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Income Tax

1. Overview

Income Tax is a tax you pay on your income. You don't have to pay tax on all types of income.

This guide is also available in Welsh (Cymraeg) (<https://www.gov.uk/treth-incwm>).

You pay tax on things like:

- money you earn from employment
- profits you make if you're self-employed - including from services you sell through websites or apps (<https://www.gov.uk/income-from-selling-services-online>)
- some state benefits (<https://www.gov.uk/income-tax/taxfree-and-taxable-state-benefits>)
- most pensions, including state pensions, company and personal pensions and retirement annuities
- rental income (unless you're a live-in landlord and get less than the rent a room limit (<https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>))
- benefits you get from your job
- income from a trust

You don't pay tax on things like:

- interest on savings (<https://www.gov.uk/apply-tax-free-interest-on-savings>) under your savings allowance
- income from tax-exempt accounts, like Individual Savings Accounts (ISAs) (<https://www.gov.uk/individual-savings-accounts>) and National Savings Certificates
- the first £5,000 of dividends from company shares (<https://www.gov.uk/tax-on-dividends>)
- some state benefits (<https://www.gov.uk/income-tax/taxfree-and-taxable-state-benefits>)
- premium bond or National Lottery wins
- rent you get from a lodger in your house that's below the rent a room limit (<https://www.gov.uk/rent-room-in-your-home/the-rent-a-room-scheme>)

Income Tax allowances and reliefs

Most people in the UK get a Personal Allowance (<https://www.gov.uk/income-tax-rates>) of tax-free income. This is the amount of income you can have before you pay tax.

The amount of tax you pay can also be reduced by tax reliefs (<https://www.gov.uk/income-tax-reliefs>) if you qualify for them.

2. How you pay Income Tax

Pay As You Earn (PAYE)

Most people pay Income Tax through PAYE. This is the system your employer or pension provider uses to take Income Tax and National Insurance contributions before they pay your wages or pension. Your tax code (<https://www.gov.uk/tax-codes>) tells your employer how much to deduct.

Tax on state benefits

Your tax code can take account of taxable state benefits (<https://www.gov.uk/income-tax/taxfree-and-taxable-state-benefits>), so if you owe tax on them (for example for the State Pension) it's usually taken automatically from your other income.

If the State Pension is your only income, HM Revenue and Customs (HMRC) will write to you if you owe Income Tax. You may need to fill in a Self Assessment tax return.

Self Assessment tax returns

If your financial affairs are more complex (for example you're self-employed or have a high income) you may pay Income Tax and National Insurance through Self Assessment (<https://www.gov.uk/self-assessment-tax-returns>). You'll need to fill in a tax return every year.

You must also fill in a tax return (<https://www.gov.uk/self-assessment-tax-returns>) if your untaxed income is over £2,500, or contact the Income Tax helpline (<https://www.gov.uk/contact/hm-revenue-customs/income-tax-enquiries-for-individuals-pensioners-and-employees>) if it's less than £2,500.

3. Tax-free and taxable state benefits

State benefits that are taxable

The most common benefits that you pay Income Tax on are:

- the State Pension
- Jobseeker's Allowance
- Carer's Allowance
- Employment and Support Allowance (contribution based)
- Incapacity Benefit (from the 29th week you get it)
- Bereavement Allowance
- pensions paid by the Industrial Death Benefit scheme
- Widowed Parent's Allowance
- Widow's pension

Tax-free state benefits

The most common state benefits you don't have to pay Income Tax on are:

- Housing Benefit
- Employment and Support Allowance (income related)
- Income Support - though you may have to pay tax on Income Support if you're involved in a strike
- Working Tax Credit
- Child Tax Credit
- Disability Living Allowance

- Child Benefit (income based - use the Child Benefit tax calculator (<https://www.gov.uk/child-benefit-tax-calculator>) to see if you'll have to pay tax)
- Personal Independence Payment (PIP)
- Guardian's Allowance
- Attendance Allowance
- Pension Credit
- Winter Fuel Payments and Christmas Bonus
- free TV licence for over-75s
- lump-sum bereavement payments
- Maternity Allowance
- Industrial Injuries Benefit
- Severe Disablement Allowance
- Universal Credit
- War Widow's Pension

4. Work out if you need to pay Income Tax

To work out if you should be paying Income Tax, follow these steps.

1. Add up all your taxable income (<https://www.gov.uk/income-tax/overview>), including taxable state benefits (<https://www.gov.uk/income-tax/taxfree-and-taxable-state-benefits>).
2. Work out your tax-free allowances (<https://www.gov.uk/income-tax-rates>).
3. Take your tax-free allowances away from your taxable income.

If there's anything left, you're a taxpayer. Contact the Income Tax helpline (<https://www.gov.uk/contact/hm-revenue-customs/income-tax-enquiries-for-individuals-pensioners-and-employees>) if you're not already paying tax.

If there's nothing left, you shouldn't be paying tax and may be due a refund (<https://www.gov.uk/claim-tax-refund>).

5. Check you're paying the right amount

You can see if you're paying the right amount of Income Tax online. For the current tax year (6 April 2017 to 5 April 2018), you can:

- check your Income Tax payments (<https://www.gov.uk/check-income-tax-current-year>)
- work out how much Income Tax you should be paying (<https://www.gov.uk/estimate-income-tax>)

You can also:

- check how much Income Tax you paid last year (6 April 2016 to 5 April 2017) (<https://www.gov.uk/check-income-tax-last-year>)
- estimate how much Income Tax you should have paid in a previous year (<https://www.gov.uk/check-income-tax>)

If you can't use these services, you can check you've paid the right tax by contacting [HMRC](https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees) (<https://www.gov.uk/government/organisations/hm-revenue-customs/contact/income-tax-enquiries-for-individuals-pensioners-and-employees>) or by getting help from an accountant (<https://www.gov.uk/tax-help>).

There's a different way to change a Self Assessment tax return (<https://www.gov.uk/self-assessment-tax-returns/corrections>).