

Quick Guide to Tax Thresholds and Levels

The tax year runs from 6 April to 5 April. Tax rates and thresholds can alter annually with changes being announced in the Budget and usually implemented from the beginning of a tax year.

Over a year, a business owner has to make certain reports to HM Revenue & Customs (HMRC). Some of these reports are made at the end of the tax year, some are made at the end of what is called an "accounting period" while others are made quarterly or monthly.

Regardless of when a return is made, you will need to ensure that you use the correct rate or allowance for the relevant tax year, or you may face a penalty.

This fact sheet contains information outlining the four key tax rates and thresholds you might need to be aware of and will help you identify the correct figures for the current tax year.

Corporation Tax

Corporation tax is the tax you pay on your profits if you are a limited company. This is calculated by you or your accountant, and the figure declared to HMRC on a corporate self-assessment tax return form (CT600).

Corporation tax rates for 2005/06 - The table below shows the rates at which corporation tax is charged for the tax year 2005/06.

Corporation tax rate	Level of profit on which rate is charged	2005/06 Rates & allowances
Starting rate	On profits of £0 - £10,000	0 per cent Note: from 1 April 2004 a minimum rate of 19 per cent is charged when profits are distributed to non-company shareholders. The zero rate remains if profits are re-invested in the business.
Marginal starting rate relief	On profits of £10,001 - £50,000	19 per cent less relief The relief is £50,000 minus the amount of profits multiplied by 19/400
Small companies' rate	On profits of £50,001 - £300,000	19 per cent
Marginal small companies relief	On profits of £300,001 - £1,500,000	30 per cent less relief The relief is £1,500,000 minus the amount of profits multiplied by 11/400
Main rate	On profits of £1,500,001 and above	30 per cent

Personal Allowances and Tax Rates

If you are an employer, it is your responsibility to calculate and deduct the correct income tax and National Insurance contributions (NICs) from your employees' earnings, and to forward these on to HMRC. This is usually done on a monthly basis.

The tables below show the rates and allowances relating to income tax and NICs for the tax year 2005/06

Employed and Self-employed

Type of allowance or tax	Rates or earnings for 2005/06
Personal allowance	£4,895
Personal allowance (aged 65-74)	£7,090
Personal allowance (aged 75 and over)	£7,220
Income limit for age-related allowances	£19,500
Married couple's allowance for people born before 6 April 1935	£5,905
Married couple's allowance - aged 75 or over	£5,975
Minimum amount of married couple's allowance	£2,280
Blind person's allowance	£1,610
Starting rate: 10 per cent	£0 - £2,090
Basic rate: 22 per cent	£2,091 - £32,400
Higher rate 40 per cent	Over £32,400

NICs Thresholds for Employees and Employers

NICs threshold	Rate for tax year 2005/06
Lower earnings limit for primary Class 1 NICs (LEL)	£82 per week
Upper earnings limit for primary Class 1 NICs (UEL)	£630 per week
Earnings threshold for primary Class 1 NICs (ET)	£94 per week
Earnings threshold for secondary Class 1 NICs (ET)	£94 per week
Employee's primary Class 1, payable for those earning over the ET	11 per cent of £94.01 to £630 per week 1 per cent above £630 per week
Employees' contracted - out rebate	1.6 per cent
Married women's reduced rate	4.85 per cent of £94.01 to £630 per week 1 per cent above £630 per week
Employers' secondary Class 1 rate	12.8 per cent on earnings above £94 per week
Employers' contracted-out rebate (salary-related schemes)	3.5 per cent
Employers' contracted-out rebate (money-purchase schemes)	1 per cent

NICs for the Self-employed

If you are self-employed, you are probably liable for Class 2 National Insurance contributions (NICs) which are payable at a flat weekly rate.

You will need to complete a self-assessment tax return on an annual basis. This will show the level of profits that you are declaring. Income tax is then chargeable on these profits, as are Class 4 NICs, provided that your profits exceed a certain level.

The table below details the relevant NICs rates for the self-employed and the rates for Class 2 and 4 NICs for the tax year 2005/06.

NICs Rates for the Self-employed

Type of NICs rate	Rate for 2005/06
Class 2 NICs	£2.10 per week
Class 2 small earnings exception	£4,345 per year
Class 4 Lower Profits Limit	£4,895 per year
Class 4 Upper Profits Limit	£32,760 per year
Class 4 NICs	8 per cent on profits between the lower and upper profits limits 1 per cent on profits above the upper profits limits

VAT Registration Threshold and Rates

If the value of your taxable supplies in the past 12 months or less has exceeded the current VAT registration threshold of £60,000, or the value of your taxable supplies in the next 30 days alone is expected to exceed this threshold, then you must register for VAT.

There are also other circumstances where you may have to, or wish to, register for VAT. There are three rates of VAT that you must know about. These are detailed in the box below.

VAT Rates

Rate of VAT	Also known as...	Applies to taxable supplies of ...
17.5 per cent	standard rate	most goods and services
5 per cent	reduced rate	for example, fuel and power used in the home and by charities women's sanitary products
0 per cent	zero rate	certain goods and services on which you do not need to charge VAT e.g. children's clothing