centre will supply you with public notices and forms about VAT. They are listed under 'H M Customs and Excise' in the telephone book. Most offices are open to the public from 9.30am to 4 pm, Monday to Friday.

Some notices you may find useful are

700	The VAT Guide
700/12	Filling in your VAT return
700/15	The Ins and Outs of VAT
700/21	Keeping records and accounts
731	Cash accounting
732	Annual accounting
999	Catalogue of Publications

Full details about registration are in the following VAT Notices

700/1	Should I be registered for VAT? *
700/1A	Should I be registered for VAT? Distance

	selling
700/1B	Should I be registered for VAT? Acquisitions

Excise and Inland Customs

206	*Excise Traders*
501	*Guide to Exports*
502	*Guide to Imports*

Can I phone for the information I want?

Yes. For general help and advice on tax, ring or call in at your local Tax Office or Tax Enquiry Centre. Their addresses are in your local telephone book under 'Inland Revenue'. Most offices are open to the public from 9am to 5pm Monday to Friday. Some are also open outside these hours.

You can order leaflets about Self Assessment from our Orderline on 0645 000404. Calls are charged at local rates and lines are open between 8am and 10pm seven days a week. Or you can order by fax on 0645 000604 or by e-mail on saorderline.ir@gtnet.gov.uk.

For specific National Insurance advice on the following subjects ring

Class 2 contributions	**06451 56921***
Deferment	**06451 57141***
Working abroad	**06451 54811***

* - Calls made to these numbers are charged at BT local call rates.

For help and advice on VAT ring your VAT Business Advice Centre or Enquiry Office listed in the telephone book under 'Customs and Excise'.

Employer's Helpline

From now on as an employer, if you ever have a general question on tax, National Insurance or basic VAT registration, you can ring call:

The Employer's Helpline - 0345 143 143

This service has been set up by the Inland Revenue, Contributions Agency and Customs and Excise offering general advice on matters such as Employer's PAYE and P11D expenses and benefits, Statutory Maternity and Sick Pay, and Value Added Tax basic registration details.

It saves time and, for the price of a local call, it saves money. Lines are open Monday to

Friday 8.30 a.m. - 5 p.m.

What other help is there?

You can get a video which tells self-employed people about Self Assessment. It is called 'Get yourself sorted' and is available from your local Tax Enquiry Centre or Tax Office.

If you register for VAT you will be sent a menu of 'Learn about VAT' options and asked to choose the option which suits you best. The options include

a free video entitled *'Welcome to VAT'*

one-to-one consultations

seminars.

Business Link

Business Link is a national network of information and advice centres providing a single point of access for local companies. All key local business support agencies, including the Training and Enterprise Council, the Local Enterprise Agency, the Chamber of Commerce and the Local Authority have been brought together to offer customised services to local businesses. The Signpost line on 0345 567 765 can put you in touch with your nearest Business Link.

Useful Publications from the DTI

The Department of Trade and Industry (DTI) produces a series of free booklets which give sources of information and advice to small businesses. The titles include 'A Guide to Help for Small Firms' and 'Setting up in business - a guide to regulatory requirements'. You can order these from the DTI Small Firms Publications Orderline on
0171 510 0169 or fax 0171 510 0197. This is an orderline only and is not available for general enquiries.

What can I do if I am not happy with the service I receive?

Naturally we hope this question won't arise, but with many thousands of enquiries every day, misunderstandings and errors can happen.

If you have a complaint about the way in which we have handled your affairs, first write to the officer in charge of the office concerned. He or she will then do everything possible to resolve the problem quickly.

If, after this, you are still unhappy, you should contact

the Inland Revenue Controller responsible for the area dealing with your tax affairs. Our leaflet IR120 *'You and the Inland Revenue'* tells you how to do that

the Chief Executive of the Contributions Agency. Our leaflet CA62 *'Unhappy with our service?'* tells you how to do that

in Northern Ireland, the Chief Executive of the Social Security Agency. The address to write to is Castle Buildings, Stormont Estate, Belfast BT4 3SG the Customs and Excise Collector responsible for the office concerned. The Customs leaflet 'Complaints and putting things right'. Our Code of Practice (Notice 1000) tells you how to do that.

If the Department concerned does not settle your complaint to your satisfaction, you can ask the Adjudicator for the Inland Revenue, Contributions Agency and Customs and Excise to look into it and recommend appropriate action.

The Adjudicator, whose services are free, acts as an impartial referee where people feel their affairs have been badly handled. Her recommendations are independent. The address is

The Adjudicator's Office
Haymarket House
28 Haymarket
London
SW1Y 4SP

Telephone: 0171 930 2292
Fax: 0171 930 2298

Finally you can ask a Member of Parliament to refer your complaint to the independent Parliamentary Commissioner for Administration, commonly known as the 'Ombudsman'. Further information is available from

The Parliamentary Commissioner for Administration
Church House
Great Smith Street
London
SW1P 3BW

Tel: 0171 276 2130/3000

The Ombudsman for Northern Ireland is

The Parliamentary Ombudsman and Commissioner for Complaints
Progressive House
33 Wellington Place
Belfast
BT1 6GD

Tel: 01232 233821

Help us to help you

We welcome your comments on this leaflet. Please tell us what you think so that we can find out how to provide you with a better service.

Write to

External Communications Unit

Inland Revenue
6th Floor, North West Wing
Bush House
Aldwych,
London
WC2B 4PP

These notes are for guidance only and reflect the position at the time of writing. They do not affect your right of appeal about your tax, National Insurance or VAT.

Issued by the Inland Revenue, Contributions Agency and H M Customs and Excise
April 1997
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CWL2 - National Insurance contributions for self-employed people. Class 2 and Class 4

This leaflet is for self-employed people. It contains information about Class 2 and Class 4 National Insurance contributions and explains which benefits you can claim if you are self-employed.

FULL TEXT

CWL 2

National Insurance contributions for self-employed people. Class 2 and Class 4

CONTENTS

Leaflets you may find useful

The Department of Social Security and the Inland Revenue both produce a wide range of leaflets (most of which are free) each designed to explain a different aspect of the National Insurance and tax systems in plain English. Some you might find useful are listed below.

From DSS Contributions Agency Offices

CA01	National Insurance contributions for employees
CA02	National Insurance contributions for self-employed people with small earnings
CA07	National Insurance - unpaid and late paid contributions
CA11	National Insurance contributions for share fishermen
CA12	Training for further employment and your National Insurance record
CA13	National Insurance contributions for married women
CA62	Unhappy with our service?
CA72	National Insurance contributions - Deferring payment
IB202	Incapacity Benefit
NI17A	A guide to Maternity Benefits
NI196	Social Security benefit rates (NIL196 in Northern Ireland)
NP45	A guide to Widows Benefit
NP46	A guide to Retirement Pension

From Tax Offices and Tax Enquiry Centres

IR34	PAYE - Pay As You Earn
IR56/ NI39	Employed or self-employed?*
IR120	You and the Inland Revenue
CWL1	Starting your own business?*
CWL3	Thinking of taking someone on?*
SA/ BK3	Self Assessment - A guide to keeping records for the self-employed
SA/ BK4	Self Assessment - A general guide to keeping records
SA/ BK5	Self Assessment - Electronic version of the tax return
SA/ BK6	Self Assessment - Penalties for late tax returns
SA/ BK7	Self Assessment - Surcharges for late payments of tax
SA/ BK8	Self Assessment - Your guide

Some of our leaflets are also available on the Internet at:
http://www.open.gov.uk/inrev/irleaf.htm

* These leaflets are also available from the Contributions Agency.

Introduction

This leaflet is for self-employed people and contains information about Class 2 and Class 4 National Insurance (NI) contributions.

It is issued by the Contributions Agency and Inland Revenue and explains the

- NI contributions you have to pay
- benefits you can claim

It also contains some basic information about Class 3 (voluntary) NI contributions.

As a self-employed person, you

- normally have to pay Class 2 NI contributions
- may also have to pay Class 4 NI contributions if your profits or gains are above a certain limit

All amounts, rates and dates in this leaflet are for the tax year 6 April 1997 to 5 April 1998. Current benefit rates are in leaflet NI196 (NIL196 in Northern Ireland), 'Social Security benefit rates'. Copies are available from your local Social Security office. You can find the address in the telephone directory under 'Contributions Agency'.

Other information available to you

Leaflet CWL1 '*Starting your own business?*', is available from your local Tax Enquiry Centre, Customs and Excise VAT Business Advice Centre, Social Security office or Tax Office. It contains basic information about

- your National Insurance number
- what NI contributions are
- Class 2 NI contributions
- how to pay Class 2 NI contributions
- small earnings exception
- what to do if you are going to work abroad
- Class 4 NI contributions
- deferring payment of NI contributions
- share fishermen
- what to do if your circumstances change
- registering for VAT

NI contributions

Self-employed people are liable for Class 2 NI contributions, but they may also have to pay Class 4 NI contributions if their profits or gains are above a certain limit.

Class 2 NI contributions are

- flat-rate payments
- collected by the Contributions Agency

Class 4 NI contributions are

- profit related
- collected by the Inland Revenue with Schedule D tax based on the taxpayers' own self assessment.

  All NI contributions shown on self assessment forms relating to self employment are Class 4.

If you are self-employed and working for an employer as well, you may have to pay Class 1, Class 2 and Class 4 NI contributions.

Class 1 NI contributions are

- earnings related
- paid by people who work for an employer if their earnings reach the lower earnings limit (see the Glossary below). For more details about Class 1 NI contributions, see leaflet CA01 *'National Insurance contributions for employees'*

Class 2 National Insurance contributions

Who pays Class 2 National Insurance contributions?

Self-employed people pay Class 2 NI contributions, for example shopkeepers

members of professions in independent practice, for example, solicitors, barristers, architects

doctors and dentists, both NHS and private

authors and artists

farmers, crofters and smallholders

There are special arrangements for share fishermen. See leaflet CA11 'National Insurance contributions for share fishermen' for more details.

You must pay Class 2 NI contributions for each week of self-employment, including holiday periods, if you

are normally self-employed and

are aged 16 or over and

are under pension age and

have not been excepted from liability to pay Class 2 NI contributions.

Self-employed people with small earnings

If you are self-employed and have small earnings, you may, if you wish, apply to be excepted from liability to pay. (The small earnings exception limit for the tax year 1997/98 is £3,480). There are time limits for applications for exception, so apply as soon as possible. You will be sent a Certificate of Application if your application is successful.

If you are excepted from liability, you may, if you wish, pay Class 2 NI contributions voluntarily to keep up your rights to the benefits they provide.

For more details and an application form, see leaflet CA02 *'National Insurance contributions for self-employed people with small earnings'*.

Please note you may be prosecuted if you fail to pay any NI contributions for which you are liable.

What happens if you are sick?

You do not have to pay a Class 2 NI contribution for any complete week, Sunday to Saturday, for which you are

getting

- Incapacity Benefit
- Maternity Allowance
- Unemployability Supplement to Industrial Injuries Benefit or to War Disablement Benefit

incapable of work even if you are not getting any benefit

You may be able to get credits for complete weeks of sickness, Sunday to Saturday.

If you are only sick for part of the week, even if you have a sick note, you

- must pay Class 2 NI contributions
- cannot get a credit

If you also work for an employer, you should send them sick notes regularly, even if your employer pays you Statutory Sick Pay. For more details, see leaflet IB202 *'Incapacity Benefit'*.

Married women and widows

Married women and some widows used to be able to choose

- not to pay Class 2 NI contributions when self-employed
- to pay Class 1 NI contributions at a reduced rate when employed

However, they still had to pay Class 4 NI contributions in full.

This is called reduced liability. Reduced rate NI contributions do not count towards benefit.

The reduced liability option is no longer available, but if you had reduced liability on 5 April 1978, you can keep it unless

- your marriage ends in divorce or is annulled
- your Widow's Benefit ends for a reason other than remarriage
- you are widowed and do not qualify for Widow's Benefit
- you have not been liable to pay NI contributions for two consecutive tax years after 5 April 1978 and you have not been self-employed in those tax years.

If you have kept the right to reduced liability, you should hold a Certificate of Election (form CA270). If you do not have this certificate or it is out of date, contact the Contributions Agency, Class 1 Caseworker Section, Longbenton, Newcastle upon Tyne, NE98 1YX.

As long as your certificate is current, you will not have to pay Class 2 NI contributions but you may still have to pay Class 4 NI contributions.

You can give up your right to reduced liability if you wish. However, once you have given it up, you cannot get it back. For more information, please contact Class 1 Caseworker Section at the above address or see leaflet CA13, 'National Insurance contributions for married women'.

After State Pension Age

You do not have to pay Class 2 NI contributions after you reach State Pension Age, 65 for men and 60 for women, even if you have not retired.

You have to pay Class 4 NI contributions for the tax year in which you reach State Pension Age if your profits are above the limit at which Class 4 NI contributions become due.

National Insurance contribution rates for the 1997/98 tax year

The contribution rates for the 1997/98 tax year are

Class 2 self-employed £6.15 per week
Class 2 share fishermen £6.80 per week
Class 3 voluntary £6.05 per week

What are the time limits for payment?

You are liable to pay NI contributions even if they are too late to count for benefit purposes. If you get behind with your NI contributions, the Contributions Agency will take any necessary action to obtain payment.

NI contributions which are not paid until the second tax year after the one in which they were due may be charged at a higher rate.

For more details, see leaflet CA07 *'National Insurance - unpaid and late paid contributions'*.

What benefits do Class 2 National Insurance contributions count for?

Class 2 NI contributions count towards

Incapacity Benefit, see leaflet IB202 *'Incapacity Benefit'*
Retirement Pension, see leaflet NP46 *'A guide to Retirement Pension'*
Widow's Benefit, see leaflet NP45 *'A guide to Widow's Benefit'*
Maternity Allowance, see leaflet NI17A *'A guide to Maternity Benefits'*

Class 2 NI contributions do not count towards contribution-based Jobseeker's Allowance.

Notifying self-employment for the first time

If you are notifying us of self-employment for the first time, you must complete form CWF1 *'Notification of Self-Employment'*. This form is available from the Contributions Agency, Self Employment Group (Quarterly Billing Section), Longbenton, Newcastle upon Tyne, NE98 1YX

Voluntary Class 3 National Insurance contributions

When you are self-employed, you can also pay voluntary Class 3 NI contributions to help you qualify for some benefits. This could be because

you are not liable to pay NI contributions
you have been excepted from paying Class 2 NI contributions
your contribution record is not good enough to qualify for benefit

Class 3 NI contributions are paid at a flat rate.

If you have not paid or been credited with, enough NI contributions during the tax year to make it a qualifying year for Retirement Pension or Widow's Benefit, you will be notified by the Contributions Agency about 18 months after the end of the tax year.

In these cases, it may be worth you paying voluntary Class 3 NI contributions. This is because unless you pay enough NI contributions to make the year a qualifying year, any NI contributions you have paid in that year, will not count towards Retirement Pension or Widow's Benefit. For more details, see leaflet CA08 *'National Insurance Voluntary contributions'*.

If you think you may not have paid enough NI contributions and have not been contacted by the Contributions Agency, get in touch with your local Social Security Office.

Please remember, you must pay Class 2 NI contributions, not Class 3, for any period when you were self-employed, unless you were excepted from Class 2 liability.

Class 4 National Insurance contributions

Who pays Class 4 National Insurance contributions?

Class 4 NI contributions are paid by self-employed people, on profits or gains from any trade, profession or vocation, if those profits or gains are over a certain amount. This is as well as Class 2 NI contributions. However, there are a few exceptions. You do not have to pay Class 4 NI contributions or apply for exception if you are

aged 65 or over for men or 60 or over for women, at the beginning of the year of assessment (see the Glossary below). This includes people whose 65th/60th birthday falls on 6 April. If you reach 65/60 during the tax year, you will still be liable for Class 4 NI contributions up to the following 5 April

not resident in the United Kingdom (UK) for income tax purposes during the year of assessment

a trustee, executor or administrator, in some cases only

a sleeping partner, that is, you supply capital and take a share of the profits but take no active part in running the business or

a diver or diving supervisor

- working in connection with exploration or exploitation activities on the UK continental shelf or in UK territorial waters, whose earnings are taxed under certain special rules and
- who has earnings assessed for tax under Schedule D

If you are under 16 on 6 April 1997, you will have to apply for exception from liability to pay Class 4 NI contributions. You should apply before 6 April by completing form CA2835U *'Application for exception from liability for Class 4 contributions for persons under 16 years of age'*, which you can get from the Contributions Agency, Deferment Group, Longbenton, Newcastle upon Tyne, NE98 1YX.

You only need to apply once because the other years for which you qualify for exception will be covered by that application. If you were granted exception for the 1996/97 year, there is no need to apply again for 1997/98.

What if I am not exempt from payment?

The Class 4 NI contributions you need to pay for any tax year are based on your taxable profits for that year.
For tax years up to and including 1995/96, the Inland Revenue generally worked out and assessed your Class 4 NI contributions at the same time as the income tax on your profits.

From 1996/97 onwards, the new self assessment rules apply which means that you must work out the profits on which NI contributions are due when completing your annual tax return. There are notes in the tax return to help you do this.

Then you can either

- send back your completed tax return by 30 September and the Inland Revenue will calculate the tax and Class 4 NI contributions due for you or
- calculate the tax and Class 4 NI contributions yourself, in which case you have until 31 January to send back your completed return and self assessment

For example, your annual tax return for 1997/98 will normally be issued in April 1998. If you send back your completed return by 30 September 1998, the Inland Revenue will calculate the tax and Class 4 NI contributions due. If you opt to calculate the tax and Class 4 NI contributions due yourself, you have until 31 January 1999 to send back your completed return and self assessment.

When is payment due?

Under self assessment, the income tax and Class 4 NI contributions due for any year are payable without demand, normally in three instalments.

For example, consider the tax year 1998/99. Two 'payments on account' are required, the first by 31 January 1999 and the second by 31 July 1999. Then a final 'balancing payment' will be required by 31 January 2000. In simple terms

- each payment on account is one half of the tax and Class 4 NI contributions bill for the previous year, 1997/98
- the balancing payment or repayment, is simply the increase or decrease, in the income tax and Class 4 NI contributions bill for 1998/99, when compared with 1997/98.

Not everyone will need to make payments on account because they will be based on the net income tax and Class 4 NI Contributions due for the previous year after taking into account any tax deducted at source during that year. You do not need to make a payment on account if

- each payment would be less than £250 or
- 80% of the income tax and Class 4 NI contributions bill for the previous year was met by tax deducted at source. For example, if tax is deducted under PAYE or the SC60 scheme, all that would be needed for 1998/99 would be a single balancing payment (or repayment) by 31 January 2000

It will also be possible for a taxpayer to make a claim to reduce the payments on account due for any year if they think they will add up to more than the net tax actually due for that year.

Remember, if a payment is overdue, you may have to pay interest.

What is the rate of Class 4 National Insurance contributions?

Class 4 NI contributions are based on a percentage of annual profits between a lower and upper limit. The levels are set each year by the Chancellor in the Budget. The rates for 1996/97 and 1997/98 are

	1996/97	**1997/98**
Lower profit limit	£6,860	£7,010
Upper profit limit	£23,660	**£24,180**
Rate of NI contributions on profit between the limits	6%	6%

The maximum Class 4 NI contributions you would have to pay for 1997/98 on profits or gains of £24,180 or more would be £1,030.20. this is calculated as follows

Profits	£24,180	
less 1997/98 lower profit limit	£7,010	
NI contributions payable on	£17,170	@6% = £1,030.20

On what income do I have to pay Class 4 National Insurance contributions?

The income you have to pay Class 4 NI contributions on is

- your business profits as calculated for income tax, including any adjustments for capital allowances and balancing charges, plus
- any Enterprise Allowance you receive

You can deduct from your income

- certain interest and annual payments.
- losses.

When you are working out the amount on which you have to pay Class 4 NI contributions, do not take into account

- personal tax allowances
- retirement annuity relief, personal pensions relief and superannuation contributions

Deducting interest and annual payments

You can deduct interest and annual payments when calculating profits for Class 4 NI contributions if they

- are wholly and exclusively for the purpose of the business
- have not been deducted in working out the business profits for tax purposes

For example, an annual payment to an ex-partner out of profits is not an allowable expense in calculating business profits for income tax purposes. However, if the payment was incurred for the purposes of the business, it can be deducted from the profit for Class 4 NI contribution purposes.

If the amounts you can deduct exceed the profits you made in the year, the balance can be carried forward and deducted from future profits.

Claiming relief for losses

For Class 4 NI contributions, trading losses can be set against business profits using the same rules as for income tax.

Relief for income tax trading losses can be claimed in several ways

- trading losses can be set against income of the same or the previous year
- a loss in any of the first four years of a business can be set against the three previous year's income
- trading losses can be set against future income of the same trade

Relief for Class 4 NI contributions can only be set against trading income.

Any trading losses set against non-trading income, for tax purposes, have not been relieved for Class 4 NI contribution purposes. They can be carried forward to set against the trading profits for the next tax year until they have been fully relieved for Class 4 NI contribution purposes. This means that profits charged to Class 4 NI contributions in the following years will be lower than the profits charged to income tax. For an example, see below.

If a husband and wife are both in business, a loss by one cannot be set against any trading profit by the other.
For an example of a tax calculation, see below.

Tax relief for Class 4 National Insurance contributions

For the tax years 1985/86 to 1995/96, self-employed people were allowed tax relief at 50% on their Class 4 NI contributions as a deduction in calculating the person's total income, not as a business expense.
From 1996/97

- the 50% deduction was withdrawn
- the Class 4 NI contribution rate was reduced to compensate

The changes were made to simplify the calculation of Class 4 NI contributions under self assessment.

What if a husband and wife are both self-employed?

A husband and wife who are both self-employed have their Class 4 NI contributions worked out separately

are responsible for paying their own tax and Class 4 NI contributions.

If they are in partnership, Class 4 NI contributions have to be paid on each part of the partnership profit.

Partnerships

The Inland Revenue will collect the Class 4 NI contributions arising from profits or gains made by each partner in a partnership.

Class 1 National Insurance contributions on earnings included in the calculation of Class 4 National Insurance contributions

Some people may have to pay Class 1 NI contributions as employees on earnings which are also included in their trading profits in their tax returns or self assessments which form the basis of their Class 4 NI contributions assessment.

If this applies to you, the amount of Class 4 NI contributions for the year may be reduced. You may either

apply for deferment of the Class 4 NI contributions before the start of the tax year for which the Class 4 NI contributions will be due. See below for further details about deferring Class 4 NI contributions

apply for a refund of the Class 4 NI contributions at the end of the tax year by contacting the Contributions Agency, Deferment Group, Longbenton, Newcastle upon Tyne, NE98 1YX.

If you cannot apply for deferment before the start of the tax year, you can make a late application which will be considered if your Class 4 assessment is not fully paid or under enquiry.

Example of a tax and Class 4 National Insurance contribution calculation

Andrew Strong is a car dealer and agent. He also has income from furnished lettings. His tax returns show the following income assessable for 1996/97 and 1997/98

1996/97	
Trading income	**£**
Car dealer	15,000
less Capital allowances	3,600
	11,400
Agent	2,500

Total trading profit	13,900
Other income: Furnished lettings	8,500

1997/98

Trading income:	**£**
Car dealer (loss £14 400)	
Agent	3,000
Other income: Furnished lettings	9,500

Calculating the income tax payable for 1996/97

	Original (£)	**Revised (£)**
Car dealer	15,000	15,000
less Capital allowances	3,600	3,600
	11,400	11,400
Agent	2,500	2,500
Furnished lettings	8,500	8,500
	22,400	22,400
less Loss		14,400
		8,000
less Personal allowance	3,765	3,765
	18,635	4,235
Tax at 20% on first £3,900 and 24% on the excess	4,316.40	860.40 *

* Under self assessment, if a claim is made to set trading loss against a previous year's income, the previous year's assessment will not be amended. Instead, an adjustment in terms of tax, will be made to the self assessment for the year of the claim. The amount of the adjustment is the amount by which the liability for the previous year would have changed if the previous year's assessment had been amended. Earlier years' assessments are not reopened under self assessment.

Calculating the Class 4 National Insurance contributions payable for 1996/97

Andrew's Class 4 NI contributions for 1996/97 are worked out on his trading profit of £13 900. When it is known that he made a loss of £14,400 as a car dealer in the 1997/98 tax year, the Class 4 NI contributions are revised

	Original (£)	**Revised (£)**
Trading profit	13,900	13,900
		(less loss 13,900)
	13,900	0
less Lower profit limit	6,860	6,860
	7,040	NIL
Class 4 NI contributions payable £7,040 x 6%	422.40	NIL*

The total trading loss is £14,400 but because Andrew has only used £13,900 against trading profit, there is a balance of £500 to carry forward to his Class 4 NI contributions calculation for future trading profits.

* Please see the previous asterisked paragraph. Adjustments for NI contributions are also made to the self assessment for the year of claim.

Credits

What are credits and what do they count for?

Credits

- protect your National Insurance record for Retirement Pension and Widow's Benefit
- maintain your entitlement to other benefits

Credits count

- as Class 1 NI contributions at the lower weekly earnings limit
- only towards basic benefit, not towards earnings related benefit
- towards Incapacity Benefit and contribution-based Jobseeker's Allowance in certain circumstances.

For most benefits, a certain amount of NI contributions must also have been paid.

Credits only count in certain circumstances. For example, they do not count towards the qualifying conditions for Maternity Allowance. For more details, see the individual benefit leaflets.

Who can get credits?

You may be able to get credits instead of paying Class 2 NI contributions if you are

- sick for a full calendar week, Sunday to Saturday. To get credits, you will normally have to send in sick notes to your local Social Security office, or in Northern Ireland to Incapacity Benefits Branch, Castle Court, Royal Avenue, Belfast, BT1 1SB
- entitled to Maternity Allowance, Invalid Care Allowance or Unemployability Supplement
- entitled to Statutory Sick Pay or Statutory Maternity Pay
- taking a course of approved training. For more details, see leaflet CA12 *'Training for further employment and your National Insurance record'*
- receiving Disability Working Allowance
- required to attend Jury Service and do not have earnings at or exceeding the lower earnings limit from employed earners' employment
- a man aged 60 or over who is not liable to pay NI contributions. See the section below 'Credits and men approaching or over the age of 60'
- receiving a compensatory payment such as a payment in lieu of notice or a payment in lieu of remuneration

You may be entitled to credits when you are unemployed if you are

- available to work for an employer
- actively seeking work throughout each complete week from Sunday to Saturday.

To get credits, you will normally have to make a fortnightly labour market declaration at an Employment Service Jobcentre.

