

# ACC5003

# Personal and Business Tax

## Week 1- Introduction to the UK Tax System



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# Lectures

- Wednesdays at 10.45am-12.15am on Zoom
- Zoom code will be the same every week as shown on the top of the Moodle Page.
- Put your student ID and name on your Zoom Profile
- Join the meeting 10 minutes before.
- Your camera should be on for attendance and engagement purposes.
- Please inform me in advance if you cannot attend a lecture.

# Tutorials

- Please attend tutorials as per your timetable depending which cohort you are in.
- You should come to classes on time. You will be marked absent if you come 15 minutes late unless you have already informed me.
- Compulsory Book to bring to every session:  
Melville, A. (2021) Taxation- Finance Act 2021. 26th ed. Pearson Education Ltd.



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# Materials

- All materials will be available on Moodle.
- All zoom recordings will also be uploaded to Moodle after each session.
- Finance Act 2021 will be used throughout this Module. The tax year 2021-22 is between 6 April 2021 and 5 April 2022 inclusive.

# Overview

- UK taxes
- Direct taxes and indirect taxes
- Sources of tax law
- The tax year
- HM Revenue and Customs
- The Self Assessment system
- Tax avoidance and tax evasion

# UK taxes

The UK tax system is made up of a number of different taxes. These include:

- income tax
- capital gains tax
- inheritance tax
- corporation tax
- value added tax

Some of these are direct taxes and some are indirect taxes

# Direct Taxes

- Direct taxes are charged on income, profits or gains and are either deducted at source or paid directly to the tax authorities
- The main direct taxes are:
  - income tax (individuals)
  - capital gains tax (individuals)
  - inheritance tax (individuals)
  - corporation tax (companies)
- These taxes are all administered by HM Revenue and Customs

# Indirect Taxes

Indirect taxes are taxes on spending and are charged when a taxpayer buys an item

Indirect taxes are paid to the vendor as part of the purchase price of the item and the vendor then passes the tax on to the tax authorities.

The main indirect taxes are:

- value added tax(VAT)
- customs duties and excise duties

These taxes are also administered by HM Revenue and Customs



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# Sources of tax law

## Statute law:

- Acts of Parliament, amended each year by the annual Finance Act (which is based on the Budget proposals)
- Secondary legislation (statutory instruments)

EU directives (mainly VAT)

Case law (decisions taken by judges)

HMRC issues a variety of statements and other documents which act as a guide to the law on taxation

# The Tax Year

- Taxes are generally imposed by law for a year at a time (the "tax year").
- The individual or company concerned pays tax according to the rules in force for the tax year.
- Tax rules (and rates) often change from one year to the next so it is important to apply the rules for the correct tax year.

# The Tax Year(Individuals)

- Tax years for individuals run from 6 April to the following 5 April
- For instance, tax year 2021-22 runs from 6 April 2021 to 5 April 2022 inclusive
- Tax years for individuals are also referred to as "fiscal years" or "years of assessment".

# The tax year (companies)

- Tax years for companies run from 1 April to the following 31 March.
- Corporation tax years are known as "financial years" (FYs) and are identified in accordance with the calendar year in which they begin.
- For instance, FY2021 runs from 1 April 2021 to 31 March 2022 inclusive

# HM Revenue and Customs

- HM Revenue and Customs (HMRC) is a body of civil servants headed by the Commissioners for Revenue and Customs.
- The routine work of HMRC is carried out by Officers of Revenue and Customs whose main function is to calculate or "assess" a taxpayer's tax liability and ensure that the correct amount of tax is paid.
- HMRC has specialist offices which deal with matters such as pension schemes, charities etc.
- Most day-to-day work is done through local offices

# Self Assessment for individuals

- The system used to assess an individual's liability to income tax (and capital gains tax) each year is known as "Self Assessment".
- If the liability for the year cannot be collected entirely by deduction at source (or via PAYE- Pay As You Earn) the taxpayer must complete a tax return.
- Tax return notices are normally issued in April each year to taxpayers who need to complete a return

Returns may be filed on paper or electronically.

Tax returns are to be replaced with digital tax accounts by April 2021 at the earliest.



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# Tax return filing dates

- A Self Assessment tax return which is submitted on paper must normally be "filed" with HMRC by 31 October following the tax year to which the return relates.
- A Self Assessment tax return which is submitted electronically must normally be filed by 31 January following the tax year to which the return relates.
- Returns for 2021-22 must be filed by 31 January 2023 (electronically).

# Due dates of payment

The tax due in relation to a self-assessment is normally payable as follows:

- First POA      31 January in the tax year
- Second POA    31 July following the tax year
- Balance        31 January following the tax year

(POA = Payment on account)

Income tax for 2021-22 is normally payable on 31 January 2022 (first POA), 31 July 2022 (second POA) and 31 January 2023 (balancing payment).



# Record keeping

- Taxpayers are required to keep records so that they can make a correct tax return and justify the figures entered on the return.
- A taxpayer who is in business or who lets property must keep these records for five years after 31 January following the tax year.
- Otherwise records must be kept for one year after 31 January following the tax year.

# Enquiries and discovery assessments

- HMRC may enquire into a tax return if it is suspected that something is wrong with the information provided in the return.
- Some enquiry cases are selected at random.
- HMRC may raise a "discovery assessment" if it is discovered that full disclosure has not been made on a tax return.

# Tax evasion and Tax avoidance

- Taxpayers must provide information to HMRC which is correct and complete.
- Dishonest behaviour (e.g. concealing income) is "tax evasion" and is illegal.
- But taxpayers are entitled to organise their financial affairs in such a way that their tax burden is minimised.
- This is "tax avoidance" and is legal.



## References

- Melville, A., 2021. *Taxation – Finance Act 2021*. 27<sup>th</sup> edition. London : Pearson
- Lymer, A. & Oats, L., 2019. *Taxation Policy and Practice*. 26<sup>th</sup> ed. Birmingham: Fiscal Publications
- Combs, A., Tutin, S. and Rows, P., 2019. *Taxation incorporating the 2019 Finance Act* 38<sup>th</sup> ed. Birmingham: Fiscal Publications