Nothing is certain except death and taxes – or is it?

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

All information in this guide is correct at the time of going to press (5 April 2011). All figures, unless otherwise stated, are from YouGov plc. Total sample size was 2,085 adults. Fieldwork was undertaken between 21–23 February 2011. The survey was carried out online. The figures have been weighted and are representative of UK adults aged 18+.

A CONCISE GUIDE

NOTHING IS CERTAIN EXCEPT DEATH AND TAXES – OR IS IT?

A recent survey conducted by YouGov on behalf of ACCA revealed that 81% of UK adults are unaware about the impact of other taxes on their take home pay. With so many additional taxes on top of income tax and National Insurance (such as VAT, road tax and council tax), it is little wonder that four in five UK taxpayers are unsure about the true extent of their tax bill.

However, it's not just these stealth taxes that are creeping under the radar of the UK taxpayer – only 16% could correctly identify the amount of income tax paid on salaries of £20,000, £50,000 and £200,000.

It's clear that there is a great deal of public confusion around the taxation system – unsurprising given the constantly shifting policies in this area. In the 2011 Budget, the Government discussed the possibility of merging NICs (National Insurance Contributions) and income tax; a move designed to simplify the existing system. However, there will be a number of caveats to make this viable for different sections of society (ie pensioners who continue working, those who have retired early and employers) and it is likely that the reformed system will start off being more complex before it gets simpler.

While the proposed merger would make the tax system more transparent, taxpayers are unlikely to like what they see. When combined, the basic tax rate would move to over 30%, while the top rate of tax would be 52%. This total tax dedication will seem daunting to many workers.

Although paying tax in some form or other is one of life's certainties, there are a number of ways that people can manage their tax bill better by making small changes to their everyday lifestyle and purchasing decisions. Tax is specific to personal circumstances – the amount you pay depends on factors such as how much you earn, where you live and how many children you have. As these circumstances change, so too will your financial situation and the amount of tax you are subject to.

Chas Roy-Chowdhury, head of tax at ACCA, has compiled this concise guide to enable UK consumers to make the most of the money they have available to them, at whatever stage of life they're at. The profiles are intended as guidelines, based on potential scenarios throughout a taxpayer's life.

A 21 YEAR OLD GRADUATE STARTING THEIR FIRST JOB

Check your tax code

A tax code is usually made up of several numbers and a letter, for example 117L or K497. When you start your first job, you won't have a P45 so your employer will ask you for the relevant information to allocate a tax code and work out the tax due on your first payday. Various coding issues with HM Revenue & Customs (HMRC) mean that many people end up paying too much or too little income tax so it's important to check your code as this will determine whether you're paying the right amount. If you suspect it's wrong, then liaise with your local tax office or directly with HMRC to double check it.

Check your student loan repayments

If you get a job that pays over £15,000 each year, repayments are taken automatically out of your wages at the same time as your income tax and National Insurance (either monthly or weekly). The 'loan year' runs in accordance with the tax year (from April to April) so be sure to regularly check your repayments and confirm with your loan provider when you will have repaid your debt. When you have repaid in full, the loan provider should contact HMRC, who will in turn advise your employer to stop making reductions from your salary, but it makes good sense to stay on top of the repayments yourself as well.

Get wise to VAT

Most luxury goods and services, including gas and electricity, are subject to VAT, whereas items that are deemed essential are not. If eating somewhere such as Pret, watch out for the additional 'eat in' tax – for example, a sandwich that costs £4.80 has 80p of VAT hidden in its cost, so lunch on the go could save you per sandwich. It doesn't sound like much, but these little savings really do add up!

A 30 YEAR OLD MALE WITH NO DEPENDENTS WHO RUNS HIS OWN SMALL BUSINESS

VAT registration

If you have an annual turnover of £70,000 or more, then VAT registration is compulsory. Although this means that you will have to charge the standard 20% VAT on your outputs to your customers, you will be able to recover VAT on the cost of any products and services that you need to be able to do your job. There are therefore potential cash flow advantages of being able to charge VAT on your sales and claim back VAT on your purchases, for example:

- if you sell zero-rated items and buy standard-rated items, you would receive a VAT refund from HMRC
- if you have not yet sold anything or don't sell anything during a VAT accounting period, you may still be able to claim VAT back on your purchases.