You will not be able to get credits if you are a married woman/widow with reduced liability and therefore have the right

- to pay reduced rate Class 1 NI contributions when an employee
- not to pay Class 2 NI contributions when self-employed

Credits and men approaching or over the age of 60

If you are a man aged 60 or over, or will reach 60 in the 1997/98 tax year, special provisions apply. You will get National Insurance credits automatically if you

- are not liable to pay NI contributions as an employed or self-employed earner
- have not been absent from Great Britain or Northern Ireland for more than six months (182 days) of the tax year.

If your earnings from self-employment are less than the small earnings exception limit (for 1997/98 the limit is £3,480), it could be worthwhile applying for an exception from paying Class 2 NI contributions so you can get these credits.

If you are claiming contribution-based Jobseeker's Allowance and you are not entitled to or have exhausted your entitlement to benefit, you do not have to keep making fortnightly declarations at the Employment Service Jobcentre, or Social Security office in Northern Ireland, to get these credits. They will be given to you automatically.

The Employment Service Jobcentre should send you a letter (CR8) explaining a special arrangement which will automatically continue your period of interruption of employment. You should keep the letter as you may need it later.

If you do not receive a letter, contact the Employment Service Jobcentre.

Deferring payment and getting refunds if you have more than one job

Deferring Class 2 and Class 4 National Insurance contributions

You may be able to defer payment of your Class 2 and Class 4 NI contributions until your true liability has been worked out after the end of the tax year if you

- expect to be both employed and self-employed during the tax year
- expect your earnings as an employee to be substantial
- believe that your total NI contribution liability will be over the maximum by more than £10.

If you show that you are likely to pay more than a total of

- £1,356.15 in Class 1 and Class 2 NI contributions, your Class 4 NI contributions will be deferred
- £2,201.62 in Class 1 NI contributions, your Class 2 and Class 4 NI contributions will be deferred.

If your NI contributions are deferred, the calculation and collection of any Class 4 NI contributions will be transferred from the Inland Revenue to the Contributions Agency. The Inland Revenue will supply the Contributions Agency with a certificate of your profits and gains. The Contributions Agency will inform the Inland Revenue when payment has been received. For more details and the application form to apply for deferment, see leaflet CA72 *'National Insurance contributions - Deferring payment'.*

If you have not notified the Contributions Agency of your self-employment, you will need to complete form CWF1 *'Notification of self employment'* which is attached to leaflet CWL1. You can get a copy of this leaflet by

- ringing the Self Employment Directorate Call Centre on **06451 56921**. Calls are charged at BT local rates or
- contacting the Contributions Agency, Self Employment Group (Quarterly Billing Section), Longbenton, Newcastle upon Tyne, NE98 1YX.

See below for further details. The leaflet is also available from Tax Enquiry Centres and Tax Offices.

If you have more than one job

If you have more than one job and pay more than the prescribed amount of NI contributions for a tax year, you may be able to get a refund. You should apply for a refund if you pay more than

- £2,201.62 in Class 1 and Class 2 NI contributions in the 1997/98 tax year
- £1,356.15 in Class 1, Class 2 and Class 4 NI contributions in the 1997/98 tax year.

In these circumstances, you can get a refund of the Class 4 NI contributions.

Class 1 NI contributions paid at non-standard rates, for example, contracted-out or married women's reduced rate, are converted to standard rate to work out if you have paid too much. Your employer's NI contributions are not counted.

Applying for a refund

You can apply for a refund if

- you did not apply for exception or deferment in time and paid Class 4 NI contributions
- your Class 4 NI contributions are fully paid and you have paid more than the maximum amount of NI contributions.

To apply for a refund, contact the Contributions Agency, Deferment Group, Longbenton, Newcastle upon Tyne, NE98 1YX. Please give full details of why you think a refund is due. Do not delay in applying, as refunds are usually only made if they are claimed within six years from the end of the tax year to which the payment relates.

Share fishermen

Share fishermen who have not made arrangements for someone to record and collect Class 4 NI contributions on their behalf, must apply for deferment of special Class 4 NI contributions. Write to Deferment Group who will arrange for collection of your NI contributions.

For more advice and information

About benefits and National Insurance contributions

Contact your local Social Security office for more information and advice about benefits and NI contributions. In Northern Ireland, you can also contact your local Contributions Unit Area Office. Look in your local telephone directory to find your nearest office.
You can get up to four copies of this and other Social Security leaflets from your nearest Social Security office. Most offices are open to the public from 9.30 am to 3.30 pm, Monday to Friday.
For larger quantities (at least five copies of each leaflet), write to

The Stationery Office Limited
The Causeway
Oldham Broadway Business Park
Chadderton
Oldham
OL9 9XD

Orders for less than five copies of a leaflet cannot be accepted by The Stationery Office Limited.

Class 2 National Insurance contributions

For further information about Class 2 NI contributions or paying by quarterly bills, ring the Self Employment Directorate Call Centre on **06451 56921**. Calls are charged at BT local rate. You can also contact the Contributions Agency, Self Employment Directorate (Quarterly Billing Section), Longbenton, Newcastle upon Tyne, NE98 1YX.

For further information about paying Class 2 NI contributions by direct debit, ring the Self Employment Directorate Call Centre on **06451 56921**. Calls are charged at BT local rate. You can also contact the Contributions Agency, Self Employment Group (Direct Debit Section), Longbenton, Newcastle upon Tyne, NE98 1YX.

About deferring payment of National Insurance contributions

For more information about deferring payment of NI contributions, ring the Deferment Group Helpline on 06451 57141; calls are charged at BT local rate. You can also contact the Contributions Agency, Deferment Group, Longbenton, Newcastle upon Tyne, NE98 IYX.

About Schedule D and Class 4 National Insurance contributions

If you need further information about Schedule D tax and related Class 4 NI contributions, contact your local Tax Enquiry Centre or Tax Office.

Publications available from the Inland Revenue

The Inland Revenue's *'Catalogue of leaflets and booklets'*, gives information about all the publications you can get from Tax Enquiry Centres and Tax Offices. Addresses are in your local telephone directory under 'Inland Revenue'. Most offices are open to the public from 8.30 am to 4.30 pm, Monday to Friday and some are also open outside these hours.

You local Citizens' Advice Bureau may also have copies of Inland Revenue leaflets.

If you are unhappy with the service

Provided by the Contributions Agency

If you are dissatisfied with any aspect of the service you have received from the Contributions Agency, you should complain to the Contributions Manager at the office you have been dealing with.

For more information about our complaints procedure, see leaflet CA62 *'Unhappy with our service?'* available from your local Social Security office. This leaflet is not available in Northern Ireland.

Provided by the Inland Revenue

If you are dissatisfied with the way the Inland Revenue has handled your tax affairs, please contact the officer in charge of the office or unit concerned. Their name is on every letter we send out.

For more information about our complaints procedure, see leaflet IR20 *'You and the Inland Revenue'*.

Glossary

Exception limit	This is the limit on earnings from self-employment below which people may, if they apply, be excepted from liability for Class 2 NI contributions. The current limit is £3,480.
Lower earnings limit	If you work for an employer and earn at least a certain amount, called the lower earnings limit, you have to pay Class 1 NI contributions. The current lower earnings limit is £62 a week, £269 per month, £3,224 per year.
Qualifying year	This is a tax year in which you have paid enough NI contributions or been awarded enough credits for it to count for Retirement Pension and Widows' Benefit.
Reduced liability	This applies to some married women and widows who have elected not to pay Class 2 NI contributions when self-employed and reduced rate Class 1 NI contributions when employed.
State Pension Age	At the moment, men can get their State Pension at age 65 and women at 60. State Pension will be equalised at age 65 for both men and women from 6 April 2020. The change from 60 to 65 for women will be phased in over a ten year period from 2010 to 2020. This means that women born before 6 April 1950 can still get their State Pension at 60 between 6 April 1950 and 5 April 1955, will get their State Pension between age 60 and 65 (for more information, see leaflet EQ P1a, available from your local Social Security office) on or after 6 April 1955 will be able to get their State Pension at 65.
Tax year	This starts on 6 April one year and ends on 5 April in the next.
Tax deducted at source	Tax deducted before a payment is made to you.
Year of assessment	The year on which NI contributions are based. It starts on 6 April one year and ends on 5 April in the next.

These notes are for guidance only and reflect the position at the time of writing. They do not affect your right of appeal about your tax, National Insurance or VAT.

Issued by the Inland Revenue, Contributions Agency and Customs and Excise

October 1997

The Inland Revenue aims to provide a first-class service for taxpayers. These leaflets are intended to support the Taxpayer's Charter. They outline the standards the Revenue sets itself and the rights that taxpayers have in particular situations.

Leaflet/booklet title	**Number**	**Year**
Code of Practice 1 - Mistakes by the Inland Revenue	COP1	1996
Code of Practice 2 - Investigations	COP2	1995
Code of Practice 3 - Reviews of employers' and contractors' records	COP3	1997
Code of Practice 10 - Information and advice	COP10	1995
Code of Practice 11 - Enquiries into tax returns by local Tax Offices	COP11	1996

Personal Taxpayer Series IR 133
Income tax and company cars from 6 April 1994: a guide for employees

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system in plain English. A leaflet related to this one is IR 132 'The Taxation of Company Cars from 6 April 1994. Employers' Guide'.

Our 'Catalogue of Leaflets and Booklets' lists the publications you can get from Tax Enquiry Centres and Tax Offices. Their addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 10am to 4pm, Monday to Friday and some are also open outside these hours. Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

THE NEW SYSTEM OF TAXING COMPANY CARS

If your employer provides you with a car which you can use for private travel it is a benefit in kind and you may have to pay tax on it. The old system for working out how much tax you pay on a company car, based on scale charges depending on the car's engine size or original market value, will no longer apply after 6 April 1994. From that date there will be a new system, based on the price of the car. It will apply to existing cars still available after 5 April 1994, and to cars newly provided after that date. This leaflet explains how the new system will work.

What is a company car?

It is a car made available by an employer (including cars provided under a leasing arrangement) for the private use of a director or employee, his or her family or household. Private use includes travel from home to work.
Motor cycles, invalid carriages, and vans or other commercial vehicles are not ‘company cars’.

Who has to pay tax on a company car?

If you earn £8,500 a year or more or are a director you have to pay tax on any benefit in kind you receive including your company car. Your earnings for this test include your wages or salary, payments for business expenses and the value of benefits such as the company car and private medical insurance.

What are the main features of the new system?

CAR BENEFIT

The amount on which you pay tax each year is 35% of the 'price' of the car less any reductions for business mileage and the age of the car as set out below.

PRICE

The price of a car will usually be its list price plus accessories and delivery charge, VAT, and Car Tax where appropriate. The price will be subject to an upper limit of £80,000. There are special rules for 'classic cars' and cars without a list price.

YOUR CONTRIBUTIONS

Contributions up to £5,000 which you make towards the cost of the car and/or accessories will reduce its 'price' for calculating the amount on which you pay tax.

BUSINESS MILEAGE

The car benefit (35% of the price) may be reduced for business mileage you do in the car by:

> One third, for 2,500 to 17,999 business miles a year
>
> Two thirds, for 18,000 or more business miles a year

OLDER CARS

After any reduction for mileage, there is a further reduction of one third for cars which are four or more years old at the end of the tax year.

PAYMENTS FOR USE

Payments you have to make for the private use of the car will continue to reduce, pound for pound, the amount on which you pay tax.

FUEL FOR PRIVATE USE

Where you are provided with fuel for private use it will continue to be taxed, as now, based on the car's engine size.

How is the price of a car calculated for tax purposes?

It will usually be the total of:

> Manufacturer's or distributor's list price of the car on day before date of registration
>
> Taxes (VAT, Car Tax if appropriate) but not Vehicle Excise Duty (Road Tax)
>
> Delivery charges (including VAT)
>
> The list price of any accessory fitted before the car is made available to you, including VAT and any delivery or fitting charges

The list price of any accessory or set of accessories (eg. alloy wheels) over £100 (including VAT, fitting and delivery) fitted after the car is made available to you. This only applies for accessories fitted after 31 July 1993. Where the price of your car is increased for accessories fitted after the car was made available to you, the increased price applies from the beginning of the tax year in which they were fitted and subsequent years (the tax year runs from 6 April in one year to 5 April in the next).

There are separate rules for

> 'Classic cars'
>
> Cars without a list price: the price then is what would have been published if the manufacturer or supplier had published one.

And there is an upper limit of £80,000 on the price of a car for tax purposes. Where the price of a car exceeds this figure, its price for tax purposes will be £80,000.

EXAMPLE 1

Car A registered 8 April 1993 with standard equipment

List price including VAT	£10,250
plus delivery, number plates*	£385
Price of car for tax purposes	£10,635
Car benefit charge: 35% of price	**£3,722**

*Including VAT

EXAMPLE 2

Car B registered 1 November 1992, supplied with optional factory-fitted air conditioning, alloy wheels, metallic paint and dealer-fitted tow bar.

List price, including VAT and car tax	£12,650
plus delivery, number plates*	£363
air conditioning*	£755
alloy wheels	£305
metallic paint*	£185
tow bar*	£91
tow bar fitting charge*	£30
Price of car for tax purposes	£14,379
Car benefit charge: 35% of price	**£5,033**

*Including VAT

EXAMPLE 3

Car C registered 1 August 1993, supplied to employee with optional leather upholstery and alloy wheels; air conditioning fitted six months later.

List price, including VAT	£12,540
plus delivery, number plates*	£415
leather upholstery*	£875
alloy wheels*	£305
price of car for tax purposes at time	£14,135

made available	
Adjustment for accessory fitted later	
add cost of air conditioning and fitting*	£1,240
Revised price of car for tax purposes	£15,375
Car benefit charge (35% of price)	**£5,381**

*Including VAT

Will there be any allowance if I contribute towards the cost of the car?

Yes. Any capital contributions - up to a limit of £5,000, including VAT - you make towards the cost of the car or accessories will reduce the price of the car pound for pound, for your tax purposes. This will also apply to contributions you made in the past towards a car which is still available to you after 5 April 1994.

EXAMPLE 4

(You contribute £3,500 to cost of car)

Total price of car when made available	£13,500
less your contribution	£3,500
Price of car for tax purposes	£10,000

EXAMPLE 5

(Same car as example 4; air conditioning added after 6 months; you pay half the cost of the air conditioning)

Plus air conditioning (including fitting etc)	£2,000
less your contribution	£1,000
Therefore price of accessory to add for tax purposes	£1,000
Revised price of car for tax purposes	£11,000

What do I pay tax on?

The car benefit charge will be 35 per cent of the price of the car. But you may get discounts from this for your business travel or for older cars.

What allowance is made for business mileage?

The car benefit charge (35 per cent of list price) will be reduced by

One third, for business mileage between 2,500 and 17,999 miles a year

Two thirds, for business mileage of 18,000 or more a year.

These discounts do not apply to second cars. The car benefit of a second car will only be reduced if your business use of it is 18,000 miles or more a year, and then the discount is one third.
Where you are provided with two cars the ‘second car’ is the one you use least for business travel.

What is ‘business travel’

A business journey is one which you are necessarily obliged to make in your employment. This means journeys which involve travel from one place of work to another.
'Business travel' does not usually include journeys between your home and work.

What allowance is made for the age of the car?

If your car is four or more years old at the end of the tax year, the tax charge (ie the car benefit, less any reduction for business mileage) is reduced by one third. The age of the car is measured from the date it was first registered: ie, cars registered before 6 April 1991 will start to qualify for a reduction in 1994-95.

EXAMPLE 6

(Car registered 1 August 1989; price: £12,500, business mileage: 9,500)

Car benefit: 35% of price	£4,375
less one third for business mileage	£1,458
	£2,917
less one third for age of car	£972
Taxable amount	£1,945

I have to pay for the private use of the car. Do I get a reduction for those payments?

Any payments you are required to make for the private use of the car, for example as part of the agreement for the car being made available to you, can be deducted from the taxable benefit. This is the same rule that applied before April 1994.

EXAMPLE 7

You are required to pay £100 a month for the private use of the car. Business mileage: 9,000. Price of car for tax purposes: £11,000.

Car benefit: 35% of price	£3,850
less one third for business mileage	£1,283
	£2,567
less payment for private use (12x£100)	£1,200

Amount on which you pay tax	£1,367

What are the special rules for classic cars?

Special rules apply if your car

Is 15 years old or more at the end of the tax year and

Has a market value of £15,000 or more which must be higher than the manufacturer's list price at time of registration.

The price of the car for tax purposes is then the open market value - for the car and accessories - on the last day of the tax year (or the last day in the tax year on which the car is available to you).
You can find the open market value of a classic car from valuations (eg for insurance) or prices in the market, or published prices.
Contributions you made towards the cost of the car or accessories can be deducted from the market value, up to a limit of £5,000.

What if I have a car for only part of the year?

The car benefit is reduced proportionately if your car is unavailable for part of the year, for example, if it is first provided for your use part way through the year. The car benefit will also be reduced if your car is not available for a continuing period of at least 30 days.

What tax do I have to pay if my employer provides me with fuel for private use?

If your employer provides you with any free fuel for private motoring in your company car, for example by paying for the fuel or providing it from the company's own pump, you will pay tax on the value of the benefit by reference to scale charges based on the engine size of the car. The charges for each year are set out in the Form P523 enclosed with your notice of coding. The current (1993-94) figures are

petrol engines	**fuel charge**
- up to 1400cc	£600
- 1401 to 2000cc	£760
- over 2000cc	£1,130
diesel engines	
- up to 2000cc	£550
- over 2000cc	£710

You have to pay tax on the full scale charge if any free fuel is provided for private use. You do not pay tax if you make good the cost of all fuel provided for private motoring.

EXAMPLE 8

Your car in Example 6 has a 1,600cc petrol engine. It covers 9,500 business miles in the year and 6,500 private miles. Your employer pays 3/4 of the total fuel bill.

Taxable benefit of the car	£1,945

plus fuel benefit for engine size	£760
Revised taxable benefit	£2,705

If you pay for all your fuel, there will be no benefit charge for it and the taxable amount will remain £1,945.

How do I pay tax on my company car?

You will pay tax under the new system from 6 April 1994 on 35 per cent of the price of the car, less any reductions for business mileage, the age of the car, and payments for private use. You will also pay tax on any fuel benefit. The tax will normally be collected by an adjustment to your PAYE code or by an assessment after the end of the year, or both.

Under PAYE (Pay As You Earn), tax is deducted from your income by means of codes and tax tables which are designed, as far as possible, to ensure that the correct amount of tax is deducted during the tax year without the need for an assessment at the end of the year. The PAYE code is made up of personal allowances and other reliefs due, less any amounts to cover taxable income, such as a company car and other benefits in kind, to which PAYE cannot be applied.

Your employer normally provides information about your benefits in kind, including company cars, to the tax office so that your PAYE code can be worked out.

How will changing the new system affect the tax I pay?

The new system for taxing company cars means the tax for many employees with company cars will change. Most will be better off under the new rules; others will face increases in the tax they pay. How you will be affected depends on the car you have.

The new system starts in April 1994 and your PAYE code for that tax year will be issued in January 1994. To help us get PAYE codes adjusted ready for the start of the new system in April, employers have been asked to report list prices and other details of their employees' cars. Getting this information in time to adjust codes in January 1994 will avoid you paying too much tax from April 1994 or having to pay more tax at the end of the year.

If your employer has not done this, any car benefit included in your 1993-94 tax code will continue in 1994-95 until we are sent the details to recalculate it under the new rules.

What will happen when my car is changed?

When you car is changed after 5 April 1994, or you are first provided with a car after that date, your employer will send details of the car and its price to the Inland Revenue so that your PAYE code can be adjusted.

Where can I go for more help?

These notes do not cover every point but any Tax Enquiry Centre or Tax Office will be pleased to help you. Their addresses are in your local phone book under 'Inland Revenue'. Where you do not understand or agree with the calculation of the price of your car and accessories, your employer may be able to help.

Issued by the Inland Revenue
November 1993

Leaflet/booklet title	Number	Year
Construction industry tax deduction scheme	IR14/15	1997
Construction industry. Conditions for getting a sub-contractor's tax certificate	IR40	1997
Guide for sub-contractors with tax certificates	IR116	1997
A sub-contractor's guide to the deduction scheme	IR117	1997
Are your workers employed or self-employed? A guide for tax and National Insurance for contractors in the construction industry.	IR148/ CA69	1995
Workers in building and construction. Help with tax for employees and the self-employed	IR157	1997

Leaflet/booklet title	Number	Year
Appeals against tax	IR37	1995
Investigations. The examination of business accounts	IR72	1995
Investigations. How settlements are negotiated	IR73	1994
How to complain about the Inland Revenue	AO1/RAO*	1995/1994
You and the Inland Revenue. Tax, collection and Accounts Offices	IR120	1994

* Ethnic language version

This Help file is intended to provide sources of further useful information contained in the leaflets and booklets published by the Inland Revenue.

TaxCalc contains brief details of a number of leaflets and the full text of 14 of the most popular leaflets which can be printed out if you have a printer attached. You may find them easier to read in hard copy than on the screen.

Unless otherwise stated, the leaflets and booklets listed are available free from your local tax office or tax enquiry centre which will be listed under Inland Revenue in the telephone directory. Your local library and Citizens' Advice Bureau may also have copies of the leaflets. For a full list of leaflets, call your local Tax Enquiry Centre and ask for the Inland Revenue catalogue of leaflets and booklets which is updated twice a year.

It is essential that you make sure that you have the most up-to-date version of the leaflet/booklet as changes may have been made since you purchased TaxCalc. If you are using one of the ones in TaxCalc it is worth phoning your nearest office to check that it is still current and has not been re-issued under a new number or title.

The Revenue have planned to withdraw and update certain leaflets. Where we know about this we have mentioned it in the leaflet description. Many leaflets are available on the internet at http://www.open.gov.uk/inrev/irleaf.htm.

The Revenue also provides material for schools.

Full text

Brief details

- Benefits and tax
- Capital gains tax
- Codes of practice
- Construction industry
- Contacting the Inland Revenue
- Employing other people
- Income from abroad
- Inheritance tax
- Self Assessment
- Tax and gifts
- Tax in later years
- Working for an employer
- Working for yourself
- You and your family
- Your savings and investments

All leaflets and details of leaflets were correct at April 1997. Brief details of leaflets extracted from the Inland Revenue's catalogue of leaflets and booklets, December 1996 edition.

Leaflet/booklet title	Number	Year
Thinking of taking someone on? PAYE tax and National Insurance contributions for employers	CWL3	1997
Employer's quick guide to Pay As You Earn and National Insurance Contributions	CWG1	1997
Employer's further guide to Pay As You Earn and National Insurance contributions	CWG2	1996
Employer compliance reviews and negotiations	IR109	1997
PAYE settlement agreements	IR155	1996
Taxation of company cars from 6 April 1994. Employer's guide	IR132	1993
Income tax and company vans.	IR136	1994

IHT14 - Inheritance tax. The personal representative's responsibilities

This booklet explains what the personal representatives of a deceased person should do about inheritance tax.

IHT15 - Inheritance tax. How to calculate the liability

This booklet explains how to calculate the amount of inheritance tax when a person dies or makes a gift.

IHT16 - Inheritance tax. Settled property

This booklet explains the rules for charging inheritance tax on assets which are included in a settlement.

IHT17 - Inheritance tax. Businesses, farms and woodlands

This booklet explains the inheritance tax reliefs available for businesses, farms and woodlands.

IHT2 - Inheritance tax on lifetime gifts

This leaflet explains which gifts are free from inheritance tax, which may count for inheritance tax, and how a 'Potentially Exempt Transfer' can affect the amount of inheritance tax.

IHT3 - Inheritance tax. An introduction

Some basic facts about IHT. You should find it useful if you want to know whether or not tax will have to be paid on your estate after your death.

IHT8 - Alterations to an inheritance following a death. Inheritance tax

Inheritances can be changed after a death, whether or not a will has been made. This leaflet explains how alterations may affect the tax.

IR (Insert) 1998-99

This insert shows the proposed allowances and rates of tax for the tax year 1998-99 as announced in the budget on 17 March 1998.

IR1 - Extra-statutory concessions

A list of extra-statutory concessions (ESC) up to 31 August 1996. An ESC is a relaxation of the tax laws to give taxpayers a reduction in the amount of tax they need to pay.

IR1 Supplement

This booklet contains a list of extra-statutory concessions issued between 1 September 1996 and 31 August 1997.

IR101 - Approved company share option plans. An outline for employees

This booklet explains briefly about the tax advantages available to you if your company sets up a share option plan which is approved by the Inland Revenue.

IR109 - Employer compliance reviews and negotiations

This leaflet explains what happens at the end of an employer compliance review. It describes how an agreement is reached if the Revenue feels you have to pay anything following the review and what happens if an agreement cannot be reached.

IR110 - A guide for people with savings

Do you need to pay tax on your savings? Banks, building societies and local authorities are required to take income tax off the interest they pay to savers. However, people whose taxable income is covered by their tax allowances can register to get their interest 'gross' (that is, without tax taken off). This guide explains how to work out if you can claim tax back and how to register to get your interest gross.

FULL TEXT

IR113 - Gift Aid. A guide for donors and charities

Gift Aid is a tax relief for single cash gifts made to charity. The booklet explains how individuals and companies can use the Gift Aid scheme.

IR114 - TESSA Tax free interest for taxpayers

A guide that explains the rules for Tax Exempt Special Savings Accounts. You can open a TESSA if you are a taxpayer but want to receive tax free interest. New rules mean you can open a follow-up TESSA when your first TESSA matures after five years.

IR115 - Tax and child care

This leaflet explains the tax and National Insurance rules relating to child care. It also gives parents and employers other useful information about their tax position.

IR116 - Guide for sub-contractors with tax certificates

This describes the tax certificates and vouchers used in the construction industry and tells you when and how they should be used.

IR117 - A sub-contractor's guide to the deduction scheme

This leaflet is for self-employed people working in the construction industry without a sub-contractor's tax certificate. It explains why contractors make deductions from payments and what forms they use.

IR119 - Tax relief for vocational training

Are you training for a National Vocational Qualification (NVQ) or a Scottish Vocational Qualification (SVQ), up to and including level 4? This leaflet shows you how tax relief is available on the payments you make for training.

IR120 - You and the Inland Revenue

Are you happy with the service you have received from the Revenue? Do you have any comments or suggestions for improvement? If so, this is the leaflet for you. It tells you how to get help and information. It also includes the Taxpayer's Charter which sets out the standard of service you can expect.

Available in Bengali, Chinese, Greek, Gujarati, Hindi, Punjabi, Urdu and Vietnamese. Also available in clear print, audio cassette and Braille.

