

OVERVIEW OF UK TAX

Similarity to Irish Tax

Tax is charged through the United Kingdom on a uniform basis. This is unlike the position with most laws, where England and Wales, Scotland and Northern Ireland have different legislation for their separate legal systems. Most taxes are administered by Her Majesty's Revenue and Customs (HMRC), equivalent to the Revenue Commissioners in Ireland.

The UK tax system resembles the Irish taxation system for a number of reasons. Many of the key taxing provisions are in almost identical terms in both countries. The Income Tax rules were completely uniform prior to Irish Independence in 1922. Since then, Irish Revenue legislation has often copied English legislation, in its structure or in rules to block anomalies and loopholes which have emerged over time. The Irish Courts have always regarded the decisions of English Courts on taxation matters as being very persuasive. .

Although Corporation Tax and Capital Gain Tax have only been introduced in the last 40 years, the Irish taxation system in each case is broadly modelled on the UK system.

Value Added Tax (VAT) derives from European Union legislation. Accordingly many of the key principles and concepts under the tax are the same.

UK Inheritance is quite different to the equivalent Irish tax with the same name. There is no direct equivalent of the Community Charge in Ireland. This replaced the old rates system in 1990. Domestic rates were abolished in Ireland in 1978.

Basis of Computation

The UK tax system still uses the 6th April to 5th April tax year that applied in Ireland prior to 2001. It uses a system of personal allowances similar to those formerly used in Ireland instead of tax credits which now apply. An allowance comes off the total income before calculating tax while a credit is an actual credit against the tax liability. Allowances tend to favour higher tax payers.

The personal allowance for the current year is £6,475. Income tax is paid in the UK on taxable income received or deemed to be received in a tax year. Spouses are treated individually. Generally income from assets owned by them will be split 50/50, unless a different ratio is proved to the HMRC.

All UK resident individuals are taxed in the UK on their worldwide income. Broadly an individual is resident if he is present in the UK for a period of six months in any tax year or has made "frequent and substantial" visits. Stays of three months a year on average for four consecutive years are regarded as frequent and substantial.

In order to compute UK Income Tax, it is necessary to compute the taxable income for the different types of income specified in Tax law. There are a number of different types of sources of income. For example, there are different rules to calculate income from employment, self employment, savings, property investment income and shares.

Some forms of income may have already had tax deducted (examples include employment income and savings income) before payment. In this case, it is necessary to compute the gross payment (payment and tax deduction together) in the total income computation and then take credit for the tax already deduced. .

Trade income is calculated by adjusting business accounts. This is because certain types of deductions allowed in financial accounts under accounting rules will not be allowed for tax purposes, so the income for tax purposes need to be re-computed.

Certain income may have been received net of tax such as salary income. In computing overall tax a credit is allowed for the salary income e.g. PAYE deducted.

Once all the sources of income are computed in accordance with the rules that apply to each category, they are added together. As in Ireland, certain payments known as "charges" are deducted off the top as liabilities reducing income. Charges will be based on actual payments rather than liability incurred.

Rates and Allowances

The sum remaining is total income. Personal and other allowances are then deducted. All EU residents are entitled to full personal allowances in the UK. There are higher allowances available to tax payers over 65 and 75 respectively. This leaves taxable income. Taxable income is then taxed in accordance with the different rates. Since 2008 there are two rates, namely, 22% and 40%.

Savings and dividend rate and certain other types of income are subject to special rates of tax and are collected by deduction at source. These need to be taken out of the equation.

	2008-09	2009-10
Basic rate: 20%	£0-£34,800	£0-£37,400
Higher rate: 40%	Over £34,800	Over £37,400

The above rates apply to all income except savings and dividend income. The former 10% starting rate was controversially abolished in 2008.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.

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