



Glossary of Terms - Taxation

Jargon occurs everywhere and when it's used alongside an already complex subject such as tax, confusion can lead to confusion! We hope that this glossary of the most common terms and phrases will help you wade through the taxation minefield.

Benefits in Kind

Sometimes, a remuneration package can include benefits that don't have cash receipts. The most common examples are company cars and private medical insurance. There are usually tax implications with such benefits.

Capital Gains Tax

If you sell an asset such as shares or property, or you give the asset away, you may have to pay Capital Gains Tax. This tax is paid when you make a capital gain; a gain is classed as an increase in value. The tax is usually paid when you no longer own or have disposed of the asset.

Capital Gains Tax can be applied when;

- Assets are sold
- Assets are given away
- Assets that you have been given are disposed of
- Assets are transferred between husband and wife

Tax is paid if the gain exceeds a certain amount (£10,101 for 2009/10).

Corporation Tax

This is tax that is paid on a company's taxable income and profits. Corporation Tax is collected under the self assessment scheme. Strict deadlines for the submission of tax returns and the payment of tax are in place.

Form CT600

Completed by a company and records all sources of company profit, income and gains. It is the document used to calculate corporation tax.

Form P11D

A form that records the benefits in kind provided to an employee during a particular tax year.

Form P60

A form issued to an employee showing their earnings in a particular tax year. It shows the total wages that have been earned and the tax and national insurance that has been deducted.

HM Revenue & Customs (HMRC)

HMRC is responsible for collecting the bulk of the UK tax revenue including corporation tax, capital gains tax, income tax, VAT, PAYE, inheritance tax and Construction Industry (CIS) payments. Tax credits are administered through a separate department.

Income Tax

Quite simply, this is tax paid on your income. It's paid by people who are employed or self-employed, whether the income is from the UK or overseas. You may also have to pay income tax if you don't work but have an income such as a retirement and/or occupational pension.

Inheritance Tax

When a person dies if their chargeable estate exceeds a predetermined threshold (currently £325,000 for 2009/2010), the excess is chargeable to tax at 40%. A chargeable estate includes any gifts made within 7 years before death. Gifts to spouses and certain business assets are excluded from Inheritance Tax. Careful planning can substantially reduce liability to Inheritance Tax and this is an area where Howsons is well placed to advise.

National Insurance

National Insurance Contributions (NIC) is a tax on earned income and is payable up to your 65th birthday.

The NIC regime divides income into different classes:

Class 1 is payable on earnings from employment

Class 2 is payable by the self employed and is a fixed weekly amount of £2.40 per week (for 2009/2010)

Class 3 is a voluntary contribution of £12.05 per week. For more information on Class 3 contributions, please see our separate factsheet.

Class 4 is payable on self employed earnings in excess of the personal allowance.

National Insurance Contributions are the largest source of government revenue after income tax.

PAYE

Stands for Pay As You Earn and is the tax and national insurance that's deducted from wages each payday before it's paid to you. The tax and national insurance is calculated using tables provided by HMRC. Howsons' payroll department can do the calculation for you and make sure you pay the right amount of tax and national insurance.

Self Assessment

HMRC require certain individuals, trusts and partnerships to submit a tax return for a particular year. HMRC has passed the burden of calculating the tax payable to the individual who is responsible for any mistakes that may have been made on the return. Howsons is able to help with any self assessment query.

Stamp Duty

Most people just associate stamp duty with purchasing a new home. It also relates to certain types of business and non-business transactions, as it is essentially a document tax. You can sometimes avoid paying stamp duty, so always seek professional help. Visit HMRC's online stamp duty calculator at:

www.hmrc.gov.uk/so/new-sdlt-calculators.htm

Tax Year

A tax year is from 6th April – 5th April.

Tax Return

A form that relates to a particular tax year that details income and capital gains that arise during that tax year.

VAT

VAT is a tax on consumer expenditure. It is collected on business transactions, imports and acquisitions. It is arguably the most complex of all the taxes and is policed by HMRC who have great powers when it comes to looking at the VAT regime, and how individuals and companies are applying it. You must register for VAT if your taxable turnover exceeds a set annual threshold (£68,000 from 1st May 2009).

Call Us for more help

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