FULL TEXT

IR121 - Income tax and pensioners

This tells you about personal allowances, how these can be affected by income and what sort of income is taxable and what is not. It is particularly helpful if you are about to become a pensioner.

FULL TEXT

IR123 - Mortgage interest relief. Buying your home

A short guide to mortgage interest relief for a loan used to buy your home. It explains which loans qualify for Mortgage Interest Relief At Source (MIRAS), how the relief is given to you, and how it is shared out if you are buying with someone else.

IR125 - Using your own car for work

This booklet is for employees who use their own cars for business journeys. It tells you how using your own car for work affects your tax, how car mileage allowances are taxed, how to work out your business motoring costs and what information you should give to the Inland Revenue.

Personal Taxpayer Series IR125
Using your own car for work

CONTENTS

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system in plain English. Some you might find useful are listed below.

CWL1	Starting your own business?
IR34	PAYE
IR56/NI39	Employed or self-employed? A guide for tax and National Insurance.
IR90	A guide to tax allowances and reliefs
IR122	Volunteer drivers.

Our leaflet IR120 'You and the Inland Revenue' tells you more about the standard of service you can expect from us. It also tells you the steps you can take if you want to make any comments on the service you receive, or complain about the way in which your tax affairs have been handled.

Our IR List 'Catalogue of leaflets and booklets' shows all the publications you can get from Tax Enquiry Centres and Tax Offices. The addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 9.30am to 4pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

In addition , the following booklets on Self Assessment are available

Self Assessment - A general guide (SA/BK1)

Self Assessment - A guide for the self-employed (SA/BK2)

Self Assessment - A guide to keeping records for the self-employed (SA/BK3)

Self Assessment - A general guide to keeping records (SA/BK4).

You can order booklets on Self Assessment from the special Self Assessment Orderline on 0645 000604. All calls are charged at local rates and the lines are open between 8am and 10pm seven days a week. You can order by fax on 0645 000604 or by e-mail on saorderline.ir@gtnet.gov.uk

The Self Assessment booklets are also available on the Internet at http://www.open.gov.uk/inrev/irleaf.htm

This leaflet is for employees who use their own cars for work.

It tells you

- how using your own car for work affects your tax
- how to work out if you have a taxable profit on your allowances or if you can get tax relief on your business motoring costs
- what information your employer will give you
- what information you should give the Inland Revenue.

Using your own car for work

This means using your car for business journeys that you have to make to carry out your job. Usually this involves travel between one place of work and another. You get tax relief for the cost of these journeys to the extent that your employer does not meet them. (Tax relief reduces the amount of tax that you have to pay on your income).

Journeys between home and your normal place of work are not business journeys. But if, instead of going to your normal place of work, you travel directly between your home and a temporary place of work you can get tax relief for

- the travel costs you incurred; or
- the costs you would have incurred if your journey had started and finished at your normal place of work,

whichever is lower.

Private travel

You do not get tax relief for private journeys.

If your employer pays you an allowance for purely private travel your employer should deduct tax from it under Pay As You Earn (PAYE).

If you have any questions about whether a journey is business or private travel ask your Tax Office or local Tax Enquiry Centre, or your accountant/professional advisor if you have one. You will find our telephone number under 'Inland Revenue' in your local directory.

How does using my own car for work affect my tax?

Car or mileage allowances

Most employees who use their own cars for business travel are paid an allowance to cover costs by their employer. Usually these payments are based on an amount per mile for the mileage travelled but they can also be in the form of a lump sum or periodic payment.

How do car or mileage allowances affect my tax?

It depends on whether the car or mileage allowances you received from your employer during the tax year come to more than the costs of your business travel. (A tax year runs from 6 April to the following 5 April.)

If the answer is

yes, you have received a profit which is taxable

no, you can get tax relief against your earnings.

We give some examples later on in the leaflet of how to work out whether your allowances come to more or less than your business motoring costs.

Keeping a record of your car or mileage allowances

To work out if the car or mileage allowances you received from your employer come to more or less than the cost of your business travel, you need to know what allowances you were paid during the tax year. From the tax year 1996-97 onwards your employer will tell you, by 6 July after the end of the tax year, about any allowances which were not dealt with under PAYE. But in cases where it is clear that tax would not normally be due on the allowances, the Inland Revenue may have agreed what we call a 'dispensation' to save your employer having to report details for each employee. **So it is important that you keep your own record of the car or mileage allowances you receive.**

How do I work out if I have a taxable profit on my allowances or if I can get tax relief on my business motoring costs?

There are two ways you can do it.

There is an 'exact' method using actual motoring costs. **To do this you have to keep records of your actual motoring costs during the tax year and of your business and private mileage.** You can then work out the proportion of the costs that relates to your business travel and compare it with the allowances you received from your employer during the tax year. If the amount of the allowances comes to more than your business motoring costs you have received a taxable profit. Example 2 shows you what to do.

Alternatively, for the tax year 1996-97 onwards, you can use a simpler method to work out your business motoring costs. It does not give such an exact figure but it saves you work. You simply apply the tax-free mileage rates which we publish each year for the Fixed Profit Car Scheme (FPCS) to the number of miles you travelled on business in the tax year. This gives you an amount for your tax-free business motoring costs which you can compare with the allowances you received from your employer during the tax year. If the amount for your business motoring costs comes to more than the allowances you received, you can claim the difference against your earnings. Example 1 shows you what to do.

If you use this simpler method, you still need to keep a record of miles travelled on business journeys and a record of the car or mileage allowances you receive. But you do not have to keep records of your actual motoring costs.

The FPCS tax-free mileage rates

These rates are estimates of the average motoring costs for a range of car engine sizes. They are calculated each year for the FPCS, which is a voluntary arrangement between employers and the Inland Revenue. Under this scheme, employees who use their own cars for business travel are taxed only on the amount by which the car or mileage allowances received from the employer exceed the Inland Revenue's table of tax-free mileage rates.

Where your employer operates a FPCS, any tax that is due on your car or mileage allowances (because they come to more than the tax-free mileage rates) will be collected automatically through an adjustment to your PAYE tax code. We review the position after the end of the tax year, when your employer has sent details of your business mileage to the Tax Office.

If the car or mileage allowances you received in the tax year do not exceed your motoring costs using the tax-free mileage rates, we accept that there is no tax to pay.

Each year, shortly after the Budget, we announce the tax-free mileage rates for the following tax year. For each range of car engine size there are two rates

a higher rate for the first 4,000 business miles, and

a lower rate for each business mile over 4,000 miles.

The table below shows the tax-free mileage rates for 1995-96 and 1996-97. Your Tax Office or local Tax Enquiry Centre will be able to tell you the rates for other years.

Tax-free rate per mile for business travel

	on the first 4,000 miles in the tax year		**On each mile over 4,000 miles in the tax year**	
Size of car engine	1995-96	1996-97	1995-96	1996-97
Up to 1,000cc	27p	27p	15p	16p
1,001 - 1,500cc	34p	34p	19p	19p
1,501 - 2,000cc	43p	43p	23p	23p
over 2,000cc	60p	61p	32p	33p

The different tax-free rates for business mileage over 4,000 miles a year reflects the fact that some costs, such as road tax and insurance do not increase with greater mileage. Others such as depreciation increase, but not in line with increasing mileage. The higher the total mileage, the lower the cost per mile of running a car. The different rates take account of this.

If your employer operates a FPCS you may be given, after the end of the year, a figure for the taxable profit. You can use that figure when completing your tax return, if you get one.

Remember, the FPCS is a voluntary arrangement. Whether or not your employer operates a FPCS, you can use the **actual** costs of business motoring rather than the Revenue's tax-free rates to work out if tax is due on your car or mileage allowances, or if relief is available on your business motoring costs. You will need to have kept a record of your actual motoring costs during the tax year and your business and private mileage. You must also include in your calculation the car or mileage allowances you received.

How do I work out the tax position on my business travel using the Inland Revenue's tax-free rates?

You need to do two things

add up all the car or mileage allowances you received from your employer during the tax year, and

multiply the tax-free rate (or rates) for your car engine size by the number of business miles you travelled in the tax year.

Example 1

Alan Smith uses his own 1,800cc car for business travel. In 1996-97, that is between 6 April 1996 and 5 April 1997, Alan travels 5,000 miles on business. His employer pays him a motor mileage allowance of 42p a mile.

		£
Step 1		
The mileage allowance received was 5,000 miles at 42p a mile	=	2,100
Step 2		
For 1996-97, the tax-free mileage rates for this size of car are		
4,000 miles at 43p a mile	=	1,720
1,000 miles at 23p a mile	=	230
Total tax-free rates		1,950
Step 3		
Allowances received	=	2,100
less the tax-free rates	=	1,950
Amount of profit	=	150

You can use the following working sheet to work out your tax position using the tax-free rates.

How do I work out the tax position on my business travel using actual motoring costs?

You need to have details of three things

the car or mileage allowances you received from your employer during the tax year

your motoring costs for the tax year, and a record of your business and private mileage during the tax year.

You can then work out the proportion of the costs that relate to business travel and compare it with the allowances you received from your employer. If the total allowances you received come to more than the business proportion of the costs, then you have received a profit which is taxable.

If the costs come to more than the allowances you can get tax relief for the difference against your earnings.

There are examples and working sheets in the following paragraph which show you how to do the calculations you need.

What motoring costs should I include?

Insurance
Road fund licence
Fuel and oil
Servicing and repairs
Depreciation

The allowance for depreciation is called a 'capital allowance'. It is based on the cost of the car if it was bought during the year or on its 'written down value', if it was bought in an earlier year. The 'written down value' is the original cost less the total capital allowances for earlier years. The maximum allowance due each year is 25% of the cost or written down value but is limited to £3,000 in any one year.

You can use the following working sheet to work out the capital allowances on your car.

Special rules apply for the year when the car is sold, or when you stop using it for work.

If you have used the exact method of calculating actual motoring costs in every year that you used the car for work, the allowance for the final year is the difference between

- the sale proceeds (or the value of the car when you stopped using it for work) and the written down value at the start of the year.

The £3,000 limit for cars which cost more than £12,000 does **not** apply in the year of sale.

If you have **not** used the actual cost calculation in every year (because in some years you used the simpler method) the allowance for the final year calculated above must be multiplied by the fraction A/B where

- A is the number of years when you used the actual cost calculation, and

- B is the total number of years that you used the car for work.

If the sale proceeds (or the value of the car when you stopped using it for work) is more than the written down value at the start of the year, the part of the difference that relates to business travel (over the life of the car) is added to your taxable pay for the year. This is called a ‘balancing charge’.

What about loan interest?
If you are buying your car with a loan or on hire purchase, you can get tax relief for some of the interest. (Be careful to count only the **interest** you pay, not the loan or hire purchase instalments themselves.)

In the same way as for other motoring costs, you can get tax relief for the proportion of the interest relating to your business travel. So if you drive 20,000 miles in the tax year of which 5,000 were on business you can get tax relief for a quarter of the interest.

Example 2

(a) When the written down value of a car is less than £12,000
Ann Jones uses her own 1,400cc car for business travel. In 1996-97, that is between 6 April 1996 and 5 April 1997, Ann travels 10,000 miles, 3,000 of them on business. Her employer pays her a mileage allowance of 30p a mile.

		£
Step 1		
The mileage allowance received was 3,000 miles at 30p a mile	=	900
Step 2		
Calculate the total motoring costs for the year as follows		
Insurance		400
Road fund licence		140
Fuel and oil		1,200
Servicing and repairs		300
Total motoring costs for the year	=	1,500
Step 3		
Proportion of motoring costs relating to business travel for the year		
$\frac{3,000}{10,000}$ x £3,540	=	1,062
less total mileage allowance received	=	900

Amount on which tax relief is due	=	162

Ann can get tax relief for the difference of £162 (£1,062 - £900) against her earnings. If she gets a tax return she would enter this figure in box 1.32 in the employment income pages of her tax return.

(b) When the written down value of a car is more than £12,000

		£
Step 1		
The mileage allowance received was 3,000 miles at 30p a mile	**=**	900
Step 2		
Calculate the total motoring costs for the year as follows		
Insurance		400
Road fund licence		140
Fuel and oil		1,200
Servicing and repairs		300
Capital allowance The written down value at the beginning of the tax year was £15,000. Capital allowance for the year is limited to £3,000		3,000
Total motoring costs for the year		5,040
Step 3		
Calculate the proportion of motoring costs relating to business travel for the year $\frac{3,000}{10,000} \times £5,040$	=	1,512
Step 4		
Proportion of motoring costs relating to business travel	=	1,512
less total mileage allowance received	=	900

Amount on which tax relief is due = 612

Ann can get tax relief for the difference of £612 against her earnings.

You can use the following work sheet to work out the tax position on your business travel using actual motoring costs.

We tell you in this leaflet what to do when you have worked out if there is a taxable profit or if you can claim tax relief.

What information will my employer give me?

For 1996-97 onwards your employer will give you the details of car and mileage allowances paid to you for using your own car for business journeys. You should receive the information from your employer by 6 July after the end of the tax year.

If your employer does not operate a FPCS you will receive the details of the mileage allowances which your employer has put on Form P11D (or equivalent) and sent to the Inland Revenue. This will be

the total amount of the allowances paid to you in the year

the amount from which any tax has been deducted, and

the difference which is the taxable payment.

If your employer does operate a FPCS you will be given details of **either**

the amount of the taxable profit under the FPCS arrangements, **or** both the following

- the total amount of the car allowances and the motor mileage allowances paid in the year for business travel, and

- the total number of business miles travelled for which the motor mileage allowances were paid.

Your employer does not have to give you information where

there is no taxable profit; and

a dispensation has been agreed with the Revenue to save the work of reporting details for each employee.

Where car or mileage allowances are covered by a dispensation you do not have to include them on your tax return.

What information should I give the Inland Revenue?

This depends on whether or not you get a tax return.

If you receive a tax return

You may receive a tax return after the end of the tax year. Using this leaflet, you should decide which method you want to use to work out if you have a taxable profit on your car or mileage allowances or if you can get relief on your business motoring costs. You can use the working sheets in this leaflet to calculate the figures. For 1996-97 onwards, if you get a Self Assessment tax return, you can then enter the total in the employment pages in box 1.15 or 1.32 of your tax return, whichever is appropriate.

If your employer operates a FPCS and gives you a figure for taxable profit for the year, you can use that figure in your tax return.

If you do not receive a tax return

Your employer normally tells us what car or mileage allowances you were paid in the tax year. We then collect any tax that is due through an adjustment to your PAYE tax code.

If you have worked out that your business motoring costs come to more than the car or mileage allowances you received in the tax year, send us your calculation using either the exact or the simpler basis to work out your business motoring costs. Remember to include in your calculation the car or mileage allowances you received from your employer in the tax year.

You can send your calculation by letter to your Tax Office, or ask for the Expenses Claim form P87.

Where can I get help?

If you have any further questions, please contact any Tax Enquiry Centre or Tax Office. The address and telephone number of your nearest one is in your local phone book under ‘Inland Revenue’.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect your right of appeal about your own tax.

Issued by the Corporate Communications Office of the Inland Revenue
March 1996

Example: Car costing £12,000 or less

Date job started: 1 June 1996

Cost of car (see Note 1 below)			**£9,600**	**A**
Capital allowance in the first year	25% x A proportion of tax year in which you had the job	25% x £9,600 = £2,400 1/6/96 - 5/4/97 10 months		
		10/12 x £2,400 =	**£2,000**	**B**
Written down value at the end of the first year	A minus B		**£7,600**	**C**
Capital allowance in the second year	25% x C		**£1,900**	**D**
Written down value at the end of the second year	C minus D		**£5,700**	**E**

Example: Car costing more than £12,000

Date job started: 1 June 1996

Cost of car (see Note 1 below)			**£13,600**	**A**
Capital allowance in the first year	25% x A proportion of tax year in which you had the job	25% x £13,600 = £3,400 Max capital allowance = £3,000, limited to 10/12		
		10/12 x £3,000 =	**£2,500**	**B**
Written down	A minus B		**£11,100**	**C**

value at the end of the first year			
Capital allowance in the second year	25% x C	**<u>£2,775</u>**	**D**
Written down value at the end of the second year	C minus D	**<u>£8,325</u>**	**E**

The hard copy of this Inland Revenue leaflet contains a working sheet to help you work out your tax position using the tax-free rates. We have reproduced it to the best of our ability and you can print out this page to use as a working sheet if you wish.

Total business miles travelled	....		
Business miles at ....p	....	=	£......................
Business miles at ....p	....	=	£.......................
Total tax-free rates			A £....................
Car and mileage allowances received from employer	....		B £.....................
Difference between A and B			C £.....................

If B is bigger than A, C is your taxable profit
If A is bigger than B, C is the amount on which you may claim tax relief.

The hard copy of this leaflet has a working sheet to help work out the capital allowances on your car. We have reproduced it to the best of our ability here. You can print this out and use it as a working sheet if you wish. We have also provided the Inland Revenue examples of how to use this working sheet.

Date job started		....	
Cost of car (see Note 1 below)		£..................	A
Capital allowance in the first year	25% x A proportion of tax year in which you had the job	£.................. (Max=£3,000)	B
Written down value at the end of the first year	A minus B	£...................	C
Capital allowance in the second year	25% x C	£.................. (Max £3,000)	D
Written down value at the end of the second year	C minus D	£...................	E

You continue like this for each further complete tax year during which you use the car for work.

Note 1:
If you already had the car when you stared the job, use the market value of the car at that date instead of the original cost.

The hard copy of this leaflet has a working sheet to help work the tax position on your business travel using actual motoring costs. We have reproduced it to the best of our ability here. You can print this out and use it as a working sheet if you wish.

Calculation of total motoring costs (business and private) during the tax year

Insurance	£.....................
Road fund licence	£.....................
Fuel and oil	£.....................
Servicing and repairs	£.....................
Capital allowance	£.....................
Total motoring costs for the year	£.......................... A
Business miles travelled	.... B
Total miles travelled	 C
Proportion of costs relating to business travelled	.....................A x B/C ..../.............
	= ....D
Car mileage allowance received from employer	.......................E
Difference between D and E	........................F

If E is bigger than D, F is your taxable profit.

If D is bigger than E, F is the amount on which you may claim tax relief.

IR128 - Corporation tax pay and file. Company leaflet
A simple guide that gives a brief outline to the rules for paying corporation tax.

IR129 - Occupational pension schemes. An introduction

This leaflet will help you if you are thinking about joining an occupational pension scheme.

IR132 - Taxation of company cars from 6 April 1994. Employer's guide

If you provide an director or employee, or a member of his or her family (or household), with a car that can be used for private travel - usually called a company car - the director or employee may have to pay tax on the car benefit. This booklet explains the changes that came into effect from 6 April 1994.

IR133 - Income tax and company cars from 6 April 1994. A guide for employees

If your employer provides you with a car that you can use for private travel it is a benefit in kind and you may have to pay tax on it. This leaflet explains how the tax system works.

FULL TEXT

IR134 - Income tax and relocation packages

If your employer helps you to move house, any payments you receive, or any goods or services provided for you, are part of your taxable earnings. This leaflet explains how you are taxed if you receive this type of help.

IR136 - Income tax and company vans

How the private use of a company van is taxed. This leaflet answers the questions most often asked by both employees and employers.

IR137 - The Enterprise Investment Scheme

This scheme has been set up by the Government to help some types of unquoted companies raise finance from outside investors. This booklet provides a general outline of the scheme.

IR138 - Living or retiring abroad? A guide to UK tax on your UK income

This booklet explains how the income from investments in the UK and your UK pension will be taxed if you live or retire abroad.

IR139 - Income from abroad? A guide to UK tax on overseas income

This booklet explains how overseas income is taxed in the UK. It also explains how you can obtain relief from 'double taxation' if your overseas income is subject to tax both in the UK and in another country.

IR14/15 - Construction industry tax deduction scheme

This booklet explains the arrangements for the taxing of certain payments made by 'contractors' and 'sub-contractors' in the construction industry. It deals with the duties of both contractors and sub-contractors under these arrangements.

IR140 - Non-resident landlords, their agents and tenants

This booklet tells you about the new scheme for taxing the UK rental income of non-resident landlords. The new scheme applies to rents and other income of a UK rental business paid on or after 6 April 1996.

IR144 - Income tax and Incapacity Benefit

This leaflet is for people who are claiming Incapacity Benefit. It explains how it is taxed and how you can get help from the Tax Office if you need it.

This leaflet is available in clear print, audio cassette and Braille versions.

IR145 - Low interest loans provided by employers

A low interest loan given to you or a relative by your employer or someone connected with your employer is taxable. This booklet outlines the tax position from April 1994. A low interest loan which your employer guarantees, finances or helps with in other ways is also taxable.

IR148/CA69 - Are your workers employed or self-employed? A guide for tax and National Insurance for contractors in the construction industry

When you take on workers you must consider whether the terms and conditions you engage them on make them employees or self-employed. The position in the construction industry is no different from any other industry and this leaflet is intended to complement IR56/NI39 'Employed or self-employed' and CWG2 'Employer's guide to PAYE and NICs'.

IR150 - Taxation of rents. A guide to property income

This guide describes the income rules that apply if you receive rental income and other income from land and property from 6 April 1995 onwards. It provides guidance about what income is within Schedule A, what expenses can be set against that income and how to arrive at the taxable profit or allowable loss of a tax year. It also covers income from overseas property.

IR155 - PAYE settlement agreements

This leaflet is for employers who make expenses payments to their employees or give them benefits in kind.

IR157 - Workers in building and construction. Help with tax for employees and the self-employed

Why must your contractor look at whether you are self-employed or an employee? What does this mean as far as your tax is concerned? How do you fill in your tax return if you have changed from being self-employed to being an employee? This leaflet gives step-by-step guidance which will help you to find the answers to these questions.

IR16 - Share acquisitions by directors and employees. Explanatory notes

This booklet describes the circumstances in which directors and employees may become chargeable to income tax on the grant and exercise of options to acquire shares. It also covers shares generally.

IR160 - Inland Revenue enquiries under Self Assessment

This leaflet explains what happens at the end of an enquiry into your tax return.

IR161 - Tax relief for employees' business travel

If your employer pays your travelling expenses, or pays then direct to someone else, you are usually taxed on these payments, because the law says they are part of your income. However, this leaflet explains how you can claim tax relief if you travel as part of your job.

IR20 - Residents and non-residents. Liability to tax in the United Kingdom

This booklet describes the residence rules and how to work out whether or not you are resident in the UK for tax purposes.

IR33 - Income tax and school leavers

A basic guide that young people should find useful. It explains what income tax, PAYE, tax allowances and tax codes are.

IR34 - Pay As You Earn

This is for all employees who want to know more about the 'Pay As You Earn' (PAYE) system.

IR37 - Appeals against tax

This leaflet explains the procedure for making a tax appeal. It is intended mainly for people who do not have professional advice in dealing with their tax affairs.

IR40 - Construction industry. Conditions for getting a sub-contractor's tax certificate

If you work in the construction industry you may want to apply for a sub-contractor's tax certificate. This leaflet tells you how to go about it.

IR41 - Income tax and job seekers

Jobseeker's Allowance (JSA) replaced Unemployment Benefit and Income Support for unemployed people on 7 October 1996. This leaflet is for people who are claiming JSA because they do not have a job. It explains how tax is affected by unemployment, and whether or not you can claim a tax refund if you are unemployed.

IR42 - Lay-offs and short-time work

This is a guide for people who have a job, but are claiming benefits because they have been laid-off or are on short-time work.

IR45 - What to do about tax when someone dies

This leaflet will help you understand the tax consequences that arise when someone dies. It gives information about income tax, capital gains tax and inheritance tax. There are sections about the responsibilities of personal representatives and trustees, and about the tax treatment of beneficiaries.

CWL3 - Thinking of taking someone on? PAYE tax and National Insurance contributions for employers

You may be thinking of employing someone for the first time. Perhaps because your business is expanding and you need another pair of hands. This leaflet takes a brief look at the things you will have to do as an employer, such as work out tax and Class 1 NICs. It also answers some of the questions new employers ask.

Business Series IR56/N139

Employed or self-employed?

A guide for tax and National Insurance

The Department of Social Security and the Inland Revenue both produce a wide range of free leaflets each designed to explain a different aspect of the tax and National Insurance systems in plain English. Some you might find useful are listed below.

Available in Tax Offices and Tax Enquiry Centres

IR34	'PAYE - Pay As You Earn'
IR37	'Appeals against tax'
IR120	'You and the Inland Revenue'

Available in DSS Contributions Agency Offices

CA01 [NP28]	'National Insurance for Employees'
CA25 [NI192]	'Agencies/Agency Supplied Workers'
CA26 [NI222]	'National Insurance for Examiners, Teachers, Lecturers'
CA62	'Unhappy with our service'
CA64	'Dissatisfied with our ruling'
FB30	'Self Employed?'

Available in Tax Offices, Tax Enquiry Centres and DSS Contributions Agency Office

CWL1	'Starting your own business?'
CWL2	'National Insurance contributions for self-employed people. Class 2 and Class 4'
CWL3	'Thinking of taking someone on? PAYE tax and National Insurance contributions for employers'

Our Leaflet IR120 'You and the Inland Revenue' tells you more about the standard of service you can expect from the Inland Revenue. It also tells you the steps you can take if you want to make any comments on the service you receive, or complain about the way your tax affairs have been handled.

Leaflet CA62 'Unhappy with our service' tells you more about the standard of service you can expect form the Contributions Agency. It also explains how you can complain if you are unhappy with the service you have received.

You can obtain Contributions Agency leaflets from your local Social Security Office. Offices are open to the public form 9.30 am to 3.30 pm, Monday to Friday.

Our IR List 'Catalogue of leaflets and booklets' gives information about all the publications you can get from Tax Enquiry Centres and Tax Offices. Addresses are in your local phone book under 'Inland

Revenue'. Most offices are open to the public from 9.30am to 4.00pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

This leaflet is to help you find out if you are employed or self-employed.

This leaflet is jointly issued by the Department of Social Security and Inland Revenue.

Your employment status affects the tax and National Insurance you have to pay, so it is important you know which heading your job falls under.

The law doesn't define 'employment' and 'self-employment'. You or your employer can't simply call your job 'employment' or 'self-employment'. The questions below should help you to decide your employment status, although they are only a brief guide and don't cover every situation. It is not possible to list all the factors which may be relevant or provide a precise guide to their relative importance. For each engagement the whole picture needs to be looked at in the light of all the facts.

If you are unsure, or you have any questions, ask at your local Tax Enquiry Centre or Tax Office, or Contributions Agency Office of the DSS. Each office has someone responsible for all enquiries and decisions about employment status.

