

ASK THE ADVISER

13) TAX - The latest in a series of articles by Iain Gregory of Caithness CAB

Today being Monday I wandered off happily in the direction of Wick ready to be placed in the crèche whilst Liz purchased various essential domestic items and, hopefully, some chocolate for me. Prior to leaving home I cast a jaundiced eye over the mail and noted that HMRC are under the entirely erroneous impression that I enjoy financing the imaginative expense accounts submitted by various people, that the Council think it is reasonable to expect me to hand over large sums of money for them not to cut the roadside grass or empty my bins before they are overflowing and DVLA also apparently wish me to part with a frightening sum which will, apparently, cure global warming. On filling my car with fuel it occurred to me that the vast majority of the fifty quid, which I proffered, would go straight to HMG and we would still have to swerve round potholes on the A9. So, as you may have gathered, today I am going to talk about tax. It is said that there are two certainties in life – death and taxes – and that is indeed the case.

So first of all let's have a look at Income Tax. There is no minimum age at which a person becomes liable to pay income tax and it is payable at any age depending on the level of a person's income. (It is worth remembering that you are only liable to pay income tax in the UK if you are deemed to be resident and domiciled in the UK so if you spend most of your time in another country speak to a Tax Adviser / Accountant or CAB). Most people do not pay tax on all of their income because everyone (except very high earners) is entitled to earn so much before tax is applied. Income tax is only due on taxable income that is more than the taxpayer's tax-free allowance(s) in any tax year. If a person's taxable income is less than her/his allowances, s/he will not have to pay any tax for that tax year. Caithness CAB get lots of inquiries about Income Tax because people naturally become confused.

Actually it is quite simple – in Tax Year 2016 /17 the first £11,000 you earn is taxed at 0%. Between £11000 and £43000 the Basic Rate of 20% applies; from £43001 to £150000 the rate is 40% and above that it is 45%. You might also be able to claim reliefs for work or business related expenses and costs and again please ask for advice. Where things have changed substantially is in relation to interest on savings. It used to be that, in most cases, tax was deducted from Bank or Building Society interest before you were paid the net sum. All is now different and "The Personal Savings Allowance" is in force. In short from 6 April 2016, most people can earn some income from their savings without paying tax. If your total taxable income is £17,000 or less you won't pay any tax on your savings income each year. Otherwise your allowance depends on which Income Tax band you're in so if you pay tax at 20% £1,000 of interest will be tax free, at 40% £500 will be left alone and any more than that and you are out of luck. And remember that ISA's and some

NS & I products are also effectively tax free and do not count in the calculations.

Do you have to submit a self-assessment form? If you do, remember the deadlines. For paper returns you must complete and submit by midnight on 31st October 2016 and online by midnight on 31st January 2016 (if you want HMRC to deduct any tax owed from your wages and pension you must submit by 30th December 2016 and you need to owe less than £3k and fit certain other criteria). There are of course penalties if we do not comply – and these can be alarmingly high so please do not leave it to the last minute and if you need to register then make sure you do so by 5th October 2016.

Finally, be careful of the Child Benefit trap – in a moment of inspiration equalled only by the brilliance of the “10p tax rate” debacle of a few years ago, HMG managed to mess up the system beautifully – if you or your partner earn over £50k and one of you gets CB (or you have a child living with you and someone else gets CB and contributes a sum equal to this) then you are subject to a tax charge and must declare same and pay up. If on the other hand you earn £49999 and so does your partner then all is well! What they also forgot is that CB is almost always paid to the mother to make sure that she always has a few pounds to ensure that a child is fed and clothed no matter what happens to a husband’s earnings of whatever level.

I do have to say that in my view the only fair tax is one based upon income – so long as we do not go too far – and income tax is as close as we can get to this so the best advice is to comply with the rules, put aside the sums you need to pay the bill and hope it is spent wisely.

