

# Checking your income tax

Use our calculator, overleaf, to get a quick idea of your income tax for the 2005-2006 tax year

Simply assuming that everything is on track isn't worth the risk where tax is concerned – you need to actually check you've paid the right amount. Our calculator, overleaf, will help you do just that for the 2005-2006 tax year. Here, we give some tips on how to fill it in.

## WHAT TO WATCH OUT FOR

Enter dividends and savings interest (steps 3 and 4) before tax (the 'gross' amount). It is usually received 'net' (with tax taken off) – to find the gross amount, either add together the net amount plus the tax, or divide the net amount by 0.8 for savings, 0.9 for dividends.

Also enter the gross amount of personal pension contributions and gift-aid donations (step 5). You pay these after deducting basic-rate tax – divide the amount you paid by 0.78 to find the gross amount.

If any calculation has a negative result, enter zero (except in the last box).

## WHAT YOU DON'T NEED TO ENTER

The following income is tax-free and you can ignore it when filling in the calculator:

- interest from National Savings certificates and children's bonus bonds; premium bond prizes
- savings or investment income from Isas, Peps, SAYE accounts, child trust funds or friendly society tax-exempt plans
- education grants and scholarships
- some damages for personal injury
- some insurance benefits if you are sick, disabled or unemployed
- rental income below the rent-a-room tax-free limit (see p47)
- interest on tax rebates or on delayed compensation for injury or death
- statutory redundancy pay and some lump sums from employers (see p15)
- housing benefit, council tax or rent rebates and home improvement grants
- adoption allowances and most foster care payments; maintenance and alimony
- some state benefits, including child benefit, tax credits and pension credit
- payments from some long-term care policies if paid directly to the care provider
- qualifying life insurance policies – not strictly tax-free (see p38) but you are not taxed on any payouts
- lottery and betting winnings.

## WHAT ISN'T COVERED

To keep things simple, our calculator doesn't cover:

- taxable gains from life insurance and taxable lump sums from employers
- gift-aid payments if you pay little or no tax
- double taxation relief on income from abroad (otherwise foreign income is treated largely as if it were UK income)
- student loan repayments collected through your tax
- over- or underpayments of tax from a previous tax year.

If any of the above applies to you, you can use:

- Revenue & Customs' internet service, Self Assessment Online. You can use its free Online Tax Return or commercial tax return software. Visit [www.hmrc.gov.uk](http://www.hmrc.gov.uk) for details
- Revenue & Customs' paper tax calculation guide. The one sent with returns is a short version – if your affairs are complex, you will need the full version. Order it from Revenue & Customs on 0845 9000 404.

## HOW TO FILL IN THE CALCULATOR

**STEP 1** Enter your non-savings income at step 1. It gives details of what to include.

already had basic-rate relief by paying less.)

**STEP 2** Deduct allowances and payments that give you full tax relief at step 2.

**STEPS 6 AND 7** The main tax calculation is covered in steps 6 and 7. Remember to apply the right rate to different types of income – our calculator will guide you.

**STEPS 3 AND 4** Enter savings and investments income here; deduct remaining allowances and reliefs.

**STEP 8** Deduct tax relief given as a reduction against your tax bill at step 8.

**STEP 5** If you have paid personal pension contributions or gift-aid donations, complete step 5. Step 5 gives you any higher-rate tax relief due by increasing the amount of income that is taxed at the basic rate. (You have

**STEP 9** Add Class 4 National Insurance if you're self-employed at step 9.

**STEP 10** Work out your tax bill, taking into account tax you've already paid at step 10.

# INCOME TAX CALCULATOR 2005-2006

Our simple calculator will help you check you've paid the right amount of tax for the 2005-2006 tax year. Use it if your tax affairs are straightforward – see p57 for details

Enter the gross (before-tax) amount of your income for 2005-2006 in the right-hand boxes. Under 'Tax paid' enter any tax deducted through PAYE, plus any payments on account made on 31 January 2006 and (if relevant) 31 July 2006. Do not include any payments made to cover tax outstanding from earlier years.