The Flat Rate Scheme can reduce the time that you need to spend on accounting for and working out your VAT. Even though you still need to show a VAT amount on each sales invoice, you don't need to record how much VAT you charge on every sale in your accounts. Nor do you need to record the VAT you pay on every purchase. If you register for the Flat Rate Scheme in your first year of VAT registration, you can take advantage of a one per cent reduction in your flat rate percentage.

If your annual turnover is less than £70,000, you can become VAT registered voluntarily. This can add a legitimacy to the business and may help attract customers, so don't be put off by the additional bookkeeping involved (ie having to file your returns regularly) as there are a number of schemes designed to reduce this administrative burden for sole traders and small businesses, such as the Cost of Goods Sold (COGS) accounting scheme, annual accounting and the Flat Rate Scheme. Check the HMRC website for more details.

Know your self-assessment deadlines

If you earn below £70,000 and decide that becoming VAT registered is not the right option for you, make sure you keep a note of the deadlines around self-assessment as there are penalties for not sending yours in on time. The return dates are different for online and paper submissions, so make sure you leave plenty of time to complete your submissions and don't get caught out – filing a late return will result in an unnecessary fine.

Rent a room

Renting out a spare room can earn you up to £4,250 per year tax free. Remember that your lodgers needn't be strangers – this can extend to family and friends.

A 35 YEAR OLD COUPLE WITH A COMBINED INCOME OF £40,000 AND TWO DEPENDENTS

Shop second hand

If you have children, their clothing is thankfully VAT exempt. But the expensive extras such as pushchairs, car seats and toys have VAT added. Think carefully about making these purchases and consider buying second hand from reputable dealers or shops, or swapping items or using hand-me-downs from friends and family. The VAT on these goods has already been paid so they will be much cheaper.

Ask your employer to sign up to a childcare programme

This will entitle you to vouchers which you can pass on to your nursery/childcare provider. These are currently tax and National Insurance exempt up to £243 a month. After April 2011, there will be restrictions on the amount of tax exempt vouchers that higher and additional-rate taxpayers will be able to receive, to bring their tax savings to the same level as basic-rate taxpayers'. That said, significant savings can still be made.

Take the train

Although the thought of taking small children on the train might seem less appealing than the whole family bundling into the car, the ever increasing fuel tax on petrol and air fares means that the train is the most tax efficient way to travel. Book in advance (arm yourself with toddler entertainment) and save the pennies with a Family Railcard to get the best deal.

A 50 YEAR OLD COUPLE WITH A COMBINED INCOME OF £80,000. THEY HAVE ONE GROWN-UP CHILD AND ANOTHER AT UNIVERSITY.

Consider buying a property for your child at university. Although the upfront cost may be daunting, this could result in a significant tax saving. If the property is registered as your child's prime and principal residence then you will not have to pay Capital Gains Tax (CGT) on the purchase. This will apply for the duration of their time at university and you can apply for a three year extension so that the income made from the house remains free of CGT even after they have moved out. If they choose to stay in the house, it will continue to be exempt from CGT for the duration.

Keep savings in an ISA

These tax free accounts (in cash or shares) allow you to accrue interest on your savings while still giving you access to your liquid funds so you can withdraw the money whenever you need it for life's little emergencies. A word of caution – you can put up to £5,340 into your Cash ISA every tax year, you can only have one per tax year and if you withdraw money then you can't put it back in again. Seek financial advice about investing in ISAs.

Pay off your credit card

Although it is important to start making the maximum contribution to your pension as soon as you can, it would be madness to make these contributions if you still owe money on your credit card as the interest rates are often extortionate. You really should pay off that lingering credit card bill before you start trying to save.

A 65 YEAR OLD COUPLE WITH NO DIRECT DEPENDENTS (BUT FOUR GRANDCHILDREN). THEY HAVE A COMBINED PENSION OF £40,000 AND A HOUSE WORTH £750,000.

Consider downsizing

This is an option if you wish to release your assets and 'gift' equity to your children. PETs (Potentially Exempt Transfers) are cash gifts made during your lifetime which exceed the annual gift allowance of £3,000. Any gifts made fewer than seven years before your death will be subject to inheritance tax, so releasing equity before will ensure that your dependents benefit from the full, tax-free sum of your gift. The 'gift allowance' is £325,000 per person or £650,000 per couple.

Paying your grandchildren's school fees

If you have surplus income, putting money towards your grandchildren's childcare and education costs will prevent their parents having to pay out of their (taxable) income. Helping out with these costs will also help reduce your inheritance tax liability, as these 'gifts' are exempt from tax.

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