And next we have Council Tax, which as we all know has been frozen for many years. I have no intention of going into the politics or rights and wrongs of this but there is no doubt that if ever a tax needed urgent reform it is this one. Many years ago householders had to pay “rates” which were replaced by the hated “Poll Tax”. Council Tax came along after that and, in principle, is simple enough. Your home is placed in a “band” and tax is levied accordingly with various discounts and exemptions. If you live in a modest home you might be in Band “A” or “B” and if you occupy a much higher value property then you are likely to be in “E” or above. It all seems fair enough until you look a bit deeper – we often see cases where an older person is widowed, the family have moved away and, apart from the 25% single person occupancy discount, the unfortunate widower ends up either having to pay huge sums or sell her or his beloved home. Income is not taken into account and it should be. Another quite appalling abuse is where someone has to move house – perhaps due to health or disability – and then cannot sell their old home. Far from being understanding, the council gaily whack on a 200% charge on the unfortunate homeowner after a couple of years. Utterly inspired – the person cannot sell the house, is paying Estate Agency Fees, two lots of standing charges plus maintenance and has probably cut the price to the bone and now they are “fined” a huge annual sum on top because they cannot shift the

house. And as a warning note – every day we deal with cases where people on very low incomes have missed a CT payment. The “debt” is passed to Sheriff’s Officers and a further charge added and the person is now expected to pay the whole lot – not a huge amount of logic there, but come and see us – we will deal with it for you.

These are the two main areas which we deal with daily, but we can signpost you to Tax Specialists and Accountants and speak to HMRC if you have VAT questions or need a bit of help in any other area. And as I said in my last article, be very careful when it comes to “taxing” your car – remember to get it sorted out before you drive off and have a good look at the emissions band if you are planning a new vehicle – the difference between two fairly similar cars can be very large indeed.

So there we have it – tax as HMRC put it “need not be taxing”. We regularly sort out tax problems – very often relating to incorrect tax codes or CT – and our clients go away happily. And on that note, having rendered unto Caesar that which is Caesar’s I now plan to go for a tax-free wander in the beautiful Caithness countryside. Today being Monday I wandered off happily in the direction of Wick ready to be placed in the crèche whilst Liz purchased various essential domestic items and, hopefully, some chocolate for me. Prior to leaving home I cast a jaundiced eye over the mail and noted that HMRC are under the entirely erroneous impression that I enjoy financing the imaginative expense accounts submitted by various people, that the Council think it is reasonable to expect me to hand over large sums of money for them not to cut the roadside grass or empty my bins before they are overflowing and DVLA also apparently wish me to part with a frightening sum which will, apparently, cure global warming. On filling my car with fuel it occurred to me that the vast majority of the fifty quid which I proffered would go straight to HMG and we would still have to swerve round potholes on the A9. So, as you may have gathered, today I am going to talk about tax. It is said that there are two certainties in life – death and taxes – and that is indeed the case.

So first of all let’s have a look at Income Tax. There is no minimum age at which a person becomes liable to pay income tax and it is payable at any age depending on the level of a person’s income. (It is worth remembering that you are only liable to pay income tax in the UK if you are deemed to be resident and domiciled in the UK so if you spend most of your time in another country speak to a Tax Adviser / Accountant or CAB). Most people do not pay tax on all of their income because everyone (except very high earners) is entitled to earn so much before tax is applied. Income tax is only due on taxable income that is more than the taxpayer’s tax-free allowance(s) in any tax year. If a person’s taxable income is less than her/his allowances, s/he will not have to pay any tax for that tax year. Caithness CAB get lots of inquiries about Income Tax because people naturally become confused.

