

Tax explainer: Income Tax



Introduction

Income Tax is charged on earnings from employment, self-employment, pensions, savings, and investments. The amount payable depends on total taxable income and available allowances

Who Pays Income Tax?

Income Tax applies to individuals receiving:

- Employment income (wages, salaries, bonuses)
- Self-employment income (business profits)
- Pension income (State Pension and private/workplace pensions)
- Savings and investment income (interest and dividends)
- Rental income (from letting out property)
- Some forms of income, such as certain state benefits, are tax-free.

Rates and allowances

These can be found on our Tax Book in the resources section of our website.

How Income Tax Is Collected

- PAYE (Pay As You Earn) – Employers deduct tax from wages before payment.
- Self-Assessment – Self-employed individuals and those with additional income submit tax returns and pay tax directly to HMRC.

Self-Assessment Deadlines

- 5 October – Register for Self-Assessment if required.
- 31 October – Paper tax return submission deadline.
- 31 January – Online tax return submission and payment deadline.
- 31 July – Second payment on account due (if applicable).

Penalties for Late Filing or Payment

- £100 fine for late tax returns (increases after 3 months).
- Interest charges on overdue tax payments.
- Daily penalties for extended delays.

Conclusion

Income Tax applies to most types of earnings, and taxpayers must ensure they meet their obligations to avoid penalties. Understanding tax allowances, reliefs, and dividend tax rates can help individuals reduce their tax bills. Contact Parry and Parry for expert tax planning and compliance support.