## 1 ENTER YOUR NON-SAVINGS INCOME

	TAX PAID	INCOME Gross
<b>Income from employment</b> Include your basic salary or wage, commission, bonuses and profit shares, tips, holiday pay, taxable sick pay, maternity, paternity or adoption pay, and the taxable value of fringe benefits and expenses payments. Deduct any contributions to your employer's pension scheme, charitable payments made through a payroll-giving scheme and anything spent on allowable expenses.	<input type="text"/>	<input type="text"/>
<b>Pensions and social security benefits</b> Enter only the taxable amount (whoever pays the benefit should tell you this). For pensions from abroad, this is 90 per cent of the amount due.	<input type="text"/>	<input type="text"/>
<b>Taxable profits from self-employment or a partnership and freelance earnings</b> (after capital allowances and loss relief). See p22 for information on working out your taxable profits.	<input type="text"/>	<input type="text"/>
<b>Income from land or property</b> Enter your profits, after deducting expenses and loss relief. If you let rooms under the rent-a-room scheme, don't enter any tax-free amount of rental income.	<input type="text"/>	<input type="text"/>
<b>Other taxable non-savings income</b> For example, non-savings income from trusts and settlements or income from the estate of someone who has died that is treated as yours.	<input type="text"/>	<input type="text"/>
<b>Add up all the gross income and enter it at A</b>		<input type="text"/> <b>A</b>

## 2 DEDUCT ALLOWANCES AND PAYMENTS THAT GIVE YOU FULL TAX RELIEF

<b>Personal allowance</b> If you were born after 5 April 1941, enter £4,895. If you were born on or before that date, you may get a higher allowance – see p34 for how to work this out.	<input type="text"/>
<b>Blind person's allowance</b> If you were entitled to this, enter £1,610 here. If your spouse or civil partner can claim the allowance but doesn't use it in full, enter any unused amount here and put in a claim to transfer it.	+ <input type="text"/>
<b>Retirement annuity contributions</b> Enter payments treated as made in 2005-2006, including any life insurance bought through the plan. Don't include any other private pension contributions (these are all paid after tax relief).	+ <input type="text"/>
<b>Other full-relief deductions</b> For example, interest on a loan to buy into a company or partnership; relief on gifts of qualifying investments or land to charity. (Enter other charitable donations in step 5.)	+ <input type="text"/>
<b>Add up all the allowances and gross deductions and enter at B</b>	= <input type="text"/> <b>B</b>
If <b>A</b> is more than <b>B</b> , deduct <b>B</b> from <b>A</b> and enter at <b>C</b> . This is the taxable amount of your non-savings income.	<input type="text"/> <b>C</b>
If <b>B</b> is more than <b>A</b> , deduct <b>A</b> from <b>B</b> and enter at <b>D</b> . This is the amount of your allowances and deductions not needed to reduce your non-savings income to zero.	<input type="text"/> <b>D</b>

## 3 FIND THE TAXABLE AMOUNT OF YOUR SAVINGS INCOME

<b>Enter any taxable interest from banks, building societies, National Savings &amp; Investments, British Government stocks, corporate bonds, bond-based unit trusts and from some annuities.</b> Enter the amount received and any tax deducted, and add them together to get gross income.	Net <input type="text"/>	+	Tax deducted <input type="text"/>	=	Gross <input type="text"/> <b>E</b>
If <b>E</b> is more than <b>D</b> , deduct <b>D</b> from <b>E</b> and enter at <b>F</b> . This is the taxable amount of your savings income. If <b>D</b> is more than <b>E</b> , deduct <b>E</b> from <b>D</b> and enter at <b>G</b> . This is the amount of your remaining allowances and deductions not needed to reduce your non-savings income to zero.					<input type="text"/> <b>F</b> <input type="text"/> <b>G</b>
<b>Add up the figures in the shaded boxes in the 'Tax paid' column, above. Enter the total, right</b>	Tax already paid	<input type="text"/>			

## 4 FIND THE TAXABLE AMOUNT OF DIVIDEND INCOME

<b>Enter any dividend or distribution from shares, share-based unit trusts or OEICs</b> Enter amount received and the tax credit (one-ninth of the dividend), and add the two together to get gross income.	Dividends <input type="text"/>	+	Tax credits <input type="text"/>	=	Gross <input type="text"/> <b>H</b>
If <b>H</b> is more than <b>G</b> , deduct <b>G</b> from <b>H</b> and enter at <b>J</b> . Otherwise enter zero. This is your taxable dividend income.					<input type="text"/> <b>J</b>

## 5 ADJUST YOUR BASIC-RATE TAX BAND BY ADDING TAX-ALLOWABLE PAYMENTS MADE NET

<b>Pension contributions paid net</b> If you paid into a personal pension or stakeholder pension, or free-standing additional voluntary contributions, enter payments treated as made in 2005-2006 (see p29). Enter tax relief already received, and add them together to get the gross amount.	Amount paid <input type="text"/>	+	Tax relief <input type="text"/>	=	Gross <input type="text"/>
<b>Gift-aid donations</b> Enter the amount treated as paid in 2005-2006 (see p8), the basic-rate relief you deducted before making the payments, and add together to get the gross amount. Note that if you made charitable donations, and the tax relief is more than (or close to) the tax due at the end of step 7, the tax relief may be clawed back. The calculator does not cover this.	<input type="text"/>	+	<input type="text"/>	=	<input type="text"/>
<b>Add the two boxes in right-hand column to the amount of the basic-rate band (£30,310)</b> This gives you any higher-rate relief due on these payments. Copy the result (the adjusted basic-rate band) to starred box in step 6.					<input type="text"/> <b>*</b>

