

## Personal Tax - an Introduction to Self Assessment

Under the self assessment regime an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time.

### The self assessment cycle

Tax returns are issued shortly after the end of the fiscal year. The fiscal year runs from 6 April to the following 5 April, so 2010/11 runs from 6 April 2010 to 5 April 2011. Tax returns are issued to all those whom HMRC are aware need a return including all those who are self employed or company directors. Those individuals who complete returns online are sent a notice advising them that a tax return is due. If a taxpayer is not issued with a tax return but has tax due they should notify HMRC who may then issue a return.

A taxpayer has normally been required to file his tax return by 31 January following the end of the fiscal year. The 2010/11 return must be filed by 31 October 2011 if submitted in 'paper' format. Returns submitted after this date must be filed online otherwise penalties will apply.

### Penalties

New late filing penalties take effect from 6 April 2011 for personal tax returns as follows:

- £100\* penalty immediately after the due date for filing (even if there is no tax to pay or the tax due has already been paid)

\* Previously the penalty could not exceed the tax due, however this cap has been removed. This means that the full penalty of £100 will always be due if your return is filed late even if there is no tax outstanding. Generally if filing by 'paper' the deadline is 31 October 2011 and if filing online the deadline is 31 January 2012.

**Additional** penalties can be charged as follows:

- over 3 months late – a £10 daily penalty up to a maximum of £900
- over 6 months late – an additional £300 or 5% of the tax due if higher
- over 12 months late – a further £300 or a further 5% of the tax due if higher. In particularly serious cases there is a penalty of up to 100% of the tax due.

### Calculating the tax liability and 'coding out' an underpayment

The taxpayer does have the option to ask HMRC to compute their tax liability in advance of the tax being due in which case the return must be completed and filed by 31 October following the fiscal year. This is also the statutory deadline for making a return where you require HMRC to collect any underpayment of tax, up to £2,000 (increasing to £3,000), through your tax code, known as 'coding out'. However if you file your return online HMRC will extend this to 30 December 2011. Whether you or HMRC calculate the tax liability there will be only one assessment covering all your tax liabilities for the tax year.

## Payment of tax

The UK income tax system requires the payer of key sources of income to deduct tax at source which removes the need for many tax payers to submit a tax return or make additional payments. This applies in particular to employment and savings income. However this is not possible for the self employed or if someone with investment income is a higher rate taxpayer. As a result we have a payment regime in which the payments will usually be made in instalments.

The instalments consist of two payments on account of equal amounts:

- the first on 31 January during the tax year and
- the second on 31 July following.

These are set by reference to the previous year's net income tax liability (and Class 4 NIC if any).

A final payment (or repayment) is due on 31 January following the tax year.

In calculating the level of instalments any tax attributable to capital gains is ignored. All capital gains tax is paid as part of the final payment due on 31 January following the end of the tax year.

A statement of account similar to a credit card statement is sent to the taxpayer periodically which summarises the payments required and the payments made.

### *Example*

Sally's income tax liability for 2009/10 (after tax deducted at source) is £8,000. Her liability for the following year is £10,500. Payments for 2010/11 will be:

	£
31.1.2011 - First instalment (50% of 2009/10 liability)	4,000
31.7.2011 - Second instalment (50% of 2009/10 liability)	4,000
31.1.2012 - Final payment (2010/11 liability less sums already paid)	2,500
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	£10,500
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There will also be a payment on 31 January 2012 of £5,250, the first instalment of the 2011/12 tax year (50% of the 2010/11 liability).

### *Late payment penalties and interest*

New late payment penalties will be introduced which are similar to the previous penalties (surcharges) which mean that from 31 January 2012 HMRC may charge the following penalties if tax is paid late:

- A 5% penalty if the tax due on the 31 January 2012 is not paid within 30 days (the 'penalty date' is the day following)
- A further 5% penalty if the tax due on 31 January 2012 is not paid within 5 months after the penalty date
- Additionally, there will be a third 5% penalty if the tax due on 31 January 2012 is not paid within 11 months after the penalty date.

These penalties are additional to the interest that is charged on all outstanding amounts, including unpaid penalties, until payment is received.

### *Nil payments on account*

Where there is only a modest amount of income tax due, after tax deducted at source has been accounted for then the two payments on account will be set at nil. This applies if either:

- income tax (and NIC) liability for the preceding year - net of tax deducted at source and tax credit on dividends - is less than £1,000 in total or
- more than 80% of the income tax (and NIC) liability for the preceding year was met by deduction of tax at source and from tax credits on dividends.

### *Claim to reduce payments on account*

If it is anticipated that the current year's tax liability will be lower than the previous year's, a claim can be made to reduce the payments on account. We can advise you whether a claim should be made and to what amount.

## Changes to the tax return

### *Corrections/Amendments*

HMRC may correct a self assessment within nine months of the return being filed in order to correct any obvious errors or mistakes in the return

An individual may, by notice to HMRC, amend their self assessment at any time within 12 months of the filing date.

## Enquiries

HMRC may enquire into any return by giving written notice. In most cases the time limit for HMRC is within 12 months following the filing date.

If HMRC does not enquire into a return, it will be final and conclusive unless the taxpayer makes an overpayment relief claim or HMRC makes a discovery.

It should be emphasised that HMRC cannot query any entry on a tax return without starting an enquiry. The main purpose of an enquiry is to identify any errors on, or omissions from, a tax return which result in an understatement of tax due. Please note however that the opening of an enquiry does not mean that a return is incorrect.

If there is an enquiry, we will also receive a letter from HMRC which will detail the information regarded as necessary by them to check the return. If such an eventuality arises we will contact you to discuss the contents of the letter.

## Keeping records

HMRC wants to ensure that underlying records to the return exist if they decide to enquire into the return.

Records are required of income, expenditure and reliefs claimed. For most types of income this means keeping the documentation given to the taxpayer by the person making the payment. If expenses are claimed records are required to support the claim.

## Checklist of books and records required for HMRC enquiry

### *Employees and Directors*

- Details of payments made for business expenses (eg receipts, credit card statements)
- Share options awarded or exercised
- Deductions and reliefs

Documents you have signed or which have been provided to you by someone else:

- Interest and dividends
- Tax deduction certificates
- Dividend vouchers
- Gift aid payments
- Personal pension plan certificates.

Personal financial records which support any claims based on amounts paid eg certificates of interest paid.

### *Business*

- Invoices, bank statements and paying-in slips
- Invoices for purchases and other expenses
- Details of personal drawings from cash and bank receipts

## **How we can help**

We can prepare your tax return on your behalf and advise on the appropriate payments on account to make.

If there is an enquiry into your tax return, we will assist you in answering any queries HMRC may have. Please do contact us for help.

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