The Inland Revenue and the DSS have a common approach to the determination of employment status. This means that after one Department has investigated the facts and given a written decision on status, that decision will be accepted by the other. The only exceptions to this are in certain special cases where the law differs for tax and National Insurance purposes, or it is discovered that the facts given to the investigating Department were inaccurate, incomplete or have changed.

In most cases it will be obvious whether you are employed or self-employed. For example, if you work for a company on a production line in its factory, you are almost certainly employed. It may be clear that you are an employee because you have been given a written statement of your employment terms, or you may be a member of a pension scheme open only to employees.

You are self-employed if you are in business on your own for example, if you run your own shop, or are buying and selling goods, or providing services direct to the public from your own office premises.

However, sometimes it isn't so easy to decide. You'll need to look at your job as a whole, taking into account all the conditions you work under in the light of the guidelines below.

As well as applying for tax and National Insurance purposes, these considerations may apply in employment law matters such as unfair dismissal and redundancy. However, other considerations may also be relevant in these areas, so your position under employment law will not necessarily be the same as under tax and National Insurance law. For employment protection purposes the industrial tribunals, which are independent judicial bodies, will decide whether someone who makes a complaint is employed or self-employed.

Bear in mind that because you are self-employed in one job doesn't necessarily mean you will be in your next job.

Employed or self-employed?

Employed
If you can answer 'Yes' to the following questions, you are probably employed.

- Do you yourself have to do the work rather than hire someone else to do it for you?
- Can someone tell you at any time what to do or when and how to do it?
- Are you paid by the hour, week, or month? Can you get overtime pay?
- Do you work set hours, or a given number of hours a week or month?
- Do you work at the premises of the person you work for, or at a place or places he or she decides?

Self-employed
If you can answer 'Yes' to the following questions, it will usually mean you are self-employed.

- Do you have the final say in how the business is run?
- Do you risk your own money in the business?
- Are you responsible for meeting the losses as well as taking the profits?
- Do you provide the main items of equipment you need to do your job, not just the small tools many employees provide for themselves?
- Are you free to hire other people on your own terms to do the work you have taken on? Do you pay them out of your own pocket?
- Do you have to correct unsatisfactory work in your own time and at your own expense?

SPECIAL RULES

These may apply to certain jobs or positions. If for instance

- your work is arranged through an agency
- you are a company director or the secretary of a club or the holder of any other office
- you will normally have to pay tax and National Insurance contributions as if you are an employee.

There are also special rules which apply to National Insurance contributions but not tax. These may affect you if

- you are an office cleaner
- you are a Minister of religion
- you are an examiner, moderator or invigilator of an examining board
- you are a school teacher, lecturer or instructor

you work for someone in your family

Ask at your local Contributions Agency Office of the DSS for advice.

Casual, short term, temporary or part-time working

The same considerations to determine employment status will apply even if you work part-time or for a short period. Unless you can answer 'Yes' to the self-employed questions above, you will normally be an employee.

If

you have more than one job, or

you work for a number of different people for a few days or weeks at a time

you will need to answer the questions above for each job. Remember because you are self-employed in one job, it doesn't necessarily mean you will be self-employed in any other job you take on. Where, however, you provide services to many different persons and do not work regularly for one person to the exclusion of others, this may be relevant to the decision whether your work for each is as an employee, or a self-employed person.

You can even be employed and self-employed at the same time in different jobs. For example, you could be employed as a part-time shop assistant and spend the rest of your time running your own business from home. You could work full time in a factory as an employee, and run a part time business in the evening or weekends. You may have a number of short term or part time activities, some of which may amount to employment and others self employment. It all depends on the facts.

What about my tax and National Insurance?

Employed

It will normally be your employer's responsibility to deduct tax and National Insurance from your pay under PAYE and pay it over to the Inland Revenue. The Inland Revenue leaflet IR34 'PAYE - Pay As You Earn' explains this in more detail.

Self-employed

You are responsible for your own tax and National Insurance. This means

telling your Tax Office and Contributions Agency Office of the DSS, if you haven't already done so, that you are in business

telling your Tax Office about all your income. Once you have told the Tax Office that you are in business, they will normally send you a Tax Return each year to enable you to do this. However, you must still tell the Inland Revenue about income you have in any tax year, even if the Tax Office doesn't send you a Return for that year paying the tax

paying Class 2 National Insurance contributions. You will be sent a bill every 13 weeks, in arrears unless you choose to pay monthly by direct debit - see DSS leaflet FB30 'Self-Employed?'

paying Class 4 National Insurance contributions, see booklet CWL2 'National Insurance contributions for self-employed people. Class 2 and Class 4' for more information.

Being self-employed also affects

the social security benefits you can claim, such as unemployment benefit

other rights, for example those under employment legislation, such as the right to maternity leave, or to a redundancy payment, notice rights and so on

your liability to the public for the work you do for them.

If you would like to know more about how the tax and National Insurance systems affect the self-employed, there are a number of leaflets to help you. These are listed on the inside front cover of this leaflet.

Still not sure?

If you are not sure whether you are employed or self-employed, or if you have any other questions, please get in touch with your local Tax Enquiry Centre, Tax Office or Contributions Agency Office of the DSS for advice. They can give you a written decision about your employment status for tax and National Insurance purposes. If you can't agree with their decision, you can appeal against it. Leaflet IR37 'Appeals against tax' gives you more information about how to appeal against an Inland Revenue decision. Leaflet CA64 'Dissatisfied with our ruling' explains how to challenge a Contributions Agency ruling.

If you are not sure whether employment protection rights apply to you, an industrial tribunal would decide whether you were employed or self-employed if you complained that these rights had been infringed.

If you are paying someone to work for you and are not sure if you are the employer responsible for deducting PAYE/National Insurance from his or her pay, your local Tax Enquiry Centre, Tax Office or Contributions Agency Office of the DSS can also advise you. You may also find the Revenue booklet CWL3 'Thinking of taking someone on. PAYE tax and National Insurance contributions for employers' helpful.

These notes are for guidance only and reflect the tax and National Insurance position at the time of writing. They do not affect your right of appeal about your own tax or National Insurance.

Issued by the Inland Revenue
May 1995

IR56/NI39 - Employed or self-employed? A guide for tax and National Insurance

This can help you decide whether or not you are employed or self-employed - an area that causes a lot of confusion. It also tells you how tax and National Insurance affect you, whatever your employment status.

IR58 - Going to work abroad?

This leaflet answers many of the questions asked about tax where a UK resident works abroad as an employee.

IR60 - Income tax and students

If you are a student this leaflet will help you understand the income tax system and how it affects you. It explains tax allowances, holiday earnings and Jobseeker's Allowance.

IR64 - Giving to charity. How businesses can get tax relief

Companies and individuals in business can get tax relief for payments made to charity. This leaflet describes how the relief is given.

IR65 - Giving to charity. How individuals can get tax relief

A brief explanation of how you can get tax relief on gifts made to UK charities through the Payroll Giving Scheme, deeds of covenant and Gift Aid.

Personal Taxpayer Series IR65
Giving to charity
How individuals can get tax relief

CONTENTS

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system in plain English. Some you might find useful are listed below.

IR64	Giving to charity - how businesses can get tax relief
IR113	Gift Aid - a guide to donors and charities
IR120	You and the Inland Revenue
CGT1 4	Capital gains tax - an introduction

Our IR List 'Catalogue of leaflets and booklets' shows all the publications you can get from Tax Enquiry Centres and Tax Offices. The address of the nearest Tax Office is in your local phone book under 'Inland Revenue'. Most offices are open to the public from 9.30am to 4pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

If you are thinking of giving some money to charity, this leaflet looks at the ways the tax system can help you do so.

You can get **tax relief** on gifts to charities set up in the United Kingdom if you choose to give in any of the following three ways.

Join a Payroll Giving Scheme, if your employer runs one.
Make a deed of covenant and pay a regular amount for a number of years.
Make a gift under Gift Aid.

In this leaflet we look at each of these in turn and explain how you can get tax relief on the payments you make.

This is only a brief guide and may not cover every question you might have. If there is anything else you would like to know, please ask any Tax Enquiry Centre or Tax Office. The notes above tell you how to find your nearest office and when it is open. Or you can contact our Helpline numbers for deeds of covenant or Gift Aid.

Payroll giving schemes

What is Payroll Giving?
It's a way for employees to give to charity directly from their pay and get tax relief on their payments.

Does every employer have to run a Scheme?
No. If your employer doesn't run one, you can still give to charity in one of the other tax-effective ways mentioned above.

How does Payroll Giving work?
Your employer deducts the money from your pay and hands it over to a charity agency, which will pass it on to the charity or charities of your choice. Ask your employer for an application form. The completed form will allow them to take the gift from your pay.

Can all employees join the Scheme?
Yes, and pensioners can join their former employer's Scheme if tax is deducted from their pension under Pay As You Earn.

How much or how little can I give?
The most you can give under the Payroll Giving Scheme is £900 in any tax year (which starts on 6 April in one year and ends on 5 April in the next).

The limit applies to each person. So a husband and wife can each give up to £900 in any one tax year and get tax relief.

Some employers may have a minimum donation you can make, and your employer will tell you what this is.

Can I choose any charity?
Yes, and you can choose more than one if you want. You can also make your gift to a group of charities, known as a consortium, which has been approved by the Inland Revenue to accept nominations in favour of its members under the Payroll Giving Scheme. Your employer can get details for you.

How do I get tax relief?
Your employer deducts the gift from your pay or pension **before** your PAYE tax is worked out. So you will pay tax only on the amount left after the gift has been deducted.

Will I get tax relief on the whole gift?
Yes, but remember the most you can give is £900 in any one tax year. The relief will be given at your highest rate of tax.

Can I ask for a refund of my donations?
No. Once a gift has been taken out of your pay and you have been given tax relief on it, it must go to charity.

Can I stop paying at any time?

Yes, but your employer may need some notice that you wish to stop paying.

Can I make payments under a deed of covenant through the Payroll Giving Scheme?
No, because then you would get tax relief twice on the same payment.

But you can make **separate payments** under a deed of covenant and get tax relief under both systems.

Will my employer have to know to which charity I want to give?
Not necessarily. It may depend on the arrangements between your employer and the agency, but it should be possible to keep your choice confidential.

Deeds of covenant

What is a deed of covenant?
It is a legally binding agreement to give away part of your income each year.

How do I make a deed of covenant?
Most charities have standard forms and will be pleased to send you one.

How long must the covenant run?
If you want to get tax relief, it will have to run for more than three years. Charitable covenants usually run for four years.

How do I get tax relief?
You take off tax at the basic rate when paying your gift to the charity. Provided you are paying at least that much basic rate tax yourself, you get your tax relief by keeping what you have deducted.

How does the charity get tax relief?
The charity claims back the tax from the Inland Revenue, so it is not out of pocket.

How does it work?
The usual way is to make a ‘net of tax’ covenant. Say, for example, you want to give the charity an amount which will cost you £75 after taking basic rate tax into account. The first step is for you to sign a covenant under which you agree to pay the charity every year ‘such a sum as after the deduction of tax is equal to £75’.

You then pay £75 to the charity each year. But this is really worth £100 from which you have deducted tax, at the basic rate of 25%, £25. As long as you are already paying at least this much basic rate tax, you need do nothing more. But the charity can claim the tax back, so it gets the full £100: £75 from you and £25 from the Inland Revenue.

Alternatively, you may decide to make a ‘gross’ covenant.

This means you sign a covenant agreeing to pay the charity, say £100 every year. If you are a taxpayer you are entitled to tax relief on the payment. You get the relief by deducting and keeping basic rate tax of £25 from the payment, and you pay £75 to the charity. The charity then claims back the £25 you have deducted from the Inland Revenue, so it gets the full

£100.

What if I pay tax at the higher rate?
Enter the net amount of your covenant on your tax return. Your Tax Office will give you the extra relief, usually through your PAYE code or your tax assessment.

What if I pay tax only at the lower rate?
You must still deduct basic rate tax from your payments and you will be liable to pay this to the Inland Revenue instead of the lower rate tax you would otherwise pay.

> If you get a tax return, you must enter the net amount of your covenant(s), that is the amount you actually paid to each charity, in the relevant section.

What if I am not paying any tax?
You must pay to the Inland Revenue any tax you deduct from payments to the charity. There is no advantage in having a deed of covenant if you are not a taxpayer - it is simpler just to give your donations to charity.

If you do not pay tax, you may wish to review any charitable covenant arrangements you have. It may be better for your husband or wife - if he or she pays tax - to make a deed of covenant instead.

What about joint covenants?
If you and your husband or wife make a joint covenant you are treated as paying half each, unless you can show that you do not make equal payments. You can each claim tax relief on the amount of the payments you make.

If one of you is not a taxpayer, you will have to pay over to the Inland Revenue the tax deducted from that part of the covenant payment. Also, if the wife does not pay tax, the husband will not be able to get higher rate relief on her share of the payments.

Can I get relief under both the Payroll Giving Scheme and a deed of covenant?
Yes. If you make gifts under both systems you are entitled to tax relief under each. But you cannot make your covenanted payments through the Payroll Giving Scheme. The two systems are separate and you will not get relief twice for the same payment.

If you would like more information about this, call our Covenant Helpline on **0151 472 6037.**

Gift Aid

What is Gift Aid?
It is a way for you, if you are a UK resident and a taxpayer, to get tax relief for **single cash gifts** to charity. Each gift must be at least £250. This must be the net amount you actually pay to the charity after basic rate tax. The charity then claims the tax back from the Inland Revenue. If you would like more information about this, ask for a copy of our booklet IR113 ‘Gift Aid - a guide for donors and charities’ at any Tax Enquiry Centre or Tax Office. Or you can call our Gift Aid Helpline on **0151 472 6038.**

Some other points

Inheritance tax

All outright gifts and bequests to UK charities are completely free of inheritance tax.

Capital gains tax

You are not liable to capital gains tax when you make a gift of assets, such as land or stocks and shares, to charity, even if the asset is worth more when you give it away than when you acquired it.

The tax liability is passed on to the charity when it disposes of the asset. But usually the charity will be exempt from capital gains tax on the total gain since **you** acquired the asset.

Our leaflet CGT14 ‘Capital gains tax - an introduction’ gives you more details about capital gains tax.

Contact with the Tax Office

As we said at the beginning, this leaflet does not cover every point. If you have any questions, the staff at your local Tax Enquiry Centre or Tax Office will be happy to answer them. They can also give you the other leaflets listed below.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect your right of appeal about your own tax.

Issued by the Inland Revenue
November 1993

IR69 - Expenses payments and benefits in kind. How to save yourself work

This explains how employers can apply for a 'dispensation notice' to remove the need to report expenses payments on forms P11D. The leaflet includes an application form.

IR72 - Investigations. The examination of business accounts

What happens if your accounts are selected for investigation? This leaflet describes how the Revenue selects accounts to investigate and how a tax assessment is worked out.

IR73 - Inland Revenue investigations. How settlements are negotiated

What happens at the end of an investigation into someone's tax affairs? This describes the Revenue's approach to reaching an agreement if there is an amount owing.

IR78 - Personal pensions. A guide for tax

What personal pensions are about, how they work, who can provide them, the tax reliefs available, and what happens if you 'contract-out' of SERPS (State Earnings Related Pensions Scheme).

IR80 - Income tax and married couples

This leaflet will help you understand the income tax system and how it affects married couples.

FULL TEXT

IR87 - Letting and your home

This leaflet shows how income from letting furnished rooms is treated for tax purposes. It explains the expenses you can claim, capital allowances and capital gains tax. It also explains the rules of the 'Rent a Room' scheme. This allows you to let furnished accommodation in your own home without having to pay tax on the rent you receive, so long as it is £4,250 or less.

Personal Taxpayer Series IR87
Letting and your home
Including the 'Rent a Room' scheme, and letting your previous home when you live elsewhere

CONTENTS

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system in plain English. Some you might find useful are listed below.

IR20	Residents and non residents - liability to tax in the United Kingdom
IR90	Tax allowances and reliefs
IR105	How your profits are taxed
IR123	Mortgage interest relief
IR140	Non resident landlords, their agents and tenants
IR150	Taxation of rents. A guide to property income
CGT1 4	Capital gains tax. An introduction

Our leaflet IR120 'You and the Inland Revenue' tells you more about the standard of service you can expect from us. It also tells you how you can make any comments on the service you receive, or complain about the way your tax affairs have been handled.

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Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

Some of our leaflets are also available on the Internet at http://www.open.gov.uk/inrev/irleaf.htm

Introduction

This leaflet will help you if you are thinking about letting **furnished rooms** and want to know if there will be any tax to pay on the income.

It describes the main tax rules that apply if you rent out rooms in your own home or let your previous home while you live somewhere else.

If you want to know about **letting unfurnished property** or letting property as **holiday accommodation**, our staff at your local Tax Enquiry Centre or Tax Office will be pleased to help you.

We also publish a more detailed guide on income from property subject to income tax -IR150 'Taxation of rents - A guide to property income'. If you let more than one property at the same time, you should read no further. Instead, ask at your local Tax Enquiry Centre or Tax Office for the guide IR150. Also, if you want further information on points covered only briefly in this leaflet, you will probably find the answer in the IR150

Income tax

Will I have to pay tax?

This will depend on

- whether you come within the Rent a Room exemption scheme
- if you do not, whether your taxable income for any year, including any profit from letting, is more than your personal tax allowances.

If you are not sure what personal tax allowances you can claim, ask at your local Tax Enquiry Centre or Tax Office for our leaflet IR90 'Tax allowances and reliefs.'

We look first at the Rent a Room scheme. It has special rules which usually apply when you take in a lodger (broadly, a lodger is someone who pays to live in your home, normally with meals provided, and who often shares the family rooms).

Below we explain the rules that apply if you do not come under the Rent a Room scheme.

Rent a Room

This section describes the special rules which can apply when you rent out furnished accommodation in your only or main home. In other words, where friends and correspondents would expect to find you and your family. Your only or main home is the property which is the family home for most of the time.

Under the scheme, a certain amount of gross (that is, before expenses) income you receive from furnished accommodation in your only or main home can be tax-free. You cannot then claim any expenses, or capital allowances.

For the tax years 1992-1993 to 1996-97, the first £3,250 can be tax free*. From 1997-98 the first £4,250** can be tax free. A tax year runs from 6 April in one year to 5 April of the following year.

The 1997-98 figure of £4,250 is the figure used in the explanation and examples in this leaflet.

* If letting jointly, £1,625 instead of £3,250 (see below)
** If letting jointly, £2,125 instead of £4,250 (see below)

You do not have to take part in the scheme if it is not to your advantage. Instead, you simply declare all your letting income and claim expenses and, where appropriate, capital allowances in the normal way.

Do the special rules apply only to owner occupiers?

No. They apply to people who rent as well as people who own their homes, but you should check whether your lease allows you to take in a lodger. If you have a mortgage you should check with your lender.

Do the rules mean I don't have to pay tax on the rent I get?

As long as the total rent you get during the tax year is no more than £4,250, you do not have to pay tax on that income. If your letting amounts to a trading activity, there are certain capital allowance considerations of which you must take account. These are explained below.

If the Tax Office does not sent you a tax return you do not even need to tell them about this income. If you do get a return, all you have to do is tick a box on it to confirm that your rental income is £4,250** a year or less.

Do the special rules have to apply?

No, there may be circumstances where you will not want them to. For example, if you are treated as carrying on a trade, and exceptionally you made a loss, you might wish to set that loss against other income.

You should let your Tax Office know by 31 January, 22 months after the end of the tax year in which the loss was made, that you do not wish to be within the Rent a Room scheme. (For years up to 1995/96 inclusive, the time limit is one year from the end of the year in which the loss was made.)

What if I share the house where I live?

If you share your home with another person and one of you lets a room to someone, the whole exemption will go to the person actually renting out the room. If you let the room jointly, or you each let a separate room, each of you will get half the exemption, that is, £2,125.

If three or more people let a room on a joint basis, they will each get an exemption of £2,125.

Where a home is owned by a husband and wife, the income from letting will normally be treated for tax purposes in equal shares. If services such as meals and cleaning are provided, however, the letting will probably amount to a trade and the income will arise to the spouse who carries on the trade.

What happens if the rent is more than £4,250**?

In that case you can choose between

A paying tax on the profit you make from letting the room, worked out in the normal way, or

B paying tax on the amount of rent over £4,250**.

If you choose method A, you need to work out your profit by taking your actual expenses away from the total rent you receive. If you decide on this option, see below which explains the expenses you may claim.

If you choose method B, you will pay tax on any amount of rent over £4,250 (including payments for any related services you provide - see below). If you decide on this option, you will need to tell your Tax Office by 31 January, 22 months after the end of the tax year, that you wish to be within the Rent a Room scheme and be taxed simply on the amount of rent etc. over £4,250**. So if you had income from letting a room during the tax year ended 5 April 1997, you must tell the Tax Office by 31 January 1999 that you want to be taxed using this method. (The time limit for tax years up to 1995/96 inclusive is one year after the end of the year.)

The time limits for letting the Tax Office know that you do not want your rental income to be exempt, or that you want to use method B, are strictly applied, though we are able to extend them in certain circumstances.

If you wish to take part in the Rent a Room scheme but have, for some good reason, missed the time limit you should consult your Tax Office.

How do I decide which method to choose?

You can choose whichever method is best for you. To do that you will need to work out how much profit you are making, in other words, how much rent you are left with after your expenses. You should then compare the figure with the amount of rent over £4,250**. Here are a couple of examples to show you what we mean.

Example 1

Susan lets a room for £110 a week.
Her total letting income (rent) for the year is £5,720.
She has expenses of £1,000 so her profit is £4,720.
The amount of rent over £4,250 is £1,470 (£5,720 - £4,250).

Using method A, she would pay tax on a profit of £4,720.
Using method B, she would pay tax on £1,470.

In Susan's case, method B is better.

Example 2

John also lets a room for £110 a week.
His total letting income (rent) for the year is £5,720.
He has expenses of £4,500 so his profit is £1,220.
The amount of rent over £4250 is £1,470 (£5,720 - £4,250).

Using method A, he would pay tax on a profit of £1,220.
Using method B, he would pay tax on £1,470.

In John's case, method A is better.

Can I change the method from year to year?
Yes. But each time you want to change you must tell your Tax Office by 31 January, 22 months after the end of the tax year.

Method B will automatically cease if the rent you get drops below £4,251. If, in the following year, your rent goes up and you want to use method B again, you must tell your Tax Office by 31 January, 22 months after the end of the tax year. (The time limit for tax years up to 1995/96 inclusive is one year after the end of the tax year.)

I provide meals and a laundry service as well as accommodation. Does this affect my entitlement to Rent a Room relief?
No, but if you do provide these and any other related services, any payment you get for them has to be added to the rent for Rent a Room purposes. If the total rent and services is more than £4,250, **even if the rent alone is less,** you will not be exempt. Your tax choice will be between method A and B shown above.

Can I get relief for losses under Rent a Room?
If you have any losses outstanding from earlier years when your rents were not within the scheme, these are not wasted.

If your rent is no more than £4,250** and you therefore have no tax to pay on that income, the losses from an earlier period can be carried forward against future letting profits.

If your rent is more than £4,250**, then - whether you use method A or B - the earlier losses can be set against your rents in the normal way.

I am treated as trading and can normally claim capital allowances. What happens if I use the Rent a Room scheme?
You cannot claim capital allowances on furnished lettings for any year in which you are within Rent a Room.

However, any balancing charge (this is basically a charge to recover capital allowances given in earlier years which may arise when, for example, you sell the equipment on which the allowance was given) will be

- added to your gross rents when deciding whether they are no more than £4,250 and therefore whether you are exempt
- taxable in the normal way if you use methods A or B as shown above.

Will I have to pay capital gains tax when I sell my home?
The Rent a Room scheme makes no difference to the capital gains tax rules which apply when you sell your home. Special rules apply if you have let part or all of your home as residential accommodation.

What happens if I move home during the year?
The special rules apply to the **total** rent you receive during the tax year. If you move home, and lettings in both your old and your new home qualify for Rent a Room relief during the same year, you must add together the rents from both to see if you need to pay tax.

What happens if I live abroad?
If you let your old home in the United Kingdom while you live abroad you will not normally be within Rent a Room. You should consult your Tax Office, especially if you were within Rent a Room before you left.

Furnished Lettings

If you do not come within the Rent a Room scheme, you need to know

- what expenses you can claim
- the tax reliefs available
- how the tax is collected

and so on. Some special rules apply if you are treated as carrying on a trade.

What expenses can I claim?
The most common allowable expenses are

- gas and electricity
- insurance premiums for buildings and contents
- maintenance and repair costs, but not the costs of improvements
- water rates
- rent, if you do not own the property
- the fees an agent charges to let your home for you
- council tax which you pay for the let property.

You can claim the expenses for the let part of your home. For example, if your house is in three storeys and you let the top floor you can claim

- one-third of the expenses incurred on the whole house, **plus**
- the full amount of the expenses incurred **solely** on the let part of the house, such as the cost of advertising for tenants.

Mortgage interest is not an allowable expense against your income from letting if you are claiming mortgage interest relief.

Payments made by members of your family towards household expenses are not taxed.

Please contact any Tax Enquiry Centre or Tax Office if there is anything you are not sure about - see details on the inside front cover.

What if these expenses are incurred before I start to let the property?
You may be able to claim relief for these if they

- are incurred in the period beginning 7 years before the date you started the letting, and
- the expenses would have been allowable if you had already started the letting.

The relief works by treating the expenses as incurred in the first year of letting.

Your Tax Office will be able to help you with this if you are not sure.

What about the cost of furniture?

You cannot claim the cost of furniture when you first buy it, but you can choose to claim the actual cost of furniture when you replace it (after deducting the cost of any improvements and anything received on the disposal of the old furniture), or a 'wear and tear' allowance. The 'wear and tear' allowance is 10% of the annual rent after deducting any part of the occupier's council tax, water rates, and any other service charges which are normally paid by a tenant but which are paid by you.

Once you have made a choice you cannot change it.

My expenses are more than the income I receive from the letting. Can I claim the difference against the rest of my income?

You can get relief by carrying forward the deficit (the loss) and setting it against profits you make from both furnished lettings and unfurnished lettings in future years.

However, if you stop letting and there is a gap before you begin letting again, you may not be able to carry forward any earlier losses. However, if your property is temporarily unlet but remains available for letting throughout, you will normally be able to carry forward losses when the letting resumes.

Will my mortgage interest relief be affected?

Not usually, but it does depend on your circumstances, particularly the proportion of your home that you let.

If you have been getting relief under the MIRAS scheme (mortgage interest relief at source) arrangements, you can normally continue to get relief if you do not let more than one-third of your home. (If you start to let more than one-third of your property, you should tell your lender and your Tax Office straight away.) Similarly, if you have been getting relief outside the MIRAS arrangements, you can normally continue to get relief.