cont'd

## INCOME TAX CALCULATOR

## 6 ALLOCATE YOUR INCOME TO TAX BANDS

**Your non-savings income** Enter C from step 2 and \* (adjusted basic-rate band) from step 5.

- At K enter either C or £2,090, whichever is lower.
- Deduct K from C to find L.
- At M enter either L or the adjusted basic-rate band, if lower.
- Deduct M from L and enter the result at N.

Now, working down the columns, deduct K from £2,090 and enter the result at O: deduct M from the adjusted basic-rate band and enter the result at P. This gives you the amount of your starting- and basic-rate bands unused so far

**Your savings income** Enter F from step 3.

- At Q enter O, or F if lower.
- Deduct Q from F to find R.
- At S enter P, or R if lower.
- Deduct S from R and enter the result at T.

Working down the columns again, find your remaining tax bands. Enter O minus Q at U, and P minus S at V

**Your dividend income** Enter J from step 4. At W enter U, or J if lower. Deduct W from J to find X (enter zero if negative). At Y enter V or X if lower. Deduct Y from X to find Z (enter zero if negative).

	Starting-rate band £2,090		Adjusted basic-rate band *		Higher-rate band All income remaining
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	-	<input type="text"/>	=	<input type="text"/>
	<input type="text"/>	=	<input type="text"/>	=	<input type="text"/>

## 7 WORK OUT THE TAX

Add up K+Q+W+Y from step 6. This is your income within the starting-rate band, plus dividends within the basic-rate tax band. Multiply by 10 per cent.

<input type="text"/>	x0.10 =	<input type="text"/>
K+Q+W+Y		

Enter S from step 6 (your savings income within the basic-rate band) and multiply by 20 per cent.

<input type="text"/>	x0.20 =	<input type="text"/>
S		

Enter M from step 6 (your non-savings income within the basic-rate band) and multiply by 22 per cent.

<input type="text"/>	x0.22 =	<input type="text"/>
M		

Enter Z from step 6 (your dividend income liable to higher-rate tax) and multiply by 32.5 per cent.

<input type="text"/>	x0.325 =	<input type="text"/>
Z		

Add up N+T from step 6. This is your non-dividend income liable to higher-rate tax. Multiply by 40 per cent.

<input type="text"/>	x0.40 =	<input type="text"/>
N+T		

Add up all the tax due (the five shaded boxes in the right-hand column)

## 8 DEDUCT EXTRA TAX RELIEF

**Dividend tax credits** Enter J from step 4 and multiply it by 10 per cent.

<input type="text"/>	x0.10 =	<input type="text"/>
J		

**Enterprise Investment Scheme** Enter amount paid which qualifies for tax relief and multiply by 20 per cent.

<input type="text"/>	x0.20 =	<input type="text"/>
----------------------	---------	----------------------

**Venture Capital Trusts** Enter amount paid which qualifies for tax relief and multiply by 40 per cent.

<input type="text"/>	x0.40 =	<input type="text"/>
----------------------	---------	----------------------

**Community investment tax relief** Enter the amount paid which qualifies for tax relief and multiply by 5 per cent

<input type="text"/>	x0.05 =	<input type="text"/>
----------------------	---------	----------------------

**Married couple's allowance, maintenance deduction** If you (or your partner) were born before 6 April 1935, enter amount claimed and multiply by 10 per cent.

<input type="text"/>	x0.10 =	<input type="text"/>
----------------------	---------	----------------------

**Deduct your tax relief** (the five shaded boxes in the right-hand column) from the tax due at the end of step 7. Enter zero if this produces a minus figure. The result is your income tax bill.

=	<input type="text"/>
---	----------------------

## 9 ADD CLASS 4 NATIONAL INSURANCE

**Enter class 4 NI on taxable business profits** This is 8 per cent of profits between £4,895 and £32,760, and a further 1 per cent of profits above £32,760. If profits are below £4,895, enter zero. Add to tax due at end of step 8. Enter total, right.

+	<input type="text"/>
=	<input type="text"/>

## 10 WORK OUT YOUR TAX BILL

Enter your tax already paid (the figure in the red box from step 3). Then deduct from the tax due at the end of step 9.

-	<input type="text"/>
---	----------------------

The result is your tax bill or, if a minus figure, your tax overpaid. (Note that you may need to make adjustments if you have already had a tax refund during the year.)

=	<input type="text"/>
	Tax already paid