

# Income Tax / National Insurance

## What is Income tax?

Everyone hates paying tax. However, we live in a country where paying tax is compulsory, so the best thing to do is make sure what Income tax (PAYE) is required on all payments of salary, bonus or commissions earned by any one individual or within a company. The income tax payable through **your limited company** is applied to your **gross salary** paid direct to you as the employee of the company.

PAYE includes **income tax** and **National Insurance** which are deducted from the wages of you or your employees, together with your own company's National Insurance contributions (Employers contributions) on employee wages. This is paid to HMRC on the 19th of every month or if you qualify, on a quarterly basis. Other forms of taxes that you will need to be aware of include **VAT returns** and **IR35**.

## Why do we pay income tax?

Unfortunately, because we just have to... it's a non-negotiable one! **Her Majesty's Revenue and Customs (HMRC)** determine the amount of tax you pay by allocating you with a **tax code** based on your past and current circumstances. Your limited company tax code reflects the amount in GBP you are entitled to earn before tax is deductible. The amount given to your limited company by the HMRC is spread over the financial year to ensure that consistent amounts of **salary** are earned through out.

Example, the tax code for 2014 – 2015 is 1000L. This actually means that this tax code gives the individual £10,000 of **tax free** earnings for the financial year. This amount is then divided either by 52 if weekly paid or 12 if monthly paid - therefore meaning the allowances have been evenly spread out for the employee.

## Where does my income tax go?

To the government... via the tax man (**HMRC**). The money paid to the HMRC is used to run the country, and it helps pay for things like salaries within the public sector, defence and protection, education issues, the NHS and social services, debt, transportation, energy and medical services.

<https://www.gov.uk/personal-tax/income-tax>