You may also be able to get relief by setting the interest you pay against your property income. But you cannot have both forms of relief and should choose whichever form of relief is better for you. See the leaflet IR150 if you want more information about this.

What happens if I let my whole house?

The basic rules are the same if you let your whole house, furnished, while you live or work elsewhere. Again, if you are getting mortgage interest relief you may choose whichever form of relief is better for you.

What records should I keep?

You must keep a careful note of the rents received and the expenses as they arise. You must retain these records, together with the back-up records such as receipts and invoices. All records have to be kept for six years after the tax year in question. These will help you if your Tax Office decides to make enquiries into your tax return.

What information will the Tax Office need?

If the Tax Office send you a tax return you should complete it and send it back at the latest by 31 January after the tax year in question. For example, you will have to send your completed return for the year ended 5 April 1997 to your Tax Office by 31 January 1998. You should enter the amount of rents you have received in the tax year and the expenses which you have paid on the return.

If you do not receive a tax return please write to your local Tax Office and they will send you one.

How is the income tax collected?

From 1996/97 your income from property will be included in your Self Assessment to tax on all of your income. For 1997/98 two payments on account will be due on 31 January 1998 and 31 July 1998 based on your income for 1996/97. If the payments on account are less than the amount finally due for 1997/98, you must pay the balance by 31 January 1999. (Special tax rules apply for 1996-97.)

However, if you are employed and the amount taxable in respect of your property income is small, your Pay As You Earn (PAYE) tax code will probably be adjusted to collect the tax due each year.

What if I live abroad?

You still have to pay income tax on the rent if you let your previous home in the United Kingdom (UK) while you live abroad.

Your letting agent, or your tenant where there is no letting agent, must deduct tax from your rental income and pay that tax to the Inland Revenue. You can then set off that tax against your personal tax bill when you complete your tax return.

Deduction of tax will not apply

- where there is no agent and the rent paid is less than £100 per week, unless the tenant has been told to deduct tax by the Inland Revenue
- where the Inland Revenue has issued a notice confirming that rents may be paid without deduction. You can apply to receive rental income without deduction of tax on the grounds that you do not expect to be liable to UK tax or your UK tax affairs are up-to-date and you will pay all tax due through Self Assessment.

For further guidance on the deduction scheme and how to apply to receive rents without deduction, ask your local Tax Office for leaflet IR140 (Non resident landlords, their agents and tenants).

What happens if I take in a lodger and do not claim Rent a Room relief?

You will be entitled to extra relief for the additional expenses which are normally involved.

The extra services you may provide while you remain living at the same address, such as meals and laundry, mean that you will normally be treated as carrying on a trade for tax purposes. In practice, this makes little difference to the way you calculate your taxable income. You can still claim the same sort of expenses as if you were letting furnished rooms.

In addition, you can claim the cost of providing the extra services and you may also be entitled to some other tax reliefs, described below.

Capital allowances

These replace the wear and tear allowances, or deductions for the costs of replacing furniture, given to people who let furnished rooms.

Additional loss relief

If in any tax year your expenses are more than the rent you receive, you may be able to claim the difference (the loss) against the rest of your income.

Your Tax Office will be able to tell you more about these reliefs.

Will I have to pay capital gains tax when I sell my home?

Special rules apply if you have let part of all of your home as residential accommodation.

Capital gains tax

When you sell a property you may have to pay capital gains tax (CGT) - not on the whole amount you sell it for but on the gain you make in selling it.

However, there are various tax reliefs available. See our leaflet CGT14 'Capital gains tax. An introduction' for more information on this. Below, we look at the main effects on CGT where you have let all or part of the property you sell.

What happens if I sell my home?

You do not have to pay CGT when you sell your home if you are the owner (or co-owner) of the property and you occupied the whole of it as your home throughout the time you owned it. Instead, you get a relief from CGT called the **private residence relief**. Our leaflet CGT14 'Capital gains tax. An introduction' gives more details.

What happens if I have a lodger?

The private residence relief is not affected if you have a lodger who is treated as a member of your family, sharing the living rooms and eating with you, even if he or she has a separate bedroom.

What happens if I let my home?

However, if you let

- part of your only or main home while you owned it, or
- all of your home for part of the time you owned it

to someone who is not treated as a member of your family, you may have some capital gains tax to pay when you sell it.

In other words, the amount of **private residence relief** will be affected, depending on

- how much of your home you let

the length of time you let it.

In addition, you may be entitled to a special **lettings relief**.

What is lettings relief?

If you let part or all of your home as residential accommodation, relief is available on the gain which would otherwise become chargeable as a result of the letting, up to the lower of

the private residence relief due to you, or

£40,000.

How do I decide if the let accommodation is part of my home?

It is a question of fact whether the let accommodation is your home, part of your home, or a separate dwelling for capital gains tax purposes.

For example, if you let part or all of a single dwelling which has been your home without making structural alterations or with only minor changes, the let part will not be treated as a separate dwelling-house. This applies even if the let part has its own areas for washing and/or cooking. You get the lettings relief in these circumstances.

If you occupy a self-contained flat as your home within a building and let all or part of the rest as residential accommodation you will not get the lettings relief.

If the building is altered so that the let part of it becomes a fully self-contained flat (whether or not it is treated as a separate dwelling-house), you will not get the lettings relief.

Do I get any other relief from capital gains tax when I have let property?

If you qualify for principal private residence relief on any part of your property at any time, you will be exempt on any gain on the property in the last three years in which you owned it.

The following examples show how these CGT rules work. In each example the let parts are let as residential accommodation.

Example 1

John Smith sells his house in 1994 after owning it for eight years. During that time he occupied one-sixth (1/6) of the property as his home and let the other five-sixths (5/6). His gain is £60,000.

John occupied 1/6 of the property so the proportion of the gain which qualifies for private residence relief is
1/6 x £60,000 - £10,000.

John also qualifies for the lettings relief because he let part of his house. The lettings relief is the lower of the principal private residence relief due to him (£10,000) or £40,000. So he gets lettings relief of £10,000.

Gain	£60,000

Less	- private residence relief	£10,000	
	- lettings relief	£10,000	
		£20,000	
Chargeable gain			**£40,000**

Example 2

Mary Jones sells her house in 1994 after owning it for ten years. During that time she occupied two-fifths (2/5) of the property and let the other three-fifths (3/5). Her gain is £140,000.

Mary occupied 2/5 of the property so the proportion of the gain which qualifies for private residence relief is
2/5 x £140,000 = £56,000.

Mary qualifies for the lettings relief because she let part of her home. The lettings relief is the **lower** of £56,000 or £40,000, that is, £40,000.

Gain			£140,000
Less	- private residence relief	£56,000	
	- lettings relief	£40,000	
		£96,000	
Chargeable gain			**£44,000**

Example 3

The facts are the same as in Example 2 except that Mary occupied the **whole** of her property for two years before letting the whole of it for the remaining eight years. In this case she is treated as occupying the whole property for the last three years of her ownership.

The proportion of her gain which qualifies for private residence relief is

$$\frac{\text{first 2 years + last 3 years}}{\text{10 year period of her total ownership}} = \frac{5}{10}$$

5/10 x £140,000 = £70,000

The lettings relief is the **lower** of £70,000 or £40,000, that is, £40,000.

Gain			£140,000
Less	- private residence relief	£70,000	
	- lettings relief	£40,000	
		£110,000	
Chargeable gain			**£30,000**

Example 4

The facts are the same as in Example 3 except that after occupying the whole of her property for two years, Mary let three fifths (3/5) of the property for the remaining eight years. Again, she is treated as occupying the whole property for the last three years of her ownership.

The proportion of her gain which qualifies for private residence relief is

$$\frac{\text{first 2 years + (2/5 of the next 5 years) + last 3 years}}{\text{10 year period of her total ownership}} = \frac{7}{10}$$

7/10 x £140,000 = £98,000

The lettings relief is the **lower** of £98,000 or £40,000, that is, £40,000.

Gain			£140,000
Less	- private residence relief	£98,000	
	- lettings relief	£40,000	
		£138,000	
Chargeable gain			**£2,000**

Advice on CGT

If you need any further help about how capital gains are calculated, your Tax Office will be able to supply further details.

More information

As we said earlier, if you need more information on letting property please speak to our staff at any Tax Enquiry Centre or Tax Office. See the below for details of how to find your nearest office.

If you want to know more about the general laws on letting rooms, ask your nearest Citizens' Advice Bureau for a copy of the Department of Environment leaflets 'Want to Rent a Room?' or 'Letting Rooms in Your Home'.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect your right of appeal about your own tax.

Issued by the Inland Revenue
April 1997

IR89 - Personal Equity Plans (PEPs). A guide for potential investors

This leaflet briefly describes the two types of PEPs that are available, how to make an investment, the tax advantages, how much you can pay in, and tells you what plan managers do. It is a basic guide to a fairly complex subject.

IR90 - Tax allowances and reliefs

This describes the main allowances and reliefs that are available to set against income and how to claim them.

IR91 - A guide for widows and widowers

This explains how income tax affects widows and widowers. It is especially helpful to those who have been recently bereaved.

IR92 - A guide for one-parent families

This leaflet tells you what kinds of income are taxed and what tax allowances you may be able to claim.

IR93 - Separation, divorce and maintenance payments

This leaflet answers the sort of questions people ask about tax when they separate or divorce. It tells you about legally enforceable maintenance payments which receive tax relief, and voluntary payments which do not.

FULL TEXT

IR95 - Approved profit sharing schemes. An outline for employees

You may be able to share in the profits of the company you work for in a number of ways. This leaflet gives brief details of the tax relief available.

IR97 - Approved SAYE share option schemes. An outline for employees

This booklet describes the tax advantages if you join a savings-related share option scheme set up by the company you work for.

Leaflet/booklet title	**Number**	**Year**
Residents and non-residents. Liability to tax in the UK	IR20	1996
Living or retiring abroad? A guide to UK tax on your income	IR138	1995
Income from abroad? A guide to UK tax on overseas income	IR139	1995
Non-resident landlords, their agents and tenants	IR140	1995
Going to work abroad?	IR58	1996

Personal Taxpayer Series IR80
Income tax and married couples

CONTENTS

We produce a wide range of leaflets, booklets and helpsheets designed to explain different aspects of the tax system in plain English, and to assist in the completion of tax returns. Most of them are free. Some you might find particularly helpful, which are mentioned in this booklet are.

IR65	Giving to charity. How individuals can get tax relief
IR78	Personal pensions. A guide for tax
IR90	Tax allowances and reliefs
IR91	A guide for widows and widowers
IR92	A guide for one-parent families
IR93	Separation, divorce and maintenance payments
IR103	Tax relief for private medical insurance. For people aged 60 and over
IR110	A guide for people with savings
IR120	You and the Inland Revenue
IR121	Income tax and pensioners
IR123	Mortgage interest relief. Buying your home
CGT14	Capital gains tax. An introduction
IHT3	Inheritance tax. An introduction

SA/BK3	Self Assessment. A guide to keeping records for the self-employed
SA/BK4	Self Assessment. A general guide to keeping records
SA/BK5	Self Assessment. Electronic version of the tax return

SA/ BK6	Self Assessment. Penalties for late tax returns
SA/ BK7	Self Assessment. Surcharges for late payment of tax
SA/ BK8	Self Assessment. Your guide

Our IR List 'Catalogue of leaflets and booklets' gives information about all the publications you can get from Tax Enquiry Centres and Tax Offices. Addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 8.30am to 4.30pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

You can also get most of our leaflets by

calling our Orderline on **0645 000404** between 8.00am and 10.00pm, seven days a week (except Christmas Day)

fax on **0645 000604**

email on **saorderline.ir@gtnet.gov.uk**, or

writing to **PO Box 37, St Austell, Cornwall, PL25 5YN**.

Many leaflets are also available on the Internet at **http://www.open.gov.uk/inrev/irleaf.htm**.

When our offices are closed, you can get general advice by calling our Helpline, in the evening or at weekends, on **0645 000444**.

Helpline and Orderline calls are charged at local rates.

Introduction

This leaflet is to help you understand the income tax system and how it affects married couples

You are each entitled to receive a certain amount of income every year before starting to pay tax. That amount is your 'personal allowance'. For the tax year 1997-98 (6 April 1997 to 5 April 1998), the 'basic' personal allowance is £4,045, but it can be more, depending on your age. There is also a married couple's allowance, which reduces your tax bill by a certain amount. In 1997-98 this is worth £1,830 x 15% = £274.50. The Chancellor sets the amounts of these allowances each year in the Budget.

We want you to pay no more tax than you have to. It is important for you to know what your allowances are, and what you can do if one of you has income that is **less** than your individual allowances.

We look at questions married couples often ask us. For example, can your surplus allowances (which are more than you need to set against your own tax) be transferred to your partner so that he or she pays less tax?

We cannot cover every question you might have in this leaflet. If there is anything else you would like to know, please ask the staff at any Tax Enquiry Centre or Tax Office. The notes above tell you how to find your nearest office.

How is our income taxed?

There is one important way in which married couples are treated as two separate individuals - and that is for income tax purposes. You

- are each taxed on your own income.
- can claim your own tax allowances.
- pay your own tax either through Pay As You Earn (PAYE) or directly to the Collector of Taxes
- can each receive repayments of any tax you have overpaid.

Usually you will not have the same Tax Office as your husband or wife. But if you do, we will handle your tax affairs separately and in strict confidence.

Tax allowances

What is a tax allowance?

A tax allowance is not a payment to you. It is a way of reducing the tax you pay on your income. There are two types of allowance. The personal allowance is income you can receive without having to pay any tax. The married couple's allowance, and certain other allowances, reduce your tax bill by a fixed amount.

What allowances can I claim?

Whether you are male or female, married or single, you are entitled to at least one allowance, the personal allowance. You can set it against your total income from work, savings and investments.

Does everyone get the same personal allowance?

No. If you are aged 65 or over and your income is below a certain limit, you get a higher allowance, and higher still if you are 75 or over.

Our leaflet IR121 - 'Income tax and pensioners' gives more details about this. Or ask at your local Tax Enquiry Centre or Tax Office

Is there a special allowance for married couples?

Yes. A married couple living together will have the benefit of the married couple's allowance.

There are three different amounts depending on your age. You can get a higher married couple's allowance in the year the older of you reaches the age of 65 and subsequent years. When one of you reaches 75, you can get the highest married couple's allowance. However, these higher age-related allowances are reduced back to the basic level if the husband's income is above a certain limit. Again, see our leaflet IR121 for more details.

Who gets this allowance?

A husband and wife can jointly decide which of them shall get the allowance. Alternatively, either husband or wife can claim (elect) to have the allowance split equally between them. If there is no election, the husband will normally get the allowance. The extra allowance due because of age must go to the husband unless he does not have sufficient income to use it.

How does the married couple's allowance affect the tax I pay?

This allowance is restricted to give relief at a fixed rate. The rate of tax relief is 15% for 1995-96 to 1997-98 and 10% from 1998-99. This means the allowance is not income you can receive without paying tax (as it was up to 5 April 1994). Instead it reduces your tax bill by a set amount. In 1997-98, if your allowance is £1,830, this amount can be calculated as

	£
the allowance	1,830
multiplied by the rate relief is restricted to	x 15%
= amount of tax reduction	**274.50**

How does this affect my PAYE code?

Because the married couple's allowance now works in a different way from the personal allowance which everybody gets, it has to be shown in a different way in your tax code. As well as the full amount of the allowance shown on the left-hand side of your coding notice, most people will have a reduction, shown as 'ALLOWANCE REDUCTION' on the right-hand side. This is designed to ensure that the tax you pay is reduced by the correct amount. We will check these restrictions after the end of the tax year. If you want more information, Tax Enquiry Centres and Tax Offices have a fact sheet called FS1 'Fact sheet on tax allowance restrictions', which explains the adjustment in more detail.

Why would we want to transfer the married couple's allowance?

You may simply feel it is fairer to share it. Usually it will make no difference to the amount of tax you pay as a couple.

How do we arrange for the allowance to be split equally or transferred from husband to wife?

You will need to tell your Tax Office what you want to happen **before the start of the new tax year. It begins on 6 April**. The allowance can be split or transferred immediately in the year you get married.

It is very simple to do. Ask your Tax Office for a Form 18 to complete. You can do this whatever the level of your income. If you need help filling in the form, your Tax Office will be pleased to help you.

Once you have done this, the change will apply until you decide to alter it. You do not need to complete a new form every year. If you do want to alter it, the new arrangements will take effect at the start of the tax year after you have told the Tax Office about the change.

What if I cannot use all my married couple's allowance?

If you get the married couple's allowance, you can transfer any of it that you cannot use to your husband or wife. The same applies if you receive blind person's allowance (our leaflet IR90 'Tax allowances and reliefs' tells you more about this allowance). To find out whether you can use your allowance, you need to work out your total taxable income.

How do I work out my total taxable income?

First add up what your income comes to before any tax has been taken off. Remember to include

- all your own earnings
- business profits
- pensions
- taxable social security benefits such as Jobseeker's Allowance
- income from savings with a bank or building society (see below)
- interest from National Savings investments (except National Savings Certificates and the first £70 of interest from ordinary accounts with the National Savings Bank)
- dividends and their tax credits (as shown on your share dividend statements)
- income from property
- taxable gains on life assurance policies
- your share of any other income received jointly with your husband or wife (normally half the income).

Then take away any amounts for which you get tax relief, such as work expenses.

Do not take away any of the following payments

- mortgage payments
- payments made minus basic rate tax to Free Standing Additional Voluntary Contribution Schemes
- payments made minus basic rate tax to a Personal Pension Scheme
- private medical insurance premiums for the over 60's which are paid minus basic rate tax
- vocational training payments which are paid minus basic rate tax.

When you have added up all your income and taken away any amounts for which you get tax relief you are left with your taxable income. If you get the basic married couple's allowance and your taxable income is over £5,417 (for 1997-98) you will probably be able to use all the married couple's allowance yourself. You will not have any surplus.

If your taxable income is less than £5,417 you can transfer any surplus married couple's allowance to your husband or wife. Your Tax Office can tell you the amount of any surplus married couple's allowance available to transfer.

If you get higher age-related married couple's allowance, the amount of taxable income you can have before you will have any surplus married couple's allowance to transfer to your husband or wife will be higher.

Our leaflet IR121 'Income tax and pensioners' gives more detail about this. Or ask at your local Tax Enquiry Centre or Tax Office.

What is the next step?

If you think this applies to you or you are not sure, get in touch with your Tax Office or your husband's or wife's Tax Office (if you do not have one). They will sort it out for you. The example below shows how it is done.

Example

David and Anne are a married couple under 65. He goes out to work part-time. She stays at home and has no income of her own except interest from a building society account.

In 1997-98 David's allowance and income are as follows

	£
Income from his job	4,600
Income (interest) from his savings	515
David's total income	**5,115**
Less his personal allowance	4,045
Amount taxable	1,070
Tax due at 20%	**214**

	£
Married couple's allowance £1,830 at 20%	274.50
Less tax due	214.00
Value of allowance unused	**60.50**

So David could give £60.50 of the married couple's allowance to Anne to set against her income.

	£
Anne's income from her savings	4,671.00
Less Anne's personal allowance	4,045.00
	626.00
Tax due at 20%	125.20
Less David's unused married couple's allowance	60.50
Anne's final tax bill	**64.70**

So Anne's tax bill for the year is £64.70. If David had not transferred the unused part of his allowances, Anne would only have had her personal allowance, and so would have paid tax of £125.20 instead of £64.70.

What if we are unsure about what the exact amount of unused allowances will be?

If you ask, your Tax Office will estimate the amount and transfer it on a provisional basis. Soon after the end of the tax year, the Tax Office will check the estimate against your actual income to see if the right amount of tax has been paid.

Bank and building society interest

Do we need to pay tax on our interest from bank and building society accounts?

If your total income is less than your allowances, you can fill in a Form R85 and have your interest paid with no tax deducted. The form is available from your bank or building society. Our leaflet IR110 'A guide for people with savings', which includes the Form R85, explains how you can do this. It's known as 'registering' to get your interest with nothing taken off for tax.

Remember, if you do 'register' and then find that you are liable to tax, you must tell your bank or building society immediately. They will then arrange for tax to be deducted from your interest.

Can we claim back any tax that's already been deducted?

Yes, if the interest was paid on or after 6 April 1992, you may be able to get the tax back. Again, our leaflet IR110 tells you more.

Year of marriage

What happens in the year we get married?

The husband

- can claim one twelfth of the married couple's allowance for each, whole or part, tax month of his marriage. (A tax month runs from 6th day of one month to 5th of the following month), or
- can continue to get any married couple's allowance he is already receiving for a previous marriage, or
- can choose to claim the additional personal allowance for a child living with him, instead of claiming the married couple's allowance. Our leaflet IR92 'A guide for one-parent families' goes into this in greater detail.

The wife

- can continue to get the additional personal allowance if she had a child living with her before the date she married but within the year she married.

She can also

- have half of the married couple's allowance the couple are entitled to for the year of the new marriage (and have the other half transferred to her husband), or continue to get any married couple's allowance she is receiving for a previous marriage.

Separation and divorce

What happens if we separate or get divorced?

In the year of separation, each of you will continue to receive the same amount of married couple's allowance you were receiving at the time you separated. If you separated before 6 April 1993, the husband can claim the full married couple's allowance for that year.

If you have a child living with you after the separation, you may also be able to claim the additional personal allowance, but not if you already receive the full married couple's allowance. If you are getting only half the married couple's allowance, you can claim the additional personal allowance to make it up to the full amount of the married couple's allowance.

What about maintenance payments?

Our leaflet IR93 'Separation, divorce and maintenance payments' explains more about this.

Widows and widowers

What happens if my husband or wife dies?

Your allowances don't suddenly stop when one of you dies.

If a husband dies, the wife will get any part of the married couple's allowance for that tax year which cannot be used against his income up to the date of his death. But if she is already receiving all or half of the allowance in the tax year of her husband's death, as much as possible of that allowance must be transferred back and set against her late husband's income.

She will also receive the widow's bereavement allowance during the tax year of her husband's death and in the following year (unless she has remarried by the start of that tax year).

The allowances she gets in the tax year in which her husband dies can be set against any income she had in that tax year.

If a wife dies, her husband will receive both his personal allowance and all the married couple's allowance, less any part that his wife used against her income. In the following tax year he will just receive the personal allowance unless he remarries in that year.

For more on this, ask for our leaflet IR91 'A guide for widows and widowers'.

Tax relief for outgoings

Mortgage interest relief

If you take out a loan to buy your home, you may be entitled to tax relief on all or part of the interest you pay. You can have tax relief for the interest on up to £30,000 of your loan. The rate of tax relief for 1997-98 is 15%.

Our leaflet IR123 'Mortgage interest relief. Buying your home' tells you more about this.

Usually, if the loan is a joint one, you share equally the tax relief on the interest payments up to the £30,000 limit. If the loan is in one of your names, that person gets tax relief up the limit.

Or, if you can jointly choose to share the tax relief up to the £30,000 limit in any way you want. For example, a wife can have all the tax relief even though the loan is in her husband's name. This is called an '**allocation of interest**' election. Our leaflet IR123 explains this in more detail.

Charitable deeds of covenant

You can get tax relief on payments you make to a charity under a deed of covenant. You take off tax at the basic rate when paying your gift to the charity.

If you and your husband or wife make a joint covenant, you are treated as paying half each unless you can show that you are not making equal payments. You can each claim tax relief on the amount you pay.

If you pay tax at the higher rate, you can claim extra relief. You make the claim on your tax return.

If you pay tax only at the lower rate, you must still deduct basic rate tax from your payments. You are liable to pay this basic rate tax to the Inland Revenue instead of the lower rate you would otherwise pay.

If you do not pay tax, you have to deduct basic rate tax from the payment and pay it to the Inland Revenue. So there is no tax advantage in you having a covenant. If you are married, it may be better for your husband or wife - if he or she pays tax - to make a deed of covenant instead.

Our leaflet IR65 'Giving to charity. How individuals, can get tax relief' tells you more about deeds of covenants

Other tax reliefs

You may also be entitled to some of the tax reliefs listed below. But tax reliefs can only be given to the person who qualifies for them. You cannot transfer them from one person to another

- income tax losses (for example, from a business)
- interest paid on loans to buy machinery for use in a partnership or employment
- investments made through the Enterprise Investment Scheme (EIS).

Joint income

How will our joint income be taxed?

If you hold any of the following in joint names you are treated as if you own it in equal shares. **Each of you is taxed on half the income** unless you tell your Tax Office otherwise. You will only have to pay tax on your half if you are liable to tax

- bank or building society accounts
- shares
- property which you rent out
- any other property which provides income.

If you want to know more about this please ask your Tax Office.

Capital gains tax

For the tax year 1990-91 and later years, you

- are each taxed separately on any gains you make when you sell an asset
- are each entitled to your own annual exempt amount (that is, the amount of gains which you can make without having to pay capital gains tax)
- cannot set your losses against your husband's or wife's gains
- will not be taxed immediately if you transfer an asset to your husband or wife when you are living together. Any gain or loss will be deferred until the asset is disposed of by the husband or wife who receives it.

Our leaflet CGT14 'Capital gains tax. An introduction' explains more about how gains are taxed.

Inheritance tax

In general, anything you give your husband or wife during your lifetime or leave in your will is free from inheritance tax. Our leaflet IHT3 'Inheritance tax. An introduction' tells you more about this.

Contact with the Tax Office

Most people are not asked to fill in a tax return every year but if you are sent one, please fill it in and send it back promptly. If you are not asked to make a return but you think you have income that is not being properly taxed, you must tell the Tax Office about it.

You must also remember to tell the Tax Office about changes which could affect your tax position. We want you to pay only the right amount of tax and if you do not let us know when your circumstances change you may pay more than you should or find you owe tax.

It is always helpful and can speed things up if you give us your reference number and National Insurance number.

What can I do if I'm not happy with the service I receive?

You can help us by telling us what you think of the service we offer. We would value your opinion, for example, on the way we've dealt with your tax affairs.

You may have particular ideas about improving our service. If you do, please let us know. We have customer service managers who will be happy to receive your suggestions. Any Tax Office will be pleased to give you the name and address of the customer service manager to contact.

We deal with thousands of enquiries and calculations every day, errors and misunderstandings can happen. We promise, however, to deal with complaints quickly and effectively.

Our leaflet IR120 'You and the Inland Revenue' explains our complaints procedure. If you have a complaint, first write to the Officer in Charge of the office or unit concerned. His or her name is on every letter we send out. In our experience, most issues are settled quickly and satisfactorily in this way.

What can I do if I'm still not happy?

