

# THE UK TAX SYSTEM

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The logo consists of a red square with the letters 'AG' in white. The square is partially overlaid by a dark blue triangle from the bottom right corner of the slide.

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# THE UK TAX SYSTEM

- **UK TAX YEAR RUNS FROM 6 APRIL TO 5 APRIL.**
- **UK RESIDENTS PAY UK TAX ON THEIR GLOBAL INCOME AND GAINS.**
- **SOME EXCEPTIONS FOR 'NON-DOMICILED' RESIDENTS. THIS IS A COMPLEX AREA – SEEK ADVICE.**
- **EMPLOYMENT INCOME IS GENERALLY SUBJECT TO WITHHOLDING TAXES (PAYE) SO YOUR LIABILITY IS COLLECTED THROUGHOUT THE TEAR.**
- **OTHER TAXABLE INCOME AND GAINS MUST BE REPORTED ON 'SELF-ASSESSMENT' TAX RETURNS.**
- **THE TAX CALCULATED ON THE TAX RETURN IS PAID DIRECTLY TO HMRC BY 31 JANUARY AFTER THE TAX YEAR ENDS.**



# THE SELF-ASSESSMENT SYSTEM

# ONLY CERTAIN TAXPAYERS HAVE TO FILE RETURNS

- **SELF-EMPLOYED**  
If your income before expenses and deductions exceeds £1,000
- **LANDLORDS**  
If you rent out a room/ house/ building/ land
- **HIGH INCOME LEVELS**  
If your total taxable income exceeds £150,000
- **INVESTMENTS**  
If you receive more than £10,000 from UK dividends, savings or investments
- **INTERNATIONAL**  
If you have foreign income or gains
- **DISPOSALS OF ASSETS**  
If you have Capital Gains Tax to report or pay

# WHAT IS SELF-ASSESSMENT AND HOW DOES IT WORK?

# HOW SELF-ASSESSMENT WORKS

Register with HMRC by 5 October following the end of the tax year. For the 2023/24 tax year, you need to register by 5 October 2024.

You can do this online using this link: [Check how to register for Self Assessment - GOV.UK \(www.gov.uk\)](https://www.gov.uk/check-how-to-register-for-self-assessment)

HMRC will issue you with a 10-digit Unique Taxpayer Reference (UTR).

File online using HMRC's online service or professional advisor.

HMRC's online service does not support certain tax return pages such as residency.

## DEADLINES:

- Returns filed online must be submitted by **31 January** following the end of the tax year.
- Option to file paper returns by post by **31 October** following the end of the tax year.
- Automatic £100 penalty for late returns.



# PAYMENT OF TAX BY SELF-ASSESSMENT

- Tax calculated on the return is due by **31 January** following the end of the tax year.
- If paid late, interest is applied immediately.
- If over 30 days late, percentage-based penalties arise.
- If the tax liability is small and you are employed, the liability can be collected by PAYE the following year, if the return is filed by **30 December** following the tax year.



- Payment arrangements are possible if you are struggling to pay.

# PAYMENTS ON ACCOUNT

You are required to make payments on account for the following year if your tax liability exceeds £1,000 and less than 80% of your tax is collected via PAYE.

Two payments due, each equal to 50% of the prior year's tax liability. These are payable by **31 January** and **31 July**.

So, requirement to fund **150%** of your liability in the first year.

Your position is then reconciled in the following year's tax return.

May elect to reduce the payments if you know your taxable income will be lower next year.

# SELF-EMPLOYMENT

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You will be a 'trader' if you sell goods or services and are self-employed if you run your own business as an individual.

You will need to set-up as a Sole Trader if:

- You earned more than £1,000 from self-employment during the year.
- You want to make voluntary Class 2 National Insurance Contributions

## TO SET UP AS A SOLE TRADER:

- You must register for Self-Assessment:  
**Check how to register for Self Assessment - GOV.UK ([www.gov.uk](http://www.gov.uk))**
- If previously registered for Self-Assessment, you will need to re-register for Class 2 NICs using Form CWF1 (available online).

# RESPONSIBILITIES OF A SOLE TRADER

- KEEP RECORDS OF BUSINESS INCOME AND EXPENSES
- REGISTER FOR VAT IF TURNOVER EXCEEDS £90,000
- REGISTER FOR CIS IF IN THE CONSTRUCTION INDUSTRY
- FILE SELF-ASSESSMENT RETURNS
- PAY INCOME TAX AS NECESSARY
- PAY CLASS 2 / CLASS 4 NATIONAL INSURANCE CONTRIBUTIONS AS NECESSARY

# ALLOWABLE EXPENSES

Expenses incurred **WHOLLY AND EXCLUSIVELY** for the purpose of the trade can be deducted from your income to compute the taxable profit.

Some simplified flat rates can be applied for certain costs, such as use of home as office. Alternatively, you can claim a reasonable proportion of actual costs for expenses such as heating and electricity.

If it is more beneficial, you may claim the £1,000 trading allowance as a deduction rather than actual expenses.

## EXAMPLES INCLUDE:

- **TRAVEL FOR BUSINESS PURPOSES (E.G. PARKING, TRAINFARES)**
- **TRAINING COURSES**
- **ADVERTISING AND MARKETING**
- **OFFICE SUPPLIES/ STATIONERY**
- **STAFF COSTS**

# SELF-EMPLOYMENT: RECORDS AND PROCESSES

Records may include receipts, invoices, bank statements, till rolls. They are used to calculate your taxable profit.

There is no requirement to submit records to HMRC, however they should be retained in case HMRC request for further information.

