



Working for an employer

What you have to pay tax on as an employee, tax reliefs you can claim and how the tax is paid

You pay tax on virtually all your earnings. This includes holiday and sick pay and maternity or paternity pay, commission, tips, bonuses, some fringe benefits, income from working abroad (but see right) and directors' fees. You also have to pay tax on some lump sums and expenses payments (see p15 and p16).

WHAT DOESN'T COUNT

You can deduct the following payments from your taxable pay:

- some expenses – see p16
- contributions to an employer's

pension scheme (but not a group personal pension or stakeholder pension – tax relief on these is given differently). See p28

- donations to charity via a payroll-giving scheme.

HOW TAX IS COLLECTED

Tax is deducted from your taxable pay before you get it, under the PAYE system. Your tax office gives your employer a tax code for you which tells your employer how much tax to deduct. See the chapter starting on p11 for how your tax code is worked out.

ACTION POINTS

Check your tax

Even if tax is deducted automatically under PAYE, there's no guarantee it's right, so check your tax at the end of the year.

Claim any refunds

If you're off work for some time, you may be entitled to a tax refund. Ask your employer or tax office.

Keep paperwork and records

You'll need payslips, P60, P11D (or P9D) and any other records of your pay to help you claim tax back or fill in a tax return. You'll also need records of money spent for work, in case you can claim an expense deduction.

WORKING ABROAD

If you work abroad full time, your foreign earnings are likely to be free of UK tax if you are away for a whole tax year and your visits to the UK average fewer than 91 days a tax year. There is a special deduction for seafarers.

In other cases, your foreign earnings are likely to be taxable in the UK and must be declared. However, you can claim a credit against your UK tax bill for any overseas tax you have paid. See HMRC leaflet IR20 *Residents and non-residents: liability to tax in the UK*.

CHECKING YOUR TAX

Keep track of tax throughout your working life

We guide you through what you need to do to make sure the right amount of tax is deducted.

FIRST REGULAR JOB

Your employer should give you form P46 to complete. If you earn under £97 a week in 2006-2007 (the value of the personal allowance), no tax is deducted and your employer just keeps the P46; otherwise, it is sent to your tax office, which will then work out your tax code.

Until you get this, you'll normally be given an emergency code (503L for the 2006-2007 tax year). This assumes that you are entitled to only the personal allowance. It means you can earn one twelfth of the personal allowance (£420) each month of the tax year before paying tax.

CHANGING JOBS

Your previous employer should give you a P45 form. Give it to your new employer so the correct amount of tax can be deducted. If you don't do this, your new employer will give you a form P46 as for your first job.

Until your tax office sorts out your code, your new employer will give you the emergency code but will operate it on a 'non-cumulative' basis – your pay is treated as if it were the beginning of the tax year and no account is taken of any free-of-tax pay due from the start of the tax year to the time you began working. Your employer will refund

any tax you've overpaid when you get your proper tax code.

OFF WORK

Statutory sick pay and statutory maternity, paternity or adoption pay are all taxable. So is any extra sick pay or maternity pay your employer gives you under the terms of your employment. However, if you receive less than the tax-free pay to which you are entitled, you will receive a tax refund. Payouts from sick pay insurance that you yourself paid for are tax-free.

You may get benefits from the Department for Work and Pensions (DWP). State maternity allowance is tax-free (statutory maternity pay isn't). Incapacity benefit is taxable after 28 weeks – the DWP will deduct tax before paying you.

LOSING YOUR JOB

Your ex-employer should give you a P45, which you should take to your local Jobcentre Plus so that you can claim benefits. Don't be put off claiming if you don't have a P45.

If you lose your job before you have used up all your tax-free pay for the year, any unused entitlement is set against the taxable amount of any income support or jobseeker's allowance you get. When you stop claiming benefit, or at the end of the tax year if this comes first, either the Jobcentre Plus or your new employer will refund any tax you have overpaid.

TAX-FREE LUMP SUMS

The following are usually tax-free:

- lump sums for an injury or disability which means you are unable to carry on with your job
- most lump sums from a registered employer's pension
- money your employer pays into a registered pension scheme or uses to buy an annuity for you
- gratuities on leaving the armed forces
- some or all payments where the job was carried on outside the UK.

The first £30,000 of the following payments are usually tax-free:

- payments solely for redundancy
- compensation if an employer breaks your contract (by not giving the required notice, say, provided that there is no right or custom for pay in lieu of notice).

RECEIVING A PAY-OFF

Lump sums given as compensation for losing your job are usually taxable unless shown above (use HMRC helpsheet IR204 *Lump sums and compensation payments* to help you decide the category your payment falls into). Your employer will usually deduct any tax due before paying you.

RETURNING TO WORK

When you eventually find a job, fill in the form at the back of booklet ES40 provided by your Jobcentre Plus. Return it to the Jobcentre, which will give you a P45 to hand to your new employer.

RETIRING FROM WORK

Tell your tax office in good time when you plan to retire or start drawing a pension or when you are nearing 65, in case your tax code needs to be changed. Your tax office may send you a pension enquiry form P161 to collect the necessary information. See p31 for more.