If you have a complaint which the Officer in Charge of your own Tax Office cannot settle, you should contact the Inland Revenue Controller responsible for the area dealing with your tax affairs. Our leaflet IR120 'You and the Inland Revenue' tells you how to do that. It is available from any Tax Enquiry Centre or Tax Office.

If the Controller does not settle your complaint to your satisfaction, you can ask the Adjudicator to look into it and recommend appropriate action. The Adjudicator, whose services are free, is an impartial referee whose recommendations are independent. The address is

The Adjudicator's Office
Haymarket House
28 Haymarket
London
SW1Y 4SP

Tel: 0171 930 2292
Fax: 0171 930 2298

Finally, you can ask a Member of Parliament to refer a complaint to the Independent Parliamentary Commissioner for Administration, commonly known as the 'Ombudsman'. Further information is available from

The Parliamentary Commissioner for Administration
Church House
Great Smith Street

London
SW1P 3BW

Tel: 0171 276 2130

The Taxpayer's Charter

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 for what we do

By setting standards for ourselves and publishing how well we live up to them

If you are not satisfied

We will 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, we need you

To be honest
To give us accurate information
To pay your tax on time

This booklet gives general advice and does not cover all possibilities. It is for guidance only and reflects the tax position at the time of writing. It does not affect any right of appeal.

Issued by the External Communications Unit of the Inland Revenue
November 1997

Personal Taxpayer Series IR121
Income tax and Pensioners

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system. Some you might find useful are listed below.

This leaflet is to help you understand how income tax affects you as a pensioner

In this leaflet we try to give simple, straightforward answers to the sort of questions people ask when they reach retirement.

This leaflet explains

- how the tax office can help with your enquiries
- how to work out your taxable income
- how to work out your allowances
- how interest on your savings is treated
- how to comment on the service you receive.

Whether you are about to retire or have already retired, this leaflet will help you work out how being a pensioner affects your tax bill. We want to make sure you pay only as much tax as you need to - if you need to pay tax at all.

Where can I go for help?

Any Tax Office or Tax Enquiry Centre. Look in your local telephone book under ‘Inland Revenue’ for the nearest to you.

You may visit, write or phone. The staff will probably be able to answer all your questions on the spot. If they do need to look up your records, they will simply contact the Tax Office which holds them to get any information they need.

Do I need to have a reference number?

Not if you want general information. But if your question is more complicated and we need to look up your records, we will ask you for your National Insurance (NI) number.

You will find your NI number on every letter or notice sent to you by your Tax Office. It looks similar to this

TN 11 10 53 F.

You will also find it on

- your pension book
- an old payslip
- form P45 or P60
- letters from the Department of Social Security or
- a medical card issued in Scotland.

When are the Offices open?
As explained on the inside cover, most are open for public enquiries between 9.30am and 4pm Monday to Friday and some are also open outside these hours. If these times are awkward for you, we will try to see you at a time that suits you.

What sort of questions can I ask the Tax Office or Tax Enquiry Centre?
We will answer any questions you may have about your own tax.

The sort of questions we are often asked are

- How much of my income is taxable?
- Am I getting all the allowances I am entitled to?
- Can I claim any tax back?

Our staff can usually give you the answers there and then. They will be happy to explain anything you need to know.

They will also give you any forms you might need and can help you complete them.

Is there any other way the Tax Office can help me?
Yes. We produce a wide range of leaflets which explain different aspects of the tax system in plain English. The ones which may be of particular interest to you are listed below.

All Tax Offices have a stock of these leaflets and will be happy to supply any you need.

Is there anything I need to tell my Tax Office when I become a pensioner?
Yes. It is important you tell us

- **your date of birth** so that we can give you the correct allowances , and
- **how much your state pension is and the date you will start getting it.** Tell us as soon as you know. We can then change any PAYE tax code or include the correct details in any notice of assessment.

How much tax should I pay?
The amount of tax you have to pay depends on how much **taxable income** you have.

Your taxable income includes your pension, interest on your savings and dividends from shares.

But everyone is entitled to a certain amount of income which they do not pay tax on. The amount of income you can have before you start to pay tax depends on your **allowances**.

The next two sections of this leaflet explain how to work out your taxable income and your allowances.

Working out your taxable income

In this section we tell you

- how to work out your taxable income
- what sorts of income are taxable
- what sorts of income are not taxable.

If you think there is something we haven't covered that might apply to you please ask for help at the Tax Office. They will be happy to answer any questions. Your private affairs will be treated in the strictest confidence.

How do I work out my taxable income?

You need to add up your gross income for the tax year. The tax year runs from 6 April to the following 5 April. Your gross income is the income you have received in the year, before any tax has been taken off. To get this figure you may have to add back any tax that has been taken off your income before you get it. (For dividends you take the amount you receive and add on the tax credit or income tax treated as paid).

What income is taxable?

- your old age (state retirement) pension
- pensions from previous employers
- invalid care allowance and invalidity addition paid with a retirement pension
- widow's pension
- widowed mother's allowance
- incapacity benefit - all benefit paid in respect of new claims from 13 April 1995 (except benefit paid during first 28 weeks of incapacity)
- gross interest from a bank, building society or local authority (remember, when working out your total taxable income, to add back any tax taken off your interest before you get it)
- interest from National Savings investments (except National Savings Certificates and the first £70 of interest from ordinary accounts with the National Savings Bank)
- dividends on shares and income from unit trusts (remember, when working out your total taxable income, to add on any tax credit or income tax treated as paid)
- any earnings from a job or business
- income from property
- taxable gains on life assurance policies and
- your share of any joint income. If you are married this is usually half the total amount. You can find more information about joint income belonging to married

couples in our leaflet IR80 'Income tax and married couples'.

There are two points worth remembering about state retirement pensions

For tax purposes, we treat a married woman's state retirement pension as her income even if it is paid as a result of her husband's contributions.

A state retirement pension may include an extra amount, known as the 'adult dependency addition'. For example, this could be paid where the pensioner's husband has not reached the state pension age.

Whoever the adult dependency addition is paid to, we treat it as part of that person's taxable income.

In both cases, make sure you include all the pension you are entitled to when you work out your total income including any adult dependency addition.

What income does not count as taxable income?

You are not taxed on any of the following, so don't include them

- widow's payment
- incapacity benefit paid for the first 28 weeks of sickness
- incapacity benefit paid to someone who was receiving invalidity benefit before 13 April 1995, provided there has not been a break of more than 8 weeks in the claim
- attendance allowance and mobility allowance
- war widow's pension
- income support paid for reasons other than unemployment, strikes, temporary lay-offs or short-time working
- income from tax-free National Savings investments such as Savings Certificates, Yearly Plan or the first £70 of interest on an ordinary account with the National Savings Bank
- interest, dividends and bonuses from a tax exempt special savings account (TESSA) unless you closed your TESSA before the five years were up - for details ask the Tax Enquiry Centre or Tax Office for leaflet IR114, TESSA - tax free interest for taxpayers
- interest and terminal bonuses under Save As You Earn schemes
- dividends and other income from a Personal Equity Plan (PEP), or interest from a PEP unless you withdraw more than £180 interest - for details ask your Tax Enquiry Centre or Tax Office for leaflet IR89, Personal Equity Plans
- Premium Bond, National Lottery and gambling prizes.

Working out your allowances

In this section we explain

- what allowances you are entitled to

how the amount of your income may affect your allowances.

Again, if you think there is something we haven't covered that might apply to you, please ask for help at the Tax Office.

What personal allowance can I claim?

Everybody gets at least one allowance - the personal allowance. This is the amount of income you can receive without having to pay any tax. The figures shown below are for the tax year 1995-6, that is from 6 April 1995 to 5 April 1996.

There are three levels of personal allowance

a basic amount if you are under the age of 65 (£3,525)

a higher amount if you are aged between 65 and 74 (£4,630)

the highest amount if you are aged 75 or over (£4,800).

Don't forget - your Tax Office will only know your age if you have told them or shown your date of birth on a tax return or claim form. Once they do know your age they can give you the increased personal allowance when you become 65 or 75.

Is there a special allowance for married couples?

Yes. A married couple living together will have the benefit of the married couple's allowance.

There are three different amounts depending on your age. In the year the elder of you reaches the age of 65 you may qualify for a higher married couple's allowance. And when one of you reaches 75 you may get the highest married couple's allowance.

How does the allowance affect the tax I pay?

The married couple's allowance (and certain other allowances) are slightly different from the personal allowance. They are not an amount of income on which you pay no tax; instead, they reduce your tax bill by a fixed amount. For more details of this, see our leaflet IR90 'Tax allowances and reliefs'.

Who gets this allowance?

In the first instance, the married couple's allowance is normally given to the husband. But the basic amount of the allowance (for 1995-96, £1,720 at the 15% rate) can be split equally between husband and wife or, if they prefer, it can all be given to the wife. If either the husband or the wife do not have enough income to use their share of the allowance, the unused part can be transferred to the other. Our leaflet IR80 'Income tax and married couples' will give you more information.

Can the amount of income I get affect my allowances?

Possibly. Every year there is a certain income 'limit'. If your income is more than the limit you may not get the full allowances. For 1995-6 the limit is £14,600.

You will get the higher amount of personal allowance and married couple's allowance in full if

your total taxable income is £14,600 or less, and you are aged 65 or over.

But if your total taxable income goes above £14,600, it will affect your entitlement to the higher levels of personal allowance.

This is how it works.

For every £2 of taxable income you have over £14,600 you will get £1 taken off the higher amount of your personal allowance. **However, no matter how large your income, you will still get the basic personal allowance given to everyone under 65**.

The amount of married couple’s allowance you get can only be affected by the husband’s income. It only starts to be affected if his personal allowance is reduced to the basic personal allowance.

So, if you are a married woman and any part of the married couple’s allowance has been transferred to you, the amount will not be affected, whatever the level of your own income.

As with the personal allowance, the married couple’s allowance will never be lower than the basic amount given to every married couple under 65.

Some payments for which you get tax relief can be taken off your taxable income when you work out whether the £14,600 limit affects the amount of your higher allowances. A common example is a donation to charity under a deed of covenant or Gift Aid. Your Tax Office can give you more information on this.

How will the income limit affect my personal allowance?

The following examples will give you some idea. Remember, though, that everyone’s circumstances are different. These examples show you how the income limit affects the personal allowances in one case (as in example 2) but not in another (as in example 1).

We have not given examples that show the affect on a married couple’s allowance. If you have a question about that, ask your local Tax Office. You will need to give them all the details of your taxable income.

Example 1

Jim Smith retired on 31 December 1995, his 65th birthday. His income in 1995-96 is made up of his

Year’s pay to retirement date	£9,000
Pension from former employer	£1,500
State retirement pension	£1,000
Total income	£11,500
The income limit for 1995-96 is	£14,600

Jim’s total taxable income of £11,500 is below the limit of £14,600 so he is entitled to the full personal allowance for a person aged 65-74. In 1995-96 this is £4,630. Jim has to pay tax on his taxable income after the personal allowance is taken off

Taxable income	£11,500
less his personal allowance	£4,630
Amount taxed	£6,870

In the year 1995-96 Jim's tax bill* will be

£3,200 x 20%	=	£640
£3,670 x 25%	=	£917
		£1,557

* In 1995-96 the first £3,200 of taxed income is taxed at 20%, and the next £21,100 is taxed at 25%.

Example 2

Ann Jones is aged 76. Her income in 1995-96 is made up of her

Pension from former employer	£11,000
State retirement pension	£3,100
Income from property	£1,000
War widow's pension	£800
National Savings Bank (ordinary account) interest	£40
Total income	£15,940

Ann's war widow's pension is not taxable and the interest from her National Savings Bank ordinary account is less than £70 so it is not taxable income either (see 'What income does not count as taxable income?')

So Ann's taxable income is

Pension from former employer	£11,000
State retirement pension	£3,100
Income from property	£1,000
Total taxable income	£15,100
The income limit for 1995-96 is	£14,600

Ann's total taxable income of £15,100 is £500 above the limit of £14,600 which means that her personal allowance is reduced by £1 for every £2 of income above the limit. This works out at £250, or half of £500.

In 1995-96 the full personal allowance for a person aged 75 and over is £4,800. Ann's personal allowance of £4,800 minus £250 works out at £4,550. Ann has to pay tax on her taxable income after the personal allowance is taken off

Taxable income	£15,100
Less her personal allowance	£4,550
Amount taxed	£10,550

In the year 1995-96 Ann's tax bill* will be

£3,200 x 20% =	£640
£7,350 x 25% =	£1,837
	£2,477

* In 1995-96 the first £3,200 of taxed income is taxed at 20% and the next £21,100 is taxed at 25%.

Remember - your personal allowance can never be reduced below the basic £3,525 given to everyone under 65, however large your income.

If I am a married man, will my wife's income affect the income limit?

If you get a higher level of married couple's allowance because you or your wife, or both of you, are over 65, we take only your income (not your wife's) into account when applying the income limit. Your wife's income never affects the amount of the married couple's allowance. It does not matter whether all or part of that allowance is transferred to her.
If your own income is more than the income limit, this is how your personal allowance and the married couple's allowance are affected

> First your personal allowance is reduced until it reaches the basic amount for people under 65.
>
> Then, and only then, is the married couple's allowance affected. It is reduced until it, too, reaches the basic amount of married couple's allowance for people under 65. **But just like the personal allowance, it can never be reduced below that figure.**

Your Tax Office will work out your allowances for you as long as you tell them your age and give details of your taxable income. If you want to check their figures, they will give you any information you need.

How do I know what allowances my Tax Office have given me?

Look at your tax assessment or notice of coding sent to you by your Tax Office. Your allowances are clearly shown there.

If you think all your allowances aren't included, or you don't agree with some of the figures, tell your Tax Office straightaway. They are always happy to answer any of your questions.

Our leaflet IR34 'PAYE' gives you more information about PAYE codes. Your Tax Office can give you a copy.

How interest on your savings is treated

Do I have to pay tax on the interest from my savings?

It depends on your circumstances. Banks, building societies and local authorities have to take basic rate tax off your interest before they pay it. But if you are not liable to pay tax at all - because your taxable income is fully covered by your tax allowances - you can register with your bank, building society or local authority to get your interest 'gross' (that is, without tax taken off). You can also claim tax back from the Inland Revenue if the amount of tax taken off your interest is more than the amount you have to pay for the whole year on all your income. This can happen if, for example, you have unused allowances or your interest has been taxed at the basic rate of 25% when you are liable to pay tax only at the lower rate of 20%.

You can find out more from our leaflet IR110 'A guide for people with savings'. This guide explains how to work out

- if you can register to get your interest gross
- if you can claim tax back.

If you have registered to get your interest gross and then find that you should be paying tax, tell your bank or building society immediately. They will start to take tax off interest paid to your account.

You should also remember that, even if you have registered for interest to be paid with no tax taken off, you must include the gross figure when working out your taxable income.

What happens to my allowances if my husband or wife dies?

If your husband dies, you will get your personal allowance and any part of the married couple's allowance for that year which cannot be used against your husband's income up to the date of his death. But if you are already receiving all or half of the married couple's allowance in the year of your husband's death, as much as possible of that allowance must be transferred back and set against your late husband's income.

You will also receive the widow's bereavement allowance during the year of your husband's death and the following year - unless you remarry before the start of the second year. Like the married couple's allowance this reduces your tax bill by a fixed amount.

The allowances you get in the tax year in which your husband dies can be set against any income you have in that year.

If your wife dies, you will get both the personal allowance and the married couple's allowance, less any part that your wife used against her income. In the following year you will just get the personal allowance unless you remarry in that year.

For more information about this, ask for our leaflet IR91 'A guide for widows and widowers'. We also have leaflets on Capital Gains Tax and Inheritance Tax listed below.

Is there anything else I need to know?

As we said right at the start, we want you to pay only the right amount of tax. That depends on you telling us your taxable income and on what allowances you can claim. We hope this leaflet has helped you work out what they are.

All we ask is that you keep us up to date with your tax affairs. When we send you a tax return, fill it in and send it back as soon as possible.

But you don't have to wait for us to send you a tax return if you think your income is not being properly taxed, or if your circumstances change. The important thing is to let us know the details as soon as you can.

How to comment on the service you receive

What can I do if I want to comment on the way my tax affairs have been dealt with?

We always value any comments on the service you have received from your Tax Enquiry Centre or Tax Office. We welcome any suggestions that could improve the service we provide for you.

If you have a complaint, first write to the officer-in-charge of the office or unit concerned. His or her name is on every letter we send out. In our experience, most issues are settled quickly and satisfactorily in this way.

If you have a complaint which the officer-in-charge of your own tax office cannot settle you should contact the Inland Revenue Controller responsible for the area dealing with your tax affairs. Our leaflet IR120 'You and the Inland Revenue' tells you how to do that. It is available from any Tax Enquiry Centre or Tax Office.

What can I do if I am still not happy?

If the Controller does not settle your complaint to your satisfaction you can ask the Revenue Adjudicator to look into it and recommend appropriate action.

The Revenue Adjudicator, whose services are free, is an impartial referee whose recommendations are independent.

The address is

The Revenue Adjudicator's Office
3rd Floor
Haymarket House
28 Haymarket
London

SW1Y 4SP

Tel: 0171 930 2292
Fax: 0171 930 2298.

At any time you can ask a Member of Parliament to refer a complaint to the independent Parliamentary Commissioner for Administration, commonly known as the Ombudsman, at

Church House
Great Smith Street
London
SW1P 3BW

Tel: 0171 276 2130/3000.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect your right of appeal about your own tax.

Other leaflets which may be useful

IR34	PAYE. Pay As You Earn
IR80	Income tax and married couples
IR90	Tax allowances and reliefs
IR91	A guide for widows and widowers
IR103	Tax relief for private medical insurance
IR110	A guide for people with savings
IR120	You and the Inland Revenue
IR45	What to do about tax when someone dies
CGT 14	Capital gains tax - an introduction
CGT 15	Capital gains tax - a guide for married couples
IHT3	Inheritance tax - an introduction

Our IR List 'Catalogue of leaflets and booklets' gives further information about our publications, most of which you can get from any Tax Enquiry Centre or Tax Office. Addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 9.30am to 4pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

Issued by the Inland Revenue
May 1995

Apart from IHT3, the leaflets listed here are **not** available from Tax Enquiry Centres or Tax Offices but from the Capital Taxes Office for England & Wales, Scotland and Northern Ireland

Leaflet/booklet title	Number	Year
Inheritance tax on lifetime gifts	IHT2	1995
Inheritance tax. An introduction	IHT3	1995
Alterations to an inheritance following a death. Inheritance tax	IHT8	1995
Inheritance tax. The personal representative's responsibilities	IHT14	1996
Inheritance tax. How to calculate the liability	IHT15	1996
Inheritance tax. Settled property	IHT16	1996
Inheritance tax. Businesses, farms and woodlands	IHT17	1996

If you have any comments or suggestions about the service we provide, use this form and send it to your own Tax or Collection Office, or to the customer service manager at the Regional Executive Office or the Accounts Office. The address is the same as that of the Controller, shown in IR120 (insert).

Your name ....

Your address ....
....
....
.... Postcode ....

It would be helpful if you would include your National Insurance number and your tax reference if you have them.

National Insurance Number ....|........|........|........|........

Tax reference number ..../ ....

Your comments or suggestion

If necessary, please continue on a separate sheet

List of Inland Revenue Offices dealing with Repayment Claim Forms

(See below for addresses)

COUNTY	INLAND REVENUE OFFICE
Avon	St Austell 2
Bedfordshire	Bootle 1
Berkshire	St Austell 2
Buckinghamshire	Bootle 1
Cambridgeshire	Bootle 1
Cheshire	Glenrothes
Cleveland	Bootle 1
Cornwall/Isles of Scilly	St Austell 2
Cumbria	Bootle 1
Derbyshire	Leicester 7
Devon	St Austell 2
Dorset	St Austell 2
Durham	Bootle 1
East Sussex	Belfast 7
Essex	Leicester 7
Gloucestershire	Belfast 7
Greater Manchester	Glenrothes
Hampshire	St Austell 2
Hereford/Worcester	Belfast 7
Hertfordshire	Leicester 7
Humberside	Bootle 1
Isle of Wight	St Austell 2
Kent	Belfast 7
Lancashire (excluding Greater Manchester)	Bootle 1
Leicestershire	Leicester 7
Lincolnshire	Leicester 7
Merseyside	Bootle 1
Middlesex	Bootle 1

Norfolk	Leicester 7
Northamptonshire	Bootle 1
Northumberland	Bootle 1
North Yorkshire	Bootle 1
Nottingham	Leicester 7
Oxfordshire	Belfast 7
Shropshire	Belfast 7
Somerset	St Austell 2
South Yorkshire	Leicester 7
Staffordshire	Belfast 7
Suffolk	Leicester 7
Surrey	Glenrothes
Tyne and Wear	Bootle 1
Warwickshire	Belfast 7
West Midlands	Belfast 7
West Sussex	St Austell 2
West Yorkshire	Leicester 7
Wiltshire	St Austell 2
Wales	Belfast 7
Northern Ireland	Belfast 7
Scotland	Glenrothes
London	
E1-18, EC1-4, N1-22	Leicester 7
SW1, 3, 5-7, 10, 13-14, 19-20, W1-14	Bootle 1
SE1-29, SW2, 4, 8-9, 11-12, 15-18	Glenrothes
WC1-1, NW1-11	Bootle 1

ADDRESSES

St Austell 2

Penhaligon House,
Trinity Street,
St Austell,
Cornwall
PL25 5BA

01726 70707

Bootle 1

1st Floor, The Triad,

	Stanley Road, Bootle, Merseyside, L69 9HB 0151 933 8466
Glenrothes	Saltire House, Pentland Park, Glenrothes, Fife, KY6 2AL 01592 610757
Leicester 7	Attenborough House, 109-119 Charles Street, Leicester, LE1 1FY 0116 262 4445
Belfast 7	Dorchester House, 52-58 Great Victoria Street, Belfast, BT2 7BB 01232 236633

The Inland Revenue Education Service has designed a resource pack called **'Tax for you'** to help teachers make young people aware of the tax system and how it will affect them when they go out to work. It can be used in a number of areas of the National Curriculum such as Personal Social Education or Mathematics.

It contains:

- information sheets about revenue collection and government spending, Pay As You Earn, and Inland Revenue forms
- activity sheets based on the information given in the information sheets
- teachers' notes, including answers to the questions on the activity sheets.

'Right from the start' - This is a 15 minute VHS video which tells the story of two young people who learn about the PAYE system. The video can be used on its own or with the above pack to form a practical introduction to PAYE.

All the material is free and can be kept. To order please contact

The Inland Revenue Education Service
PO Box 10
WETHERBY
West Yorkshire
LS23 7EH

Tel: 01937 840238
Fax: 01937 845381

CWG2 - Employer's further guide to Pay As You Earn and National Insurance contributions

This guide gives detailed information for employers on how to operate PAYE and deduct NICs. It covers such circumstances as taking on casual employees, holiday pay, and an employee leaving. It is an essential guide for all employers and has replaced two previous publications - P7 'Employer's further guide to PAYE' and CA28 'Employer's Manual on National Insurance contributions'.

R40 (SP)

This is the shorter version of form R40 which comes with leaflet IR110. TaxCalc contains the longer version, form R40(1996) which you can print out and fill in.

SA/BK3 - Self Assessment. A guide to keeping records for the self-employed

Until recently there was no legal requirement to keep records for income tax, but rules introduced in the 1994 Finance Act mean that you now have to keep all appropriate records. This guide gives general advice about what business records you need to keep for tax purposes each year, and how long you need to hold on to them.

SA/BK4 - Self Assessment. A general guide to keeping records

Everyone who pays tax should receive a record of the tax they have paid. From April 1996 the law requires that you keep these and other records so that you can complete a tax return fully and accurately if you are asked to do so. These records may also be needed if you ever need to make a claim, for example, for tax allowances. This guide gives guidance on the records you may need to keep.

SA/BK6 - Self Assessment. Penalties for late tax returns

The rules for self assessment require you to send your completed tax return to the Inland Revenue by a fixed date. This booklet tells you about the penalties that are charged for late tax returns.

SA/BK7 - Self Assessment. Surcharges for late payment of tax

The rules for self assessment require you to pay tax and class 4 National Insurance contributions by fixed dates. This booklet tells you about the surcharges that are charged for certain late payments.

SA/BK8 - Self Assessment. Your guide

This booklet is a step-by-step guide to the main self assessment forms you can expect to receive and the key dates and events in the tax year. It also includes information on the records you need to keep and some helpful tips to make it easier to follow the new rules.

FULL TEXT

SA/SEVID - Get yourself sorted!

This is an eight minute video introducing Self Assessment to the self-employed. It highlights the key features of Self Assessment, and is accompanied by SA/BK2 'Self Assessment. A guide for the self-employed.

Leaflet/booklet/video title	**Number**	**Year**
Self Assessment. A guide to keeping records for the self-employed	SA/BK3	1995
Self Assessment. A general guide to keeping records	SA/BK4	1997
Self Assessment. Penalties for late tax returns	SA/BK6	1997
Self Assessment. Surcharges for late payment of tax	SA/BK7	1997
Self Assessment. Your guide	SA/BK8	1997
Get yourself sorted! *	SA/SEVID	1995
Inland Revenue enquiries under Self Assessment	IR160	1997

SA/BK8
Self Assessment - Your guide

CONTENTS

We produce a wide range of leaflets, each designed to explain a different aspect of the tax system in plain English. A full list is available from any Tax Office.

Some you might find useful are

SA/ BK3	Self Assessment. A guide to keeping records for the self-employed
SA/ BK4	Self Assessment. A general guide to keeping records
SA/ BK5	Self Assessment. Electronic version of the Tax Return (on disk)
SA/ BK6	Self Assessment. Penalties for late Tax Returns
SA/ BK7	Self Assessment. Surcharges for late payment of tax

You can get these from your local Tax Office or from the Self Assessment Orderline by

telephoning 0645 000 404. It is open between 8 am and 10 pm, seven days a week. Calls are charged at local rates

faxing 0645 000 604

e-mail on saorderline.ir@gtnet.gov.uk

writing to PO Box 37
St. Austell
Cornwall
PL25 5YN.

We also have a Self Assessment Internet site which includes background information about Self Assessment, who it affects, their record keeping responsibilities, key dates and the Self Assessment Tax Return.

The site can be accessed on www.open.gov.uk/inrev/sa/

Your Guide to Self Assessment

This booklet includes information on

- the tax system
- the records you need to keep

and is a step-by-step guide through

- the main Self Assessment forms you can expect to receive
- the key dates and events in the tax year.

It also includes some helpful tips to make it easier to follow the rules.

