Describe the uk tax environment economics essay

A tax is a compulsory contribution, imposed by government and while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated and safe society". (IISTE, 2012)

Taxes imposed in the UK my classified in various ways. Three different may be take on into taxes on income, on capital and on expenditure. Alternatively, and arguable more satisfactorily, the categorisation may be into direct and indirect taxes, tax base and equitable:

Tax base – taxes have to be levied on some basis or other, and a convenient way of classifying a tax is to do so according to what is being taxed. Three main tax bases are used in the present UK tax system. See (Appendix1)

Direct/ indirect – a direct tax is one levied on the person who is intended to pay the tax where an indirect tax is borne by a person other than the one from whom the tax is collected.

Equitable – taxes must not only be fair they must also be seen to be fair if the taxpaying public is to find the acceptable. There are two types of equitable to be consider – horizontal and vertical equity.

Income tax

Income tax is a relatively modern tax compared to other forms of taxation employed in the UK. Income tax was first introduced in the UK by William Pitt in 1799, as a temporary measure to help found the war with France. Pitt's income tax of 1799 was as unpopular tax and when Addington, Pitt's successor, re-enacted income tax in 103 it embodied two principles that still exist in today's income tax, namely the schedules of income tax and the deduction if tax at source.

Income tax was last introduced by Robert Peel in 1842, again as a temporary tax and remains as such today, and for this reason it has to be re-imposed each year by Parliament via the Finance Act. The main statutory charge provisions for income tax are contained in the Income and Corporation Taxes Act 1988. Because income tax remains a temporary tax, it must be reintroduced each year via the Finance Act. This is generally achieved in three stages:

Budget speech: each year the Chancellor will set out the new tax proposals in his or her budget speech.

Finance bill: the finance bill sets out the new tax proposals in detail, which are then debated and may amended before passed by Parliament.

Finance Act: when the Finance Bill receives Royal Assent, it then becomes law, i. e. the Finance Act. Individual, partnerships and trusts that are resident in the UK during a fiscal year are liable to UK income tax on their worldwide income; non resident are only liable to UK income tax on their UK income, ordinary residence and domicile can also affect the tax liability. Certain persons however are specifically exempt from income tax namely: representatives of overseas countries and their staff (ambassadors); UK registered charities; trade unions; friendly societies; and approved pension funds. Beside certain persons being exempt from income tax, certain types of income tax also exempt from the tax as follows, see (Appendix 3)

There are no definition of income in the tax legislation, instead sources if income are identified and if an individual has income from any one of those sources then it is taxed according to the rules of the particular source of income. These sources of income are known as the schedules of income tax. The legislation lays down the rules from calculating the tax liability for each of the schedules with regard to: the basis of assessment; expenses available; and loss relief available. See the schedules of income tax in (Appendix 2)

Income tax collected by either: deduction at source; or by direct assessment. Deduction of income tax at source – certain types of income have tax deduction at source, i. e. the tax is collected from the person paying the source of income rather than from the person receiving the income. This feature was first introduced in the UK in Addington’s income tax of 1803 and has two main advantages: it is administratively efficient and it lowers the risk of tax revenue being lost through bad debts. Income received net of basis rate income tax – income received under a deed of covenant; patent royalties and income portion of a purchase life annuity.

Income Tax is a tax on income. Income tax has the main income for the UK government and each type of income tax has its own rules and policies to decide how much income should be assessed. Approximately 29. 5 million individuals pay income tax in the UK. However not all income is taxable and individuals only taxed on ‘ taxable income’ higher than a determined level. Also there are other allowances that can lessen income tax bill and in some cases individual are not pay tax.

“ The Income tax is charges on salaries from employment, on rental income from properties, on interest from the banks and building societies, on dividends from companies and on the profits of the self employed”. (UK Essays, 2013)

National insurance contributions

The social security system can be divided into two distinct parts: First, is non contribution scheme – entitlement to receive state benefits is not linked to national insurance contributions but based on some other measure, e. g. means tested benefits such as income support.