Actually it is quite simple – in Tax Year 2016 /17 the first £11,000 you earn is taxed at 0%. Between £11000 and £43000 the Basic Rate of £20% applies;

from £43001 to £150000 the rate is 40% and above that it is 45%. You might also be able to claim reliefs for work or business related expenses and costs and again please ask for advice. Where things have changed substantially is in relation to interest on savings. It used to be that, in most cases, tax was deducted from Bank or Building Society interest before you were paid the net sum. All is now different and “The Personal Savings Allowance” is in force. In short from 6 April 2016, most people can earn some income from their savings without paying tax. If your total taxable income is £17,000 or less you won't pay any tax on your savings income each year. Otherwise your allowance depends on which Income Tax band you're in so if you pay tax at 20% £1,000 of interest will be tax free, at 40% £500 will be left alone and any more than that and you are out of luck. And remember that ISA's and some NS & I products are also effectively tax free and do not count in the calculations.

Do you have to submit a self-assessment form? If you do, remember the deadlines. For paper returns you must complete and submit by midnight on 31st October 2016 and online by midnight on 31st January 2016 (if you want HMRC to deduct any tax owed from your wages and pension you must submit by 30th December 2016 and you need to owe less than £3k and fit certain other criteria). There are of course penalties if we do not comply – and these can be alarmingly high so please do not leave it to the last minute and if you need to register then make sure you do so by 5th October 2016.

Finally, be careful of the Child Benefit trap – in a moment of inspiration equalled only by the brilliance of the “10p tax rate” debacle of a few years ago, HMG managed to mess up the system beautifully – if you or your partner earn over £50k and one of you gets CB (or you have a child living with you and someone else gets CB and contributes a sum equal to this) then you are subject to a tax charge and must declare same and pay up. If on the other hand you earn £49999 and so does your partner then all is well! What they also forgot is that CB is almost always paid to the mother to make sure that she always has a few pounds to ensure that a child is fed and clothed no matter what happens to a husband's earnings of whatever level.

I do have to say that in my view the only fair tax is one based upon income – so long as we do not go too far – and income tax is as close as we can get to this so the best advice is to comply with the rules, put aside the sums you need to pay the bill and hope it is spent wisely.

And next we have Council Tax, which as we all know has been frozen for many years. I have no intention of going into the politics or rights and wrongs of this but there is no doubt that if ever a tax needed urgent reform it is this one. Many years ago householders had to pay “rates” which were replaced by the hated “Poll Tax”. Council Tax came along after that and, in principle, is simple enough. Your home is placed in a “band” and tax is levied accordingly with various discounts and exemptions. If you live in a modest home you might be in Band “A” or “B” and if you occupy a much higher value property

then you are likely to be in “E” or above. It all seems fair enough until you look a bit deeper – we often see cases where an older person is widowed, the family have moved away and, apart from the 25% single person occupancy discount, the unfortunate widower ends up either having to pay huge sums or sell her or his beloved home. Income is not taken into account and it should be. Another quite appalling abuse is where someone has to move house – perhaps due to health or disability – and then cannot sell their old home. Far from being understanding, the council gaily whack on a 200% charge on the unfortunate homeowner after a couple of years. Utterly inspired – the person cannot sell the house, is paying Estate Agency Fees, two lots of standing charges plus maintenance and has probably cut the price to the bone and now they are “fined” a huge annual sum on top because they cannot shift the house. And as a warning note – every day we deal with cases where people on very low incomes have missed a CT payment. The “debt” is passed to Sheriff’s Officers and a further charge added and the person is now expected to pay the whole lot – not a huge amount of logic there, but come and see us – we will deal with it for you.

These are the two main areas which we deal with daily, but we can signpost you to Tax Specialists and Accountants and speak to HMRC if you have VAT questions or need a bit of help in any other area. And as I said in my last article, be very careful when it comes to “taxing” your car – remember to get it sorted out before you drive off and have a good look at the emissions band if you are planning a new vehicle – the difference between two fairly similar cars can be very large indeed.

So there we have it – tax as HMRC put it “need not be taxing”. We regularly sort out tax problems – very often relating to incorrect tax codes or CT – and our clients go away happily. And on that note, having rendered unto Caesar that which is Caesar’s I now plan to go for a tax-free wander in the beautiful Caithness countryside