Tip 1
Don't be afraid to ask for help. If you have a tax adviser, you may want to ask them about Self Assessment. If you do not have a tax adviser, you can contact your Tax Office - whose address and telephone number is on the front of your Tax Return - or you can contact one of our Tax Enquiry Centres. Their addresses are in your local telephone book under 'Inland Revenue'.

Most Tax Offices are open to the public from 8.30 am to 4.30 pm Monday to Friday and some are open outside these hours. When the Tax Office is closed, you can call the Self Assessment Helpline on 0645 000 444 for general advice. The Helpline is open in the evenings and at weekends. Calls are charged at local rate.

Keeping records

By law everyone needs to keep records of their income, gains and expenditure so that they can fill in a Tax Return if they get one. A Tax Return covers one complete tax year, which runs from 6 April one year to 5 April the next.

Tip 2
It is easier to fill in your Tax Return if you have kept good records. Keep all your tax records in one place. It is a good idea to keep the papers for each year in a separate 'tax' file, large envelope or box.

What is Self Assessment?

Self Assessment is a clearer and more straightforward way of working out and paying tax. It is not a new tax and does not affect the amount of tax you pay. The first Self Assessment Tax Returns were issued in April 1997 and covered the 1996-97 tax year which ran from 6 April 1996 to 5 April 1997.

Who does Self Assessment apply to?

It applies to everyone who gets a Tax Return. You need to complete a Tax Return if you are

- self-employed
- a business partner
- a company director
- an employee or pensioner with more complex tax affairs
- a trustee or personal representative.

Most people don't get a Tax Return and pay their tax through PAYE or other deduction at source arrangement, which carry on as before.

Tip 3
You will find it easier to manage your tax affairs if you keep them up-to-date. If you get behind, you may have to pay interest, surcharges and penalties. If you aren't clear about what you need to do, get in touch with your Tax Office or tax adviser.

The Self Assessment Tax Return

- is tailored to your circumstances
- has to be filled in with figures for all your income, gains, reliefs and allowances
- should be sent back by 30 September if you want the Inland Revenue to work out how much tax you need to pay
- should be sent back by 30 September if you want the Inland Revenue to collect your tax (less than £1,000) through PAYE where possible
- must be sent back by (usually) 31 January or you have to pay a penalty.

What do you get in the post?

Most Self Assessment taxpayers will get

- an eight-page, easy-to-follow Tax Return
- the supplementary pages that we think you need, depending on your circumstances
- a step-by-step guide on how to fill in your Tax Return - called the Tax Return Guide

a guide on how to calculate your own tax if you want to - called the Tax Calculation Guide.

We send you the parts which we think you need. If you need other parts you must ask us for them.

In April 1998 most Self Assessment taxpayers will receive the standard paper Tax Return (SA100), but the Inland Revenue will be issuing a Notice to Complete a Tax Return (SA316) instead of a paper return to certain categories of taxpayers.

We have not yet determined the exact circumstances in which this notice will be issued and no decision has yet been made as to which categories of taxpayer will be sent the Notice instead of paper return.

However, wherever possible the Inland Revenue wish to avoid sending a paper return to taxpayers who are unlikely to use it, such as those who have previously used a substitute form of the Tax Return (such as the Electronic Version of the Tax Return (EVR) or an Inland Revenue approved paper copy) or taxpayers whose agent has submitted their returns using the Electronic Lodgement Service (ELS).

Notices to complete a Tax Return will not be issued in cases where Tax Returns are to be issued in-year. In such cases a paper Tax Return will always be issued.

Sending back your Tax Return

There are two important dates to remember

30 September

31 January

30 September after the end of the tax year

Get your completed Tax Return back to us by 30 September if you want us to

calculate your tax bill for you

collect your tax (less than £1,000) through next year's PAYE code number where possible.

31 January after the end of the tax year

If you want to work out you own tax bill, you have until 31 January to get your return back to us.

Tip 4
Don't delay doing your Tax Return. We know it's easy to put off filling it in, but there's really no benefit in doing so. Following these step-by-step instructions might help you make a start:

Six easy steps to filling in your Tax Return

1. Open your Tax Return and look inside. Decide if you are going to send it back by 30

September.

2. Check you've got all the supplementary pages you need by filling in page two of your Tax Return. If you need extra pages to fill in, call the Self Assessment Orderline on 0645 000 404. It is open 8 am - 10 pm, seven days a week and calls are charged at local rate.

3. Get all your tax records together, such as bank and building society statements, business earnings, expenses, or accounts where appropriate. If you're on PAYE you will probably get a P60 and you may also get a copy of form P11D from your employer. If you have changed jobs, you should have a P45 Part 1A.

4. Fill in your Tax Return by following the guidance in the Tax Return Guide. Make sure you understand them and are sure of the figures you want to enter before putting pen to paper.

5. Please ask us for any help you need before you send it in. Details of where to get help are shown in Tip 1 above and on your Tax Return.

6. Check your Tax Return once you've completed it, making sure you haven't forgotten anything, like adding your signature. Finally post it back to us so that we receive it by either 30 September or 31 January.

Remember

the earlier you complete your Tax Return, the more time you'll have to get help from us if you need it

sending in your Tax Return earlier doesn't mean you have to pay tax any earlier

Tip 5
Even if you are working out your tax bill yourself, it's not a good idea to wait until January to send in your Tax Return. This might mean you pay the wrong amount of tax because, if you have made a mistake, we may not have enough time to correct your calculation for you before your payment is due on 31 January.

What happens when you have sent in your Tax Return?

When we receive your Tax Return, we enter your figures into your tax record on our computer. If we spot any obvious mistakes, we correct them and tell you about them. If you do not agree with what we have done, you can ask us to reverse or amend any changes we have made.

Your Tax Calculation

If you ask us to work out your tax bill, we send you a Tax Calculation on form SA302, using your figures. If we have corrected anything, we let you know what we have done.

If you have worked out your tax bill yourself and we need to correct any of your figures, we will send you an amended Tax Calculation.

When you get the Tax Calculation, you need to

- check that you agree with any corrections we have made
- check that the figures used in the Tax Calculation are correct.

If you want to change anything, let us know straightaway so that we can sort it out quickly. At the very latest you should do it by 31 January after the end of the next tax year.

Statement of account

We open a tax account for everyone who gets a Tax Return. You can expect to get statements

- when there are changes to the items on your account
- when a payment is about to become due within the next 35 days
- every two months where there is an amount due between £32 and £500
- every month where there is an amount due that is more than £500
- when we have arranged for an amount of unpaid tax to be collected through PAYE
- when you have paid more than the total due.

When you get your Statement of Account, check that you agree with the entries. If it shows that you have paid too much, you can either leave the money in your account or claim a repayment.

If it shows you need to pay something, make sure we receive your payment by the due date or you will be charged interest (and perhaps a surcharge).

Link between the Tax Calculation and your Statement of Account

The tax (and National Insurance contributions) shown on the Tax Calculation will appear on your tax account with us.

We will send you a Statement of Account in January with details of how to pay any unpaid tax.

If we don't receive your Tax Return in time to send you a Statement of Account of what to pay in January, we send you a reminder to pay and you need to work out for yourself how much tax is due.

You need to make sure your payment arrives by 31 January after the end of the tax year at the very latest.

Tip 6
Make a note in your diary or calendar so that you pay in good time. You will have to pay interest, and perhaps surcharges, if you pay late.

Tax refunds

If your Statement of Account shows you are due a refund

- we will repay it if you have asked us to (you can do this on your Tax Return)
- we will credit it to your account, if you are not asking us to repay it.

Paying the tax you owe through Pay As You Earn (PAYE)

If you are an employee, we can usually arrange to collect the tax you owe through the coming year's PAYE code. We should be able to do this if

- the tax you owe is less than £1,000 and
- you have sent your Tax Return back by 30 September and
- you have not ticked the box in your return saying that you do not want any tax you owe collected through PAYE.

If we are collecting the tax you owe through PAYE, you will still get a Tax Calculation showing the tax which is due, but your Statement of Account will confirm that the tax is to be collected through PAYE.

If you have asked us to collect your tax through PAYE, but we cannot do this, we will let you know by sending you a reminder in the middle of January.

Tip 7
In January/February look out for your PAYE Notice of Coding for the coming tax year. Check that we have included the right amount of any unpaid tax. Contact us if you would like anything explained.

Payments on account

Some people - mainly among the self-employed - also make two payments on account for the tax year before the return for that year is due.

Payments on account are due on:

- 31 January in the tax year and
- 31 July following the end of the tax year.

Most people do not have to make payments on account. If you are an employee or you pay SC60 tax, you are unlikely to have to do so.

If you send your Tax Return in before 30 September and ask us to calculate your tax for you, we will also let you know what payments on account you will need to make for the tax year following the year of the Tax Return.

If you calculate the tax yourself then your Tax Calculation will show if you have to make payments on account for the tax year following the year of the Tax Return. For example, your Tax Calculation based on your Tax Return for 1996/97 will show if you need to make payments on account for 1997/98. If you do, it will show how much you need to pay.

Checking your Tax Return

We may ask you questions about the entries on your Tax Return. If we do, we will write to you telling you that we are opening an 'enquiry'. This will normally be within one year of the deadline for you to send back your return, but can be later if you send your return in late.

If we do enquire into your return, we will also explain what will happen and what your rights are, by sending you a booklet called 'Code of Practice 11 - Enquiries into Tax Returns by local Tax Offices', or a summary of that booklet.

FURTHER POINTS ABOUT SELF ASSESSMENT

What happens if you do the Tax Calculation yourself?

Your Tax Calculation Guide shows you how to do the calculation. After you have sent in your Tax Return we will check your tax calculation against our own. If we think it is wrong, we will send you a revised calculation.

What happens if you send your Tax Return back after 30 September but have not done the Tax Calculation?

We will still do the Tax Calculation and send it to you with a notice of any corrections we have made. But, we cannot guarantee to do this or to send you a Statement of Account in time for you to know how much to pay by 31 January. This would mean that you have to estimate how much to pay. If you pay too little, you will have to pay interest and possibly a surcharge.

Most people in this situation will get a reminder in the middle of January (form SA309A). The reminder includes a payslip and instructions on how to pay.

What happens if you send your Tax Return back after 30 September but want us to collect the tax you owe through PAYE?

If we receive your return after 30 September, we may not be able to do this.

However, if we receive your return before the end of November, we will tell you either

- that we will be able to collect the tax you owe through PAYE. We tell you this on a Statement of Account, or
- that you will need to make a payment on 31 January. We tell you this on a reminder (form SA309A)

We will definitely not be able to arrange to collect the tax you owe through PAYE if we receive your return after the end of November. In this case, you will need to pay any tax due by 31 January. Most people in this situation will get a reminder in January (form SA309A). The reminder includes a payslip and instructions on how to pay.

What happens if you have a tax adviser?

If you have a tax adviser, you have probably signed form 64-8 authorising us to send him or her copies of the forms you receive.

The most common forms which are sent to tax advisers are

Tax Calculation (form SA302)
Penalty for a late Tax Return (form SA326)
Surcharge for late payment of tax (form SA324)
Determination of tax due (form SA323).

Your tax adviser will not receive a copy of your Statement of Account, but will receive summaries of your account with us in February and April. However, if on form 64-8 you have authorised your tax adviser to receive the Statement of Account on your behalf, we will send him or her (and not you) the original paper copy.

Tax advisers registered to use the Electronic Lodgement Service (ELS)

These advisers will get paper copies of the main forms sent to you and an electronic version of the Statement of Account.

What happens if we don't receive your Tax Return on time?

The final deadline for getting your Tax Return back is normally 31 January after the end of the tax year. The deadline is shown on the front of the return.

If you don't send your Tax Return in by the deadline, you will have to pay an automatic fixed penalty of £100.

If the Tax Return is still outstanding six months later, you have to pay another £100.

There can be further penalties for late Tax Returns. For full details ask the Orderline for booklet SA/BK6 'Self Assessment. Penalties for late Tax Returns'.

What happens if you don't pay your tax on time?

The deadline for getting your final payment to us is 31 January after the end of the tax year. This date will be shown on your Statement of Account or any reminder you receive.

If you do not pay your tax by the deadline, you have to pay interest.

In addition to interest, you have to pay a 5% surcharge on any tax which remains unpaid after 28 February.

A further 5% surcharge is imposed on any amounts still unpaid after 31 July.

For full details of surcharges, ask the Orderline for booklet SA/BK7 'Self Assessment. Surcharges for late payment of tax.'

What is a 'Determination of tax due'?

If your Tax Return is late, you are liable to pay penalties. In addition, if we think you have not paid enough tax on time, we may issue you with a 'Determination of tax due' (form SA323).

This is our estimate of your tax bill for the year. You have no right of appeal against such a determination. The full amount of tax due that is shown in the determination remains payable and can only be changed when you send in your Tax Return. If you receive a Determination of tax due, any surcharge will be based on the amount of tax shown on it.

What about trusts and partnerships?

For partnerships, things are a little different. One partner is nominated to be responsible for the partnership Tax Return and we will correspond with that partner. But any penalties for sending the partnership return in late will be imposed on each partner. The partnership itself does not pay tax. Partners show their share of the partnership profits on their Tax Returns and pay tax on that share.

If you are the trustee responsible for the tax affairs of a trust, or the personal representative responsible for the tax affairs of someone who has died, the same system applies.

Other changes to the tax system for 1996/97 onwards

Everybody should keep records

Everyone must by law keep records of their income and their capital gains for at least 22 months after the end of the tax year to which they relate, so that they can fill in a Tax Return fully and accurately if they get one.

People who have businesses - such as the self employed and partners and those letting property - must keep their records for at least five years and ten months after the end of the tax year to which they relate

People who have not received a Tax Return should let us know if they have income or capital gains we don't know about

If we have not sent you a Tax Return and you have received taxable income and capital gains that will not be fully taxed at source, you must let us know by 5 October after the end of the tax year. We will then send you a Tax Return if necessary. If you miss that date, tell us straightaway as the amount of tax which has not been paid at the following 31 January will affect any penalties you may have to pay.

Some important dates

When?	Who is affected?	What happens?
April	People who get a Tax Return each year.	Tax Returns (or Notice to Complete a Tax Return) sent out
31 July	Some people. Your Tax Calculation for the previous year shows if it applies to you.	Second payment on account for the tax year ended on 5 April
30 September	People who want us to calculate their tax.	You need to get your Tax Return to us by this date.

	People who want us to collect their tax (below £1,000) through next year's PAYE code if possible.	You need to get your Tax Return to us by this date.
31 January	Everyone who was sent a Tax Return by the previous 31 October.	This is the deadline for getting your Tax Return and any payment to us for the tax year ended on the previous 5 April. An automatic penalty of £100 will be charged if we have not received your Return by this date. Interest will be charged if we have not received your payment by this date.
	Some people. Your Tax Calculation for the previous year shows if it applies to you.	Date for first payment on account for the tax year ending on the following 5 April.
28 February	Everyone who was due to pay tax on 31 January but where the payment has not been made.	An automatic 5% surcharge will be charged.
31 July	People whose Return was due back by 31 January but where it has not been sent in.	A second automatic penalty of £100 will be charged.
	Everyone who was due to pay tax on 31 January but where the payment has not been made.	A second automatic 5% surcharge will be charged.

Glossary of some terms used in this booklet

Determination A determination is our estimate of your tax bill for the year (form SA323).

Electronic Lodgement Service (ELS) The ELS enables agents to submit Tax Return information direct to the Inland Revenue computer via a dedicated secure gateway. The Revenue also electronically send all participating agents copies of all Statements of Accounts sent to their clients.

Electronic Version of The EVR is a software package designed to allow you to complete

the Return (EVR)	your Tax Return using a personal computer, print out a paper copy of the return, sign it and send it to your Tax Office. It can be used only if you need only the core Tax Return and Employment supplementary pages.
Expenditure	Expenditure is money that is spent (or 'expended')
Income	Amounts of money earned or received over a given amount of time, e.g. Salary £12,000 p.a. Interest on savings £2,000 p.a. Total income £14,000 p.a.
Payslip	A payslip is a tear-off slip which is attached to another form and which has details of the amount of tax due. This will either have been completed by the Revenue or will need to be completed by the taxpayer. It should accompany your payment.
Penalty	A penalty is an additional sum that may be charged in certain circumstances. For example, if you do not send in your Tax Return by the deadline, if you do not keep adequate records to support your Tax Return, or if your return is incorrect due to fraud or negligence.
Personal representative	A personal representative is the person responsible for settling the affairs of someone who has died. They may also be known as the executor or administrator.
Statement of Account	A statement will be sent to you in January and at various other times showing the current position of your tax.
Surcharge	If tax has not been paid by 28 February you have to pay a surcharge of 5% of the amount outstanding. There is another 5% surcharge if tax is still outstanding by 31 July.
Trustee	A trustee is a person or a company who holds property in trust for the benefit of one or more beneficiaries.

Glossary of Forms

SA100	**Tax Return** - This is the core Tax Return. You need to complete this and any supplementary pages that are appropriate for you
SA150	**Tax Return Guide** - This guide has step-by-step instructions to help you fill in your Tax Return.
SA151	**Tax Calculation Guide** - This guide has step-by-step instructions

and a working sheet to help you calculate your tax if you want to.

SA300 **Statement of Account** - This is a statement of your tax account

SA302 **Tax Calculation** - We will send you a Tax Calculation if you have asked us to calculate your tax for you, using your figures. If you have worked out your tax for yourself, we will send you an amended Tax Calculation to show any corrections we may have made.

SA309A **Reminder** - We will send you this form in January

- to remind you that, to avoid penalties, you need to send in your Tax Return by 31 January if you have not already done so
- to pay any tax due by 31 January on time to avoid interest and surcharges
- if you have asked us to collect your tax through PAYE, but we cannot do this.

The reminder, which is issued to individuals and trusts, includes a payslip and instructions to pay. (The partnership version, **SA309B**, does not include a payslip.) If you have sent in your Tax Return and there is a payment due on 31 January we will send you a **Statement of Account** rather than a reminder.

SA316 **Notice to complete a Tax Return** - This form will be sent to taxpayers who are unlikely to use the standard paper Tax Return.

SA323 **Determination of tax due** - This tells you our estimate of the tax you owe for the year. This will be sent to you if your Tax Return is late and if we think that you have not paid enough tax on time.

SA324 **Surcharge for late payment of tax** - We will send this form to you in March if you have sent in your Tax Return but we have not received all your tax by 28 February. It imposes a surcharge of 5% of the amount of tax outstanding. If you still owe tax six months after it was due, a further surcharge of 5% will be imposed.

SA326 **Penalty for a late Tax Return** - We will send this form to you in February if you have not sent in your Tax Return in time (usually by 31 January). It imposes a penalty of £100. If you have still not sent in your return six months later a further penalty of £100 will be imposed on each of the partners.

SA800 **Partnership Tax Return** - This is the core Tax Return for partnerships. It should be completed by the partner nominated to be responsible for the return. Some partnerships will need to complete supplementary pages and they should request these from the Self Assessment Orderline.

SA850	**How to fill in the Partnership Tax Return** - This guide has step-by-step instructions to help you fill in the Partnership Tax Return.
SA900	**Trusts Tax Return** - This is the core Tax Return for completion by the trustee responsible for the affairs of the trust and by the personal representative for the tax affairs of someone who has died.
64-8	**Authorisation to send copies of forms and notices to an agent.**
P2	**PAYE Notice of Coding -** This will be sent to you in January or February. If you have asked us to collect the tax due through PAYE.
P45	**PAYE Particulars of employee leaving** - This form is handed to you by your employer when you leave a job.
P11D	**Return of expenses payments and benefits** - If you received expenses or benefits from your employer, they will usually give you a copy (by 6 July) of the details they provide to the Inland Revenue on form P11D.
P60	**PAYE Certificate of pay and tax deducted** - If you are in employment on 5 April, this certificate is given to you by your employer (by 31 May). It shows your total amount of pay for income tax purposes for your current employment and how much has been paid in tax and National Insurance.
SC60	**Construction Industry deduction certificate** - This form is given to a sub-contractor by the contractor when a payment is made after deduction of tax. An SC60 can cover a series of payments if the contractor and sub-contractor agree.

The Taxpayer's Charter

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 for what we do

By setting standards for ourselves and publishing how well we live up to them

If you are not satisfied

We will 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, we need you

To be honest
To give us accurate information
To pay your tax on time

This booklet gives general advice and does not cover all possibilities. It is for guidance only and reflects the tax position at the time of writing. It does not affect any right of appeal.

Issued by the External Communications Unit of the Inland Revenue
October 1997

Personal Taxpayer Series IR93
Separation, divorce & maintenance payments

CONTENTS

We produce a wide range of free leaflets each designed to explain a different aspect of the tax system in plain English. Some you might find useful are listed below.

IR80	Income tax and married couples
IR90	Tax allowances and reliefs
IR92	A guide for one-parent families
IR121	Income tax and pensioners
IR123	Mortgage interest relief - buying your home
SA/ BK1	Self Assessment - A general guide
SA/ BK2	Self Assessment - A guide for the self-employed
SA/ BK3	Self Assessment - A guide to keeping records for the self-employed
SA/ BK4	Self Assessment - A general guide to keeping records

Our leaflet IR120 'You and the Inland Revenue' tells you more about the standard of service you can expect from us. It also tells you the steps you can take if you want to make any comments on the service you receive, or complain about the way your tax affairs have been handled.

Our IR list 'Catalogue of leaflets and booklets' gives information about all the publications you can get from Tax Enquiry Centres and Tax Offices. Addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 9.00am to 5.00pm, Monday to Friday, and some are also open outside these hours.

Your local library or Citizens' Advice Bureau may also have copies of our leaflets.

Some of our leaflets are also available on the Internet at http://www.open.gov.uk/inrev/irleaf.htm

This leaflet gives detailed information on how separation, divorce and maintenance payments are treated for tax purposes.

Introduction

Separating from your husband or wife, or getting divorced, can be a stressful and worrying time. Probably the last thing you'll want to be thinking about is tax. But changes in your personal circumstances may affect the amount of tax you have to pay, and we don't want you to pay more than you have to.

When you are sorting out your finances you need to bear in mind that only people who pay maintenance under legally enforceable arrangements can get tax relief on the payments. If you pay tax now, or are likely to pay tax in the future, set up such arrangements as soon as possible.

Tax relief reduces the amount of tax you have to pay on your income.

You can receive a certain amount of income each tax year before you start paying any tax. That amount is your 'personal allowance'. In the tax year 1996-97 (6 April 1996 to 5 April 1997) the basic allowance is £3,765. The allowance can be more, depending on your age. Married couples living together get an extra allowance, and there are other allowances you may be able to claim depending on your circumstances.

It is important for you to know what your allowances are and how they are affected if you separate or divorce. We look at these in more detail later in the leaflet and explain which allowances you might be able to claim.

We also answer some of the questions people who have recently separated often ask us, like 'Can I claim an allowance if I have a child living with me after the separation?' and 'Is the tax relief on our mortgage affected?'

This leaflet cannot cover every question you might have. If there is anything else you would like to know, please ask the staff at any Tax Enquiry Centre or Tax Office.

When you separate

Your tax allowances may be affected if you live apart from your husband or wife permanently.

If you have separated, tell your Tax Office as soon as possible. They will send you a form 41 (Sep) to fill in and will ask to see any court orders, written agreements or Child Support Agency assessments made for you or your child or children.

Your should also tell the Tax Office

- if you get back together
- if you change your financial arrangements, for example your payments increase
- if you remarry or your former husband or wife remarries.

If you are an employee, ask your employer for the name and address of the Tax Office that deals with your tax records.

If you are not an employee, for example you are self-employed, unemployed, or don't pay tax at the moment, you should contact your local Tax Office.

Please give us your National Insurance number and tax reference number, if you know them, as these will help us find your records more easily. You should be able to find your National Insurance number on

- a payslip
- a form P45 or P60
- a letter from the Inland Revenue
- a letter from the Department of Social Security, or
- a letter awarding Jobseeker's Allowance.

Tax allowances

What is a tax allowance?

A tax allowance is not a payment to you. It is a way of reducing the tax you pay on your income. There are two types of allowance. The personal allowance, for example, is an amount of income you can receive in one tax year without having to pay any tax on it. Other allowances, such as the married couple's allowance, reduce the tax you pay by a fixed amount.

What allowances can I claim?

Whether you are male or female, married or single, you are entitled to at least one allowance, the **personal allowance**.

Does everyone get the same personal allowance?

No. If you are aged 65 or over and your income is below a certain limit, you can get a higher allowance, and higher still if you are 75 or over. Our leaflet IR121 'Income tax and pensioners' gives more details about this.

Is there a special allowance for married couples?

Yes. A married couple who live together at some time during the tax year will have the benefit of the **married couple's allowance**. This will go to the husband unless you ask, or have asked, for it to be given differently. Either of you can ask for half the married couple's allowance. Or, if you both agree, it can be given entirely to the husband or wife. If either of you does not have sufficient income to use the married couple's allowance you get, the unused part can be transferred to your wife or husband. If you would like to know more about this, ask for our leaflet IR80 'Income tax and married couples'. A husband and wife who are not living together can claim the allowance if neither of them intends to make the separation permanent.

There are three different amounts of married couple's allowance depending on your age. You get the higher married couple's allowance in the tax year in which the elder of you reaches 65. When one of you reaches 75, you get the highest married couple's allowance. However, these higher age-related allowances are reduced if the husband's income is above a certain limit. Again, see our leaflet IR121 for more details.

If you are a married man who separated from your wife **before 6 April 1990**, you can claim the married couple's allowance on a transitional basis. But you must still be married to her and have wholly maintained her by voluntary payments since your separation. This transitional married couple's allowance always goes to the husband. If you stop getting the allowance, read the section on maintenance payments below. That tells you how you can change the way you make maintenance payments to get tax relief on them.

How does the married couple's allowance affect the tax I pay?

This allowance is restricted to give tax relief at a fixed rate of 15%. The allowance is not an amount of income you can receive without paying tax. It is a reduction in your tax bill. In 1996-97 this can be calculated as the amount of the allowance, £1,790, multiplied by the rate relief is given, 15%, making a tax reduction of £268.

What happens to these allowances when we separate or get divorced?

In the tax year you separate, each of you will continue to get the amount of married couple's allowance you were receiving at the time you separated until the next 5 April.

If you have a child living with you after the separation, you may be able to claim the additional personal allowance (worth the same as the married couple's allowance) but not if you already receive the full married couple's allowance. If you are getting only half the married couple's allowance, you may be able to claim the additional personal allowance to take your total allowances up to the full amount of the married couple's allowance.

Additional personal allowance

When can I claim the additional personal allowance?