Second is contributory scheme – entitlement to receive sate benefits is dependent on the individual having paid the relevant national insurance contribution, e. g. state retirement pension. NICs are payable on an earning related basis and paid into the national insurance fund to help meet the costs of contributory benefits and make a small contribution (approximately 12% of the fund) to the National Health Service, despite the fact that national health care is not dependent on NICs.

The national insurance scheme is administration by the department of social security, which was reorganised in 1991 and spilt into the following agencies: benefits agency; information technology service agency and contribution agency.

The contributions agency is responsible for the contribution made to the NIS. The state benefits that are linked to NICs, i. e. contributory benefits are as follows:

Incapacity benefits;

Jobseeker's allowance;

Maternity allowance;

Widow's pension and

Retirement pension.

National insurance contributions are based on earnings and payable by employers, employees and self persons. There are four classes of NICs, each with a different contribution rate, and entitlement to the contributory benefits depends on the class of NIC paid.

Generally persons under 16 age and over retirement age do not have to pay NICs. The liability under each class depends on whether the individual is employed or self employed, therefore, the distinction between a contract of service (employment) and a contract for service (self employment) is important not only for income tax purposes, but also for NIC liability. See four classes of NICs in (Appendix 4)

Corporation tax

" Corporation Tax is a tax on the taxable profits of limited companies and some organisations including clubs, societies, associations, co-operatives, charities and other unincorporated bodies". (HM Revenue & Customs, 2013)

The economic effect of corporate taxes depends on the system of corporation tax that is adopted. The main systems for taxing company profits being as follows: Classical system; imputation system and spilt rate systems.

Corporation tax was introduced on 1965 and applies to all resident bodies' corporate including authorities' unit trusts and unincorporated associations, but not to partnerships, although certain limited liability partnerships are treated as companies or local authorities. The UK tax system did not differentiate between incorporated and unincorporated businesses; they were both liable to pay income tax on their income. However, companies, not being individuals, were not eligible for personal reliefs and allowances, nor were the liable to pay income tax at graduated rates, but paid income tax at the basic rate on all their income. If a company is based in the UK, it will have to pay.

" Corporation Tax on all its taxable profits wherever in the world those profits come from. If a company isn't based in the UK but operates in the UK – for example through an office or branch (known to HMRC as a ' permanent establishment') – it will only have to pay corporation tax on any taxable profits arising from the UK activities". (HM Revenue & Customs, 2013)

Capital gains tax

" Capital Gains Tax is a tax on the profit when you sell or give away something (an ' asset') that has increased in value". (GOV. UK, 2013)

According to Lymer and Oats (2009) – ' prior to 1963 all capital gains were free of tax. During the period 1963 o 1965 short-term capital gain were charged to income tax. A separate tax, capital gains tax was introduced in 1965 to cover capital gains, both short-term and long-term'. Capital gains tax is charged on any gain resulting when a chargeable person makes a chargeable disposal of a chargeable asset. Tax is charged on so much of the gain as is left after taking into account any exemptions or relies and after deducting any allowable losses'.

CGT taxable individuals include persons who are normally resident in the UK, trustees, PRs and partners. In the case of partnerships, each partner is charged individually with his/her share of the partnership gains. However, corporations are not chargeable for CGT purposes; the company tax to which they are topic is levied on company profits that include chargeable gains. CGT can only begin on the disposal of an asset. A little change in individual conditions might make them legally responsible to pay CGT when they don't expect it.

" CGT might be payable when give something away, sell a valuable item or transfer assets in a divorce. When a person inherits an asset, there will only be Capital Gains Tax to pay if he/she later sell or dispose of it and make a gain" (HM Revenue & Customs, 2013). CGT is not payable on death.

Conclusion:

The essay shows that taxation is the procedure by which the government imposes charges on people and corporate businesses and it can benefit both the general public and business as an entire. However it shows that UK use different type's taxes to sustain their monetary budget. UK has income tax, corporation tax, capital taxes, national insurance, etc, where the Income tax is the main tax in the UK and everyone has to pay income tax.