FORMS AT A GLANCE

Here's a rundown of the forms you're likely to come across as an employee. Check details on them are correct and hang on to them in case you have to claim tax back or fill in a tax return. Some payments, such as tips, may not appear on your payslips or P60; you must keep your own records of amounts received.

P11D (P9D) if you earn under £8,500 a year). This shows the amount of taxable benefits and expenses. Your employer must give you it by 6 July after the end of the tax year.

P45 You will get this, rather than a P60, if you leave a job during a tax year. Give it to your new employer or Jobcentre Plus straightaway.

P60 A summary of your pay and tax that your employer should give you by 31 May. Usually shows taxable pay after deducting pension contributions and payroll giving.

P60U This shows your taxable benefit and the tax paid. You'll get it from the Jobcentre Plus if you are unemployed at the end of the tax year.



TIP

If you earn less than your tax-free pay entitlement in the year to date, you will pay too much tax. Your employer or Jobcentre Plus will normally refund this automatically. Contact your tax office if it doesn't or if you're unsure whether you've paid the right amount of tax.

£ SAVE BY CLAIMING YOUR EXPENSES

You can save money by claiming all your tax-deductible expenses

You are not usually taxed on expense payments if you are classed as a low earner (see p17). In other circumstances, they count as taxable pay – even if they are just reimbursing you for money you spend on your employer's business. But you can claim a deduction for some expenses, which cancels out the tax. And to save the hassle of declaring expenses and then claiming a deduction, some are tax-free and can be ignored altogether.

The taxable amount of all other expenses is shown on form P11D (see 'Forms at a glance', p15). Your tax office may adjust your code so the tax is deducted from your pay.

TAX-FREE

The following expenses are free of tax. They are not shown on form P11D (or P9D) and you do not need to declare them.

- Mileage allowance payments up to limits approved by Revenue & Customs if you use your own vehicle for work – see p18.
- Expense payments that are covered by a 'dispensation' – an arrangement between your employer and your tax office to ignore certain business expenses (such as business travel).
- Expense payments where your employer makes a voluntary agreement with your tax office to pay the tax.
- Payments of up to £2 a week for extra household costs if you regularly work at home by arrangement with your employer. You don't need proof of amounts spent but your employer can pay more if you can provide evidence that the sums paid cover reasonable extra household costs.

TAX-DEDUCTIBLE

Whether or not your employer reimburses you, you can claim a deduction from your taxable pay if you incurred an expense wholly, exclusively and necessarily for work.

The most common tax-deductible expenses are listed in HMRC leaflet IR10 *Paying the right tax on your earnings or pension* and summarised below. However, for each expense you must meet detailed conditions in order to qualify.

- Cost of business travel, including reasonable hotel and meal expenses.
- Essential accommodation, travel and subsistence expenses if you are at a temporary workplace for up to 24 months. In most cases, you can't claim the cost of travel to and from your place of work. See HMRC booklet 490 *Employee travel*.
- Unreimbursed mileage if you use your own car for work – see p18.
- The cost of replacing, cleaning and repairing protective clothing (for example, overalls and boots) and uniform necessary for your job. You cannot claim for ordinary clothes that you could wear outside work.
- Flat-rate deductions for clothing and tools for some types of workers – nurses, for example, can claim £70 a year. The full list is given in HMRC leaflet IR10 *Paying the right tax on your earnings or pension*. You can claim a flat-rate deduction without needing to supply evidence of money spent.
- Expenses of entertaining customers but only if they are paid or reimbursed by your employer

! Warning

You can't avoid tax by being paid in kind rather than cash because most staff benefits, such as a company car, are also taxable – see p17.

and your employer cannot claim tax relief for the amount paid to you.

- Maintaining tools and musical instruments used for your job.
- Fees and subscriptions to some professional bodies (for example, the General Teaching Council) if necessary for your work. Check with your professional body.
- Some heating, lighting and business telephone costs if you work at home. You must be able to show that you carry out at least some of the key parts of the job at home, that your employer's premises are too far away or do not have the facilities needed and that it is necessary for you to work at home (not just your personal choice). You can claim £2 a week (excluding business phone calls) without proof of amounts spent, more if you have proof.

If you get a tax return, you should claim the deduction on the supplementary employment pages; otherwise, contact your tax office – it which may ask you to complete form P87. Your tax office will usually give you the deduction by adjusting your tax code.

ALLOWANCES FOR WORK EQUIPMENT

If you have to buy tools, instruments or books for your work, you cannot deduct the full cost in the year of purchase unless they have a useful life of less than two years or are simply replacing old equivalents of about the same quality. But you can claim the cost over a number of years as a 'capital allowance', and you can claim interest on a loan to buy them. Note, though, that you cannot claim allowances or interest on a car. See HMRC helpsheet IR206 *Capital allowances for employees and office holders*.

MORE HELP

HMRC leaflets and helpsheets

- IR10 Paying the right tax on your earnings or pension
- IR20 Residents and non-residents: liability to tax in the UK
- IR204 Lump sums and compensation payments
- IR205 Seafarers' earnings deduction
- IR206 Capital allowances for employees and office holders
- IR207 Non-taxable payments or benefits for employees

HMRC booklets

- 490 Employee travel. A tax and NICs guide for employers