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Personal Tax - 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 2008/09 runs from 6 April 2008 to 5 April 2009. 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 using software 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. If a completed return is not sent to HMRC on time, an automatic penalty of £100 will be imposed. However, the 2008/09 return must be filed by 31 October 2009 if submitted in 'paper' format. Returns submitted after this date must be filed online otherwise the automatic penalty will apply.

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 generally, through your tax code. However if you file your return online HMRC will extend this to 30 December 2009.

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 2007/08 (after tax deducted at source) is £8,000. Her liability for the following year is £10,500. Payments for 2008/09 will be:

| | £ |
|---|---------|
| 31.1.2009 - First instalment (50% of 2007/08 liability) | 4,000 |
| 31.7.2009 - Second instalment (50% of 2007/08 liability) | 4,000 |
| 31.1.2010 - Final payment (2008/09 liability less sums already paid) | 2,500 |
| | <hr/> |
| | £10,500 |

There will also be a payment on 31 January 2010 of £5,250, the first instalment of the 2009/10 tax year (50% of the 2008/09 liability).

Interest and surcharges

Interest will be charged on any tax paid late. There will also be interest added by HMRC when tax overpaid is refunded. In addition there will be a 5% surcharge on any tax still outstanding on 28 February following the year of assessment, increasing to 10% if still unpaid at 31 July.

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 £500 in total or

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- 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 error or mistake 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.

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