ACCURATE AND RELIABLE

INSIGHT PAPER · TAX & COMPLIANCE

The UK Tax System

Who administers it, where it applies, and how the main taxes fit together for residents and businesses.

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SUBJECT
UK taxation, HMRC and compliance

PREPARED FOR
Business owners, finance teams and new UK entrants

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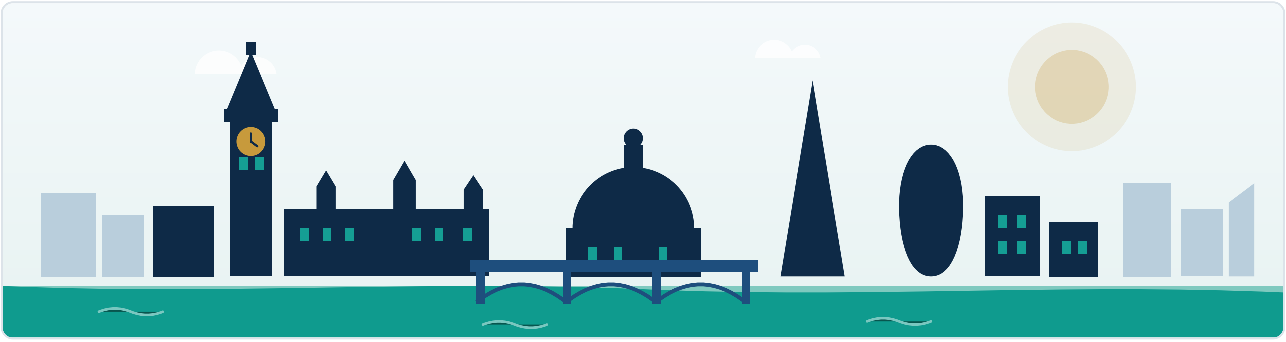
01 — THE ADMINISTRATOR

Introduction to the British tax system

HM Revenue and Customs (HMRC) is responsible for administering and collecting taxes in the UK.

Basic UK taxes include income taxes, property taxes, capital gains, UK inheritance tax, and Value Added Tax (VAT). Many of these are **progressive taxes**, meaning that those with higher incomes pay a higher rate.



The British fiscal system applies across the whole of the United Kingdom — with a small number of significant exceptions.

ADMINISTERED BY	APPLIES TO	MARRIED COUPLES
HM Revenue & Customs HMRC collects the central taxes	**The whole United Kingdom** Excluding the Channel Islands and the Isle of Man	**Taxed as individuals** Save for a small income tax allowance

02 — JURISDICTION

Where the system applies

The British fiscal system applies throughout the United Kingdom: England, Scotland (though there are some specific differences owing to Scotland's unique legal system), Wales, Northern Ireland, and many of the smaller islands around the British coast. Furthermore, it includes oil drilling platforms in British territorial waters, though, notably, it **excludes the Channel Islands and the Isle of Man**.

> **UK tax treats spouses as separate entities and taxes them as individuals, with the exception of a small allowance for income tax purposes.**

03 — THE TAXES

The central taxes HMRC administers

- Income tax
- Corporate tax
- Capital gains tax
- Inheritance tax
- Insurance premium tax
- Stamp, land, and petroleum revenue taxes
- Environmental taxes
- Climate change and aggregates levy and landfill tax
- Value-Added Tax (VAT)
- Customs duty
- Excise duties

04 — THE MECHANICS

How it fits together

Overall, many of the various taxes for which a UK resident is liable — with the exception of VAT — are in some way keyed to income taxes. The basic formula is:

1. **Add up your personal income and benefits**
   Everything that counts as taxable income for the year, together with taxable benefits received.
2. **Subtract your personal allowance**
   The tax-free portion of income, which varies with circumstances and total income.
3. **Pay the appropriate rate on the difference**
   The rate applied depends on which band the remaining amount falls into — higher incomes attract higher rates.

Exemptions. There are some ways you can file for tax exemption in the UK — which of them are open to you depends on your residence status, the source of the income and the reliefs you qualify for.

Working out where you stand?

To learn more about the tax system in the UK, or to know about the UK tax system for foreigners and taxes for short-term business visitors, please contact us.

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