You must meet certain conditions before you can claim the additional personal allowance. The child must live with you for at least part of the year, and either be

- your own child, your stepchild, or a child you have legally adopted before he or she reaches 18, (there is no upper age limit for these children), **or**
- a child you look after at your own expense, and who is under 18 at the beginning of the tax year (6 April).

If the child is 16 years or more at the beginning of the tax year, he or she must be

- in full time education at a school, college or university, **or**
- training full time for at least two years for a trade or profession.

Can I claim additional personal allowance for each child living with me?

No. You can have only one additional personal allowance however many qualifying children you have.

How does the additional personal allowance affect the tax I pay?

The allowance is restricted to give tax relief at a fixed rate of 15%. The allowance is not an amount of income you can receive without paying tax. It is a reduction in your tax bill. For example, for 1996-97 this can be calculated as the amount of the allowance, £1,790, multiplied by the rate relief is given, 15%, making a tax reduction of £268.

What if my child lives with someone else for part of the year?

If you have more than one qualifying child, each of you may be able to claim the full allowance. Otherwise the additional personal allowance is shared between you. You can agree between you how to divide the allowance; but if you don't agree, your Tax Office will divide the allowance according to how long the child lives with each of you during the tax year.

I live with someone as husband and wife but we are not married. Does this affect the amount of additional personal allowance we can claim?

While you are living together you can claim only one additional person allowance between you. The allowance will be given for the youngest of all the qualifying children in your household. If you can both claim for that child, one of you may give up your claim or the allowance may be divided between you. If you yourself cannot claim for the youngest child, you cannot claim the allowance at all. Our leaflet IR92 'A guide for one-parent families' tells you more.

If you would like more information about tax allowances, please ask any Tax Enquiry Centre or Tax Office for a copy of our leaflet IR90 'Tax allowances and reliefs'.

Mortgage interest relief

Separation may affect the tax relief you get on your mortgage interest. The general rule is that you can receive mortgage interest relief only if

- you have a loan to buy a property, **and**
- the property is your home, **and**
- you are paying interest on that loan.

When you separate or divorce, the amount of tax relief available to each of you will depend on what arrangements you make. It will usually be possible for each of you to get tax relief on any new home you buy. You may continue to get tax relief on the home you were living in when you were married, if you continue to live there.

Separated couples sometimes agree that the partner who has left the home will provide the funds with which the mortgage interest payments are made. For example, a man may give his former wife money for her to pay the interest, or he may pay the lender direct on her behalf. Either arrangement is acceptable, but please tell your Tax Office what you have decided to do.

It may not be possible for you to change your mortgage arrangements immediately after your separation or divorce. However, it should be done as soon as possible, so the person paying the mortgage can meet the necessary conditions to get mortgage interest relief. Keep your Tax Office informed of developments, so any revised relief can be given without delay.

Maintenance payments

Voluntary payments

> **It is important to note that for tax purposes, any maintenance agreements you make which are not made under a court order, a legally binding written agreement or Child Support Agency assessment are treated as voluntary payments.**
>
> **You will not receive tax relief for voluntary payments.**

You may tell the court dealing with your separation or divorce, or the Child Support Agency, that you are already making voluntary payments. The payments may even be mentioned in official documents. But that does not make them payments under a court order or Child Support Agency assessment or mean that you can get tax relief for them.

Legally enforceable obligations

You may be able to get tax relief if your maintenance payments are made under

- a court order
- a legally binding written agreement
- a Child Support Agency assessment.

If you are asked to complete a Tax Return, you will have to decide whether your maintenance payments are made under one of these legally enforceable agreements before claiming relief. This section gives you further information to help you decide.

If you are not asked to complete a Tax Return, your Tax Office will decide if your arrangement is a legally enforceable obligation. You will still find the information in this section useful.

Court orders

A court order is the decision of a Judge, Registrar or Magistrate or Sheriff entered in the records of the court. It gives details of

- the amount of the maintenance payments ordered to be made
- to whom and/or for whom they are to be made and
- for how long those payments are to be made.

Note: Sometimes the courts use phrases which record facts about maintenance payments without the payments actually being ordered by the court itself. For example, the court document may

- express approval or satisfaction with some agreement already made
- refer to an 'undertaking' to pay.

In these circumstances, the payments **will not qualify for tax relief** because they are not actually ordered to be made by the court. However, the payments may qualify for tax relief if they are made under the terms of a previously made legally binding written agreement.

You should therefore look carefully at court documents to see that they do **order** payments to be made.

Legally binding written agreements

A legally binding written agreement can be

- an agreement which both parties have signed as a deed (1 August 1990 onwards)
- an agreement signed and sealed by both parties as a deed (before 31 July 1990)
- and agreement signed by both parties under which one party offers and the other accepts and amount of maintenance in return for 'valuable consideration'
- an exchange of correspondence between the parties (or their advisers) in which one party offers and the other accepts maintenance in return for 'valuable consideration'.

The valuable consideration may include a promise to

- live separately from the payer
- transfer assets
- maintain a child
- allow access to a child.

Other things can constitute valuable consideration. If you are unsure whether your written agreement is legally binding, you should consider seeking legal advice or contact your Tax Office

In Scotland, what constitutes a legally binding written agreement is different. Scots law does not require that there should be valuable consideration. A legally binding written agreement in Scotland may take the form of a document signed by both parties, or an exchange of correspondence between the parties or their advisers.

Some terms used in Scotland are also different. A maintenance agreement registered for 'preservation and execution in the Books of Council and Session' is treated as equivalent to a court order. The terms 'aliment' or 'periodical allowance' will normally be used in both Scottish court orders and formal agreements to describe the type of payment which may qualify for relief.

Child Support Agency assessments

The Child Support Agency (CSA) is a Government Executive Agency which, since April 1993, has been taking over from the courts the work of maintenance payments for children. An assessment from the CSA tells you how much maintenance to pay.

CSA assessments do not look like court orders or legally binding written agreements. They normally take the form of letters from the CSA Office which is dealing with the application for maintenance. These letters are headed 'Your Child Support Maintenance Assessment' and are sent to the **absent parent** and the **parent with care of the child**.

The CSA issues both interim and full assessments. An interim assessment is made by the CSA because the information needed to make a full assessment has not been produced. It is usually a higher figure than would be awarded on the current information available.

Payments under a CSA assessment are required from an 'effective date' which may be earlier than that on which the assessment was made. But you will only be entitled to claim tax relief for payments made on or after the date of the assessment.

If you need further information about the CSA please contact the

Child Support Agency
PO Box 55
Brierley Hill
West Midlands
DY5 1YL

or telephone the National Enquiry Line on 01345 133133. Your call will be charged at local rate.

The next section explains the rules for maintenance relief in more detail.

If your maintenance arrangements were originally made before 15 March 1988 different rules may apply. See 'Maintenance arrangements originally made before 15 March 1988' below for more details.

Paying maintenance

You will be able to get tax relief on the maintenance payments you make if all the following conditions are satisfied.

1. You make payments under a
    - Child Support Agency assessment, or
    - court order, or
    - written agreement which is legally binding.

If you make payments under a foreign court order or written agreement, please see below.

2. The payments are made to your former or separated husband or wife. If you make these payments directly to the DSS, or the DHSS in Northern Ireland, they will be treated as if they are being made to him or her.

3. Your former husband or wife has not remarried.

4. The payments are for his or her own maintenance , or for his or her maintenance of a child under 21 of whom you are both the parents, or whom you have treated as part of the family.

If all these four conditions are satisfied you should qualify for tax relief.

See below for the amount of tax relief you can claim.

Foreign court orders and written agreements

You may be able to get tax relief if you are making maintenance payments under court orders and legally binding agreements of the following countries

for payments due and made on or after 6 April 1992

Belgium	Italy
Denmark	Luxembourg
France	Netherlands
Germany	Portugal
Greece	Spain
Ireland	

for payments due and made on or after 1 January 1994

Austria	Norway
Finland	Sweden
Iceland	

for payments made on or after 1 May 1995

Liechtenstein

and the following three conditions are satisfied

1. The payments are made to your former or separated husband or wife.

2. Your former husband or wife has not remarried.

3. The payments are for his or her own maintenance **or** for his or her maintenance of a child under 21 of whom you are both the parents or whom you have treated as part of the family.

You cannot get tax relief for payments made under a court order or written agreement made in other countries. If you are in doubt, contact your local Tax Office.

Here are the answers to some common questions about tax relief for maintenance payments

Must maintenance payments always be made in cash?

No. You can pay in cash, or through a bank or building society account (for example, by cheque, direct debit or standing order). Or you can pay maintenance by settling bills for your former husband or wife up to the amount due under the court order, legally binding written agreement, or CSA assessment.

What payments can't I get tax relief on?

You cannot get relief for the following

- voluntary payments (that is, payments which are not made under a court order, legally binding written agreement or CSA assessment)
- payments made under a foreign court order or legally binding written agreement, except those of the countries listed above
- capital payments (such as lump sum, ordered instead of future periodical payments) even if they are paid by instalments
- maintenance payments for a child boarded out with you by a public authority or voluntary organisation.

How much tax relief can I get?

You can claim tax relief each year on payments up to a certain limit. This limit is the same amount as the married couple's allowance. For example, for 1996-97 it is £1,790. The Chancellor sets the amount in the Budget each year. Any Tax Enquiry Centre or Tax Office will be able to tell you the current amount or give you our form IR (Insert) which will show you the figures.

Any tax relief due is given by a reduction in your tax bill. The income tax reduction is equal to 15% of the payments you make up to the limit. (For example, for 1996-97 the limit is £1,790, giving a reduction of £268.)

Can I pay more than the limit?

Yes, but you will not get tax relief for anything above the limit set each year.

How do I get my tax relief?

If you are dealt with under PAYE, tell your Tax Office and they will adjust your coding.

If you are not dealt with under PAYE, the instructions in the Tax Return Guide sent with your Tax Return will tell you how to calculate any tax relief. If you want to calculate your tax, the Tax Calculation Guide tells you what you have to do. If you do not want to calculate your tax bill yourself, we will do it for you provided you send in your Tax Return before 30 September of the year in which the Tax Return was issued to you.

If you are not sure

- whether your arrangements satisfy the conditions for relief, or
- of the amount you can claim

contact your Tax Office for advice.

Do payments due to a child qualify for tax relief

No. You can't get tax relief for payments which you have been ordered to make, or have agreed to make, direct to a child, even if, in fact, they are actually paid to your former or separated husband or wife. In Scotland, this includes payments which are ordered to be made to a mother specifically as tutrix, curatrix, administratrix in law or guardian of a child.

I have made payments pending a court order or Child Support Agency assessment. Do they qualify for tax relief?

They may, but only if they were made under a legally binding written agreement which satisfies the conditions outlined above. If they were voluntary payments they will not qualify for tax relief.

The court/CSA ordered me to pay for a period before the order or assessment. Do these payments qualify for tax relief?

Only if they are paid on or after the date of the court order or CSA assessment. They will then count towards the total amount on which you can get tax relief in the tax year during which the court order or CSA assessment was made, unless it states that the payments are to be made in a later tax year.

Payments made before the date of the court order or CSA assessment count as voluntary payments and will not qualify for tax relief. However, you may consider entering into a legally binding written agreement with your former or separated husband or wife pending the court order or CSA assessment, as payments made under such an agreement could still qualify for tax relief.

Can I claim for payments to more than one former husband or wife?

Yes - but, however many people you make payments to, the overall amount of tax relief you can get in any one tax year is still the same.

When does the tax relief start?

As soon as the separation is permanent and you begin to pay under a court order, legally binding written agreement or CSA assessment.

What if we get back together again?

If you are not normally asked to complete a Tax Return, tell your Tax Office that you want to claim tax relief only for the part of the year before you got back together again.

If you are asked to complete a Tax Return, claim tax relief only for payments due for the part of the year before you got back together when completing your Self Assessment Tax Return.

What if I remarry?

Tax relief for your maintenance payments will continue if the payments continue. If you remarry your former husband or wife, the tax relief will stop.

What if my former husband or wife remarries?

Your tax relief will stop from the date of his or her remarriage, even though amounts may continue to be paid for the maintenance of a child.

Tell your Tax Office of the remarriage as soon as you know of it.

If you get a Tax Return, claim tax relief only for payments due before the date of his or her remarriage.

Will my tax relief be restored if my former wife or husband remarries then subsequently divorces again or is widowed?

No. Your tax relief stops on your former husband or wife's remarriage and cannot be restored.

Receiving maintenance

Do I have to pay tax on maintenance payments?

No, you don't pay tax on the maintenance payments you receive.

What if we get back together?

If you have separated from your husband or wife and you get back together again, you should let your Tax Office know.

What if I marry another man or woman?

If you continue to receive maintenance payments from your former husband or wife, for example for the maintenance of your children, you won't have to pay tax on them.

Maintenance arrangements originally made before 15 March 1988

Above we explained that different rules may apply if your arrangements fall into this category.

Paying maintenance

If you pay maintenance under an arrangement made before 15 March 1988, you will have been receiving tax relief on either the amount on which you got tax relief in 1988-89 or, if less, the amount you were due to pay and paid in the year for which you claim tax relief. You can go on receiving tax relief on payments due in the year, up to the 1988-89 figure as long as your legal obligation to make those payments lasts. However, if there has been some change in your arrangements, or the payments are to or for your children, this may not be the case.

What happens if the amount of maintenance changes?

Your arrangements may be changed by a court order, legally binding written agreement or CSA assessment, (for example, to increase the payments to the same recipient). If this happens, you can still go on getting relief under these rules, but not for any increase over your 1988-89 relief figure. But you may want to consider switching to the rules described above, if it is to your advantage to do so. See below for more details.

What if I have to make payments to somebody new?

Your new, varied or supplementary court order, legally binding written agreement or CSA assessment may provide for payments to someone who was not entitled to receive payments under the previous one. If so, then these rules will not apply to the payments to the new recipient. You will have to consider the payments to the new recipient to see if they qualify for relief under the rules described above.

How much tax relief can I get?

You can get tax relief in the form of an income tax reduction equal to 15% of the payments you make up to the amount of the married couple's allowance (for example, in 1996-97 up to £1,790). Any payments over that amount of up to the 1988-89 limit are deducted from your income so you do not pay tax on that amount.

What if I have arrangements from both before and after 15 March 1988

Any payments you make which qualify for tax relief under the old rules are taken into account when applying the limit for post 15 March 1988 arrangements. So if, for example, in 1996-97 you make payments of £1,000 under an agreement made before 15 March 1988 and payments of £1,000 under an agreement made after that date which qualify for relief, you will get tax relief on only £1,790 of the payments (the limit for that year), and not on £2,000. To see if your payments qualify for relief, see above.

What tax relief do I get for payments to children?

If you got tax relief for payments to children in the tax year 1988-89 you will continue to get relief up to a maximum of that amount until the children reach the age of 21, or the obligation to pay ends, if earlier.

In certain circumstances it may be advantageous for you to elect for the rules described above to apply to your payments. Further details on making an election are given below.

Receiving maintenance

Do I pay tax on the maintenance payments I receive?

If you have been receiving maintenance, you will only be taxable up to a limit which is the amount of payments you received in 1988-89. Whether you pay tax will depend on the amount of your income from all sources, and whether your former husband or wife makes maintenance payments. However, even if the payments to you **increase**, the amount on which you pay tax cannot be more than the amount on which you were due to receive in 1988-89.

Are there any additional reliefs if the maintenance is from my former husband or wife?

Any maintenance payments you receive from your former husband or wife are exempt from tax up to the amount of the married couple's allowance each year (£1,790 in 1996-97). The exemption does not apply once you remarry.

You should let your Tax Office know if you remarry.

I receive maintenance from my parent (or step-parent). Do I pay tax on them

If you are under 21, you pay tax on the payments you are due to receive if they are no more than you were due to receive in 1988-89. If the payments are more than you were due to receive in 1988-89, you pay tax on the part of the payments up to that amount but not on the other part.

If the payments continue after your 21st birthday, you do not have to pay tax on any payments due after that birthday.

If any tax is due how will it be collected?

If you are not asked to complete a Tax Return and are employed, the Tax Office may amend your PAYE code to collect the tax due. If you are not an employee, or you are an employee but the Tax Office is unable to amend your PAYE code for other reasons, you will be sent a Tax Return.

If you are asked to complete a Tax Return, fill in the relevant part of the Self Assessment Tax Return in accordance with the guidelines on the Tax Return. If you calculate your tax, the Tax Calculation Guide will tell you where to enter the amount of maintenance you received so that it is taken into account in arriving at your tax bill. If you ask the Revenue to calculate your tax, the amount of maintenance you received will be shown in the tax calculation.

Electing to switch to new rules

Even if your maintenance arrangements were originally made before 15 March 1998 so that these 'old' rules apply, you may want to consider switching to the 'new' rules described above. This is called making an election.

> **Only the person paying the maintenance can choose the switch. You should consider this matter carefully as once you have made an election you cannot withdraw it.**

Will I be better off?

You may be better off. It depends on how much maintenance you pay and to whom you make the payments.

Could I be worse off?

Again it depends on how much maintenance you pay and to whom you pay it. Switching to the new rules could make you worse off if any of your payments are made

- direct to children, **or**
- to someone who is not your former husband or wife, **or**
- to your former husband or wife who has remarried (or who remarries after the switch)

as these payments **will not qualify for relief under the new rules**.

What should I think about?

When deciding, key points to bear in mind are

- if you switch to the new rules they will apply to all the payments you make
- if your payments are to a former husband or wife, it will not be advantageous to switch if the amount of payments on which you currently get relief is more than the amount of the married couple's allowance.

How do I make an election.

If you decide to switch to the new rules, ask your Tax Office for a Form 142 and complete it.

Send the form back to your Tax Office

- before the start of the tax year, **or**
- during the tax year, **or**
- within 12 months of the end of the tax year to which you want the new rules to apply.

An election takes effect from the beginning of the tax year to which you want the new rules to apply, and applies to **all** your maintenance payments in that and later tax years. You can't make an election for some years and not for others, or for some payments and not for others

Once you have made an election you can't withdraw it, so you should consider carefully before doing so.

Do I need to do anything else?

Yes. You have to write to those to whom you make the payments to tell them what you have done. You have 30 days from the date you make the election to do this.

How does an election affect the person receiving the payments

He or she will not be liable for tax on the payments when the new rules apply. Under the old rules they may have had to pay tax on the payments received.

General

Any Tax Enquiry Centre or Tax Office will be pleased to answer questions on the information given in this leaflet. They can also give you the other leaflets and forms mentioned.

The Tax Office cannot give you advice on matters of general law such as the wording of court orders or agreements before they have been made. If you need such advice, consider seeking professional help.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect any right of appeal.

Issued by the External Communications Unit of the Inland Revenue
March 1997

Leaflet/booklet title	Number	Year
Giving to charity. How businesses can get tax relief	IR64	1993
Giving to charity. How individuals can get tax relief	IR65	1993
What to do about tax when someone dies	IR45	1997
Gift Aid. A guide for donors and charities	IR113	1994

Leaflet/booklet title	Number	Year
Income tax and pensioners	IR121	1995

Leaflet/booklet title	Number	Year
PAYE. Pay as You Earn	IR34	1996
Income tax and company cars from 6 April 1994. A guide for employees	IR133	1993
Income tax and company vans.	IR136	1994
Using your own car for work	IR125	1996
Tax relief for employees' business travel	IR161	1998
Income tax and relocation packages	IR134	1997
Approved profit sharing schemes. An outline for employees	IR95	1996
Approved SAYE share option schemes. An outline for employees	IR97	1996
Share acquisitions by directors and employees. Explanatory notes	IR16	1997
Approved company share option plans. An outline for employees	IR101	1996
Low interest loans provided by employers	IR145	1997
Income tax and school leavers	IR33	1992
Lay-offs and short-time work	IR42	1992
Expenses and benefits. A tax guide	480	1996

Leaflet/booklet title	Number	Year
Starting your own business?	CWL1	1997
Class 4 National Insurance contributions	IR24	1993
Employed or self-employed? A guide for tax and National Insurance	IR56/NI39	1995
Expenses payments and benefits in kind. How to save yourself work	IR69	1996
Corporation tax pay and file. Company leaflet	IR128	1993
The Enterprise Investment Scheme	IR137	1994

Personal Taxpayer Series IR120
You and the Inland Revenue
Tax, Collection and Accounts Offices

This leaflet tells you about the standard of service you can expect from the Inland Revenue

It also tells you the steps you can take if you want to make any comments on the service you receive or complain about the way your tax affairs have been dealt with.

Where can I get help and information?

Normally from a Tax Enquiry Centre. But any Inland Revenue office will be pleased to help you. Our addresses are in your local phone book under 'Inland Revenue'. Most offices are open to the public from 10am to 4pm, Monday to Friday. Many are also open outside these hours.

We have a wide range of free leaflets. Some explain aspects of the tax system. Others set out our Codes of Practice which support the Taxpayer's Charter. All Tax Enquiry centres, and some other Revenue offices, can give you these leaflets.

If you want to talk to us about your own tax affairs, please give your tax reference number, and your National Insurance number, if you know what they are. And, if you are employed, please give us the name and address of your employer.

What can I do if I want to comment about the way my tax affairs have been dealt with?

We always value any comments on the service you have received from your Tax Enquiry Centre, Tax Office, Collection Office or Accounts Office. And we welcome any suggestions that could improve the service we provide for you.

If you are not satisfied with the way we have handled your tax affairs, you should write to the officer-in-charge of the office or unit concerned. His or her name is on every letter we send out. In our experience, most issues are settled quickly and satisfactorily in this way.

If you are not able to settle the matter with the officer-in-charge, you can write to the Controller for the area or the Controller of the Accounts Office dealing with your tax. The Controller will look into your case and will quickly let you know the outcome.

How will I know which Controller to write to?

Below is IR120 (Insert), which shows the names and addresses for all the Controllers of Regional Executive Offices and the two Accounts Offices.

If you are concerned about the service you have received from an Accounts Office, write to the Controller at that office. Where the actions of a Tax or Collection Office are in question, write to the Controller of the Regional Executive Office for the area that office is in. If you don't know which one that is, your Tax Office will be pleased to tell you.

What can I do if I am still not happy?

If the Controller has not been able to settle your complaint, you can ask the Revenue Adjudicator, Elizabeth Filkin, to consider the matter and recommend appropriate action. The Adjudicator is an impartial referee whose recommendations are independent. She will look at any complaint about problems arising after 5 April 1993, and can be contacted at

Revenue Adjudicator's Office
3rd Floor
Haymarket House
28 Haymarket
London SW1Y 4SP
Tel: 0171 930 2292

Or you can write to any Member of Parliament (MP) to take up your case with the Inland Revenue or with Treasury Ministers.

If you feel that the Inland Revenue has not handled your tax affairs properly, you may ask any MP to refer your case to William Reid, the independent Parliamentary Commissioner for Administration, commonly known as the Ombudsman. Further information can be obtained from

Office of the Parliamentary Commissioner for Administration
Church House
Great Smith Street
London SW1P 3PW
Tel: 0171 276 2130/3000

Appeals

What should I do if I disagree with a notice of assessment or a notice of coding?

If you do not agree with the notice of assessment or a notice of coding, you have the right of appeal.

You should

- write to the Inspector whose address is on the notice and say you wish to appeal
- say why you think the assessment, or coding, is wrong. If you can, say what you think the correct items or amounts should be
- say how long you think you need to obtain any further information

You must write to the Tax Office within 30 days of the date on the notice of assessment or coding.

More details about appeals are set out in our leaflet IR37 'Appeals against tax' available from any Tax Enquiry Centre or Tax Office.

What service can I expect from the Inland Revenue?

All taxpayers can expect to be treated fairly and efficiently by the Inland Revenue. The Taxpayer's Charter has been produced setting out our standards.

Important
If you have any comments or suggestions about the service we provide, click here for suggestions form to print out and fill in or copy to your word processor using the clipboard.

This leaflet is also available in the following languages

Bengali
Chinese
Greek
Gujarati
Hindi
Punjabi
Turkish
Urdu
Vietnamese
Welsh.

English language versions are also available in Braille, large print and audio cassettes.

These notes are for guidance only and reflect the tax position at the time of writing. They do not affect your right of appeal about your own tax.

IR 120 You and the Inland Revenue (Insert)

Taxes, Collection and Accounts Offices

Directors of Executive Offices

If you are not able to settle a matter with the office concerned, you can write to the Director for the area that office is in.

If you have complaints or suggestions of a more general nature, please write to the Customer Service Manager at the same address.

Accounts Offices

Cumbernauld
A Geddes, OBE
Accounts Office Cumbernauld
St Mungo's Road
Cumbernauld
Glasgow G70 5TR

Shipley
Jack Warner
Accounts Office Shipley
Victoria Street
Bradford
West Yorkshire BD98 8AA

Northern Ireland

R S T Ewing
Inland Revenue Northern Ireland

Level 9
Dorchester House
52-58 Great Victoria Street
Belfast BT2 7QE

Scotland

Ian Gerrie
Inland Revenue Scotland
Clarendon House
114-116 George Street
Edinburgh EH2 4LH

England and Wales

East
M J Hodgson
Inland Revenue East
Churchgate
New Road
Peterborough PE1 1TD

London
J F Carling
Inland Revenue London
New Court
48 Carey Street
London WC2A 2JE

North
R I Ford
Inland Revenue North
Ground Floor
Regent House
Darlington DL3 6TN

North West
Geoff Lunn
Inland Revenue North West
The Triad
Stanley Road
Bootle
Merseyside L75 2DD

South East
D L S Bean
Inland Revenue South East
Dukes Court
Duke Street
Woking GU21 5XR

South West
R S Hurcombe
Inland Revenue South West
Longbrook House
New North Road
Exeter EX4 4UA

South Yorkshire
A C Sleeman
Inland Revenue South Yorkshire
6th Floor
Concept House
5 Young Street
Sheffield S1 4LF

Wales and Midlands
M W Kirk
Inland Revenue Wales and Midlands
1st Floor
Phase II Government Buildings
Ty Glas Road
Llanishen
Cardiff CF4 5TS

Large Business Office

Mrs M E Williams
Inland Revenue Large Business Office
New Court
Carey Street

London, WC2A 2JE

Issued by the Inland Revenue
May 1994

Leaflet/booklet title	**Number**	**Year**
Income tax and married couples	IR80	1997
A guide for widows and widowers	IR91	1995
A guide for one-parent families	IR92	1995
Separation, divorce and maintenance payments	IR93	1997
Tax and childcare	IR115	1992

Leaflet/booklet title	Number	Year
Personal pensions. A guide for tax	IR78	1991
Personal Equity Plans (PEPs). A guide for potential investors	IR89	1997
A guide for people with savings	IR110	1997
TESSA. Tax free interest for taxpayers	IR114	1997
Occupational pension schemes. An introduction	IR129	1995