There are two ways to calculate your taxable profits:

- Traditional (accruals) accounting: reporting income and expenditure based on the period they relate to not when received or paid.
- Cash accounting: reporting income and expenditure when it is received or paid. Typically used by sole traders however not always appropriate. Consult an accountant to advise further.



# NATIONAL INSURANCE CONTRIBUTIONS FOR SOLE TRADERS

The amount and type of NIC payable depends upon your sole trade profits.

For most Sole Traders, NICs are calculated on the Self-Assessment tax return and payable alongside the income tax liability due 31 January.



# NATIONAL INSURANCE CONTRIBUTIONS FOR SOLE TRADERS

## CLASS 2 NICs:

From April 2024 This is treated as paid if profits exceed £6,725.

Can be paid voluntarily if profits are lower, at a rate of £3.45 per week.

Payable by Sole Traders in prior years for weeks of trade.

## CLASS 4 NICs:

Class 4 is payable when profits exceed £12,570. It is payable at the following rates:

- 6% on profits between £12,570 and £50,270.
- 2% on profits above £50,270

# RENTAL INCOME

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Income from letting out land or property is taxable on UK residents, regardless of whether the property is in the UK or overseas.

If foreign tax is paid on overseas rentals, double tax relief may be available.

Income tax is payable on gross rental receipts less allowable expenses.

Jointly owned properties are taxed at 50:50 unless specifically owned in different proportions and form 17 completed.

Net losses can be carried forward to offset future rental profits. (Losses from overseas foreign properties cannot offset UK rental income).

Specific rules apply for Furnished Holiday lets (FHLs), commercial properties and properties that are let at below the market value.

NICs are not applied unless you are deemed to be operating a property trade.

# RENTAL EXPENSES

## EXAMPLES INCLUDE:

- INSURANCE
- LETTING AGENCY FEES
- REPAIRS
- ADVERTISING
- CLEANING / GARDENING
- ACCOUNTANCY
- UTILITIES

Expenses must not be 'capital' in nature i.e. improving the property. Expense must relate to the running of the rental business.

The cost of **replacing** a domestic item in a rental property can be claimed (furniture, carpets, crockery).

Mortgage interest can be claimed as a **20% 'tax reducer'** however it cannot make your rental business generate a loss.

A **£1,000 property income allowance** may be claimed if more beneficial than actual expenses.

# THE 'RENT-A-ROOM' SCHEME

There is a specific scheme to provide relief for individuals who let out furnished rooms in their own homes.

Up to £7,500 can be earned tax-free, per household.

The relief is automatic where income is less than £7,500. This means it does not need to be reported or claimed.

Where income exceeds £7,500, relief must be claimed on a Self- Assessment tax return.

# CAPITAL GAINS TAX

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CGT is a tax arising on the disposal of chargeable assets (e.g. shares, land or buildings).

Current Rates of CGT:

- Residential Property:  
Basic rate – 18%  
Higher rate – 24%
- Other assets:  
Basic rate – 10%  
Higher rate – 20%

- CGT is chargeable on UK residents on **all worldwide assets.**

- Chargeable on non-UK residents on **UK land and property.**

Tax-free Annual Exempt Amount:  
£3,000 for the current year (£6,000 for prior year).

Applicable rates of CGT depend upon your levels of taxable income for the year.

# COMPUTATION AND REPORTING OF CGT

CGT calculations must be included on the tax return if:

- The cumulative taxable gains exceeds the Annual Exempt Amount (£3,000 for the current tax year 2024/25), or
- If the cumulative gross proceeds of disposals made in the year exceeds 4 x the Annual Exempt Amount.

Any CGT arising is payable by 31 January following the end of the tax year.

**IF AN OVERALL LOSS IS  
MADE, THIS CAN BE  
CLAIMED ON A TAX  
RETURN AND CARRIED  
FORWARD TO OFFSET  
AGAINST FUTURE GAINS.**

There are potential complications for foreign losses earned by 'non-doms' – this is a complex area and advice should be sought.



# CGT ON PROPERTY DISPOSALS

- PRIVATE RESIDENCE RELIEF (PRR) IS AVAILABLE TO REDUCE CGT WHEN A TAXPAYER SELLS THEIR MAIN HOME.
- IF YOU SELL A PROPERTY THAT WAS YOUR MAIN HOME FOR THE ENTIRE OWNERSHIP, THEN THE CGT POSITION IS VERY SIMPLE AND NO CGT WILL BE DUE.
- COMPLEXITIES ARISE IF YOU HAVE TWO OR MORE HOMES (OWNED OR RENTED), WHETHER IN THE UK OR OVERSEAS. ADVICE SHOULD BE SOUGHT.
- SALES OF A UK PROPERTY MUST BE REPORTED ON A 60-DAY CGT RETURN (UNLESS YOU ARE A UK RESIDENT, AND NO CGT IS DUE).
- THE RETURN MUST BE FILED, AND ESTIMATED CGT PAID, WITHIN 60 DAYS OF COMPLETION.
- IF YOU ARE IN SELF-ASSESSMENT, THE DISPOSAL MUST ALSO BE REPORTED ON YOUR TAX RETURN.

# QUESTIONS?

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We have prepared the attached with reasonable care and skill with it being correct at the point of presentation. The information is generic in its nature and may not be directly applicable to individual circumstances or appropriate at a future point in time. The information, figures, rates and facts used in the presentation are correct at the time of the presentation and may become less relevant at a future date or in a different circumstance. We will not therefore be responsible for any losses, penalties, surcharges, interest, tax or additional tax, or any other liabilities arising to yourself or others as a result of the application or use of the presented information.



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