Income Tax—Self-Assessment Tax Returns

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Introduction

Self-employed taxpayers, company directors and taxpayers with complex tax affairs are usually required to submit a Self Assessment tax return. If your affairs are straightforward you may be able to complete your own tax return. Otherwise you can ask an accountant to prepare your tax return – and they will tell you what information they need from you to do this. They will also ensure that the return is completed properly, all relevant offsets, expenses, allowances and tax reliefs are claimed, that you satisfy all of the key time limits and pay the correct amount of tax when it falls due.

Even if you do use an accountant, it will remain your legal responsibility to inform HMRC if there is tax to be paid through Self Assessment.

Self Assessment Tax Returns

Tax returns are issued annually following the end of the tax year on 5 April. Tax returns have to be submitted by the following 31 October in paper form and by 31 January using an online submission facility.

Late filing penalties

There are automatic penalties for the late filing of tax returns. The main features of the penalty regime are as follows:

- From day one: taxpayers will be charged a £100 penalty even if they have no tax to pay or have paid any tax due on time. Previously a penalty was only charged if there was unpaid tax.
- From 3 months late: taxpayers will be charged an automatic daily penalty of £10 per day up to a £900 maximum.
- From 6 months late: taxpayers will be charged additional penalties which are the greater of 5% of tax due or £300

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— Over 12 months late: there are additional penalties based on greater of 5% of tax due or £300. In serious cases this penalty may be increased up to 100% of tax due.

Paying tax you owe

If you submit your own tax return, the taxman (HMRC) will work out how much tax you have to pay, tell you what it is and when to pay it. If you use an accountant, they will normally do this for you and check HMRC's figures which are not always correct.

The amount of debt that can be coded out in a year increases from £3,000 to £17,000 based on a graduated scale. The maximum coding out allowance only applies to taxpayers with earnings exceeding £90,000.

If you are an employee or receive a pension, you can ask the taxman to collect tax due of up to the relevant limits through an adjustment to your tax code. This will mean you do not need to make a direct payment of the tax to HMRC. Instead it will be paid through deductions from your salary or pension. The coding applies to certain debts such as self assessment liabilities, tax credit overpayments and Class 2 NIC contributions.

Earnings	Coding out Limit
Less than £30k	£3k
£30k to £39,999.99	£5k
£40k to £49,999.99	£7k
£50k to £59,999.99	£9k
£60k to £69,999.99	£11k
£70k to £79,999.99	£13k
£80k to £89,999.99	£15k
£90k or more	£17k

There is an over-riding limit that will prevent employers from deduction more than 50% of an employees pay.

Normal payment dates for Income Tax

If you are self-employed or have significant rental or other unearned income you will probably be required to pay your tax in 3 instalments each year. This will often only be the case when you are into your second year of business.

The first two payments will both be the same. They are due on:

— 31 January during the tax year e.g. for 2016-17 the first payment on account is due on 31 January 2017.
— 31 July following the tax year e.g. for 2016-17 the second payment on account is due on 31 July 2017.

These payments on account are based on the previous year's net Income Tax liability (e.g. Income Tax due less tax deducted at source). The actual calculation will be prepared by your accountant or by HMRC. They will, in any case, send you a detailed statement of

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account setting out the amounts due.

You have the right to request a reduction in your payments on account if you believe that the current year's net Income Tax liability will be less than the previous year. However, interest may be charged if the figures given to HMRC are incorrect.

No payments on account are required where your net Income Tax liability for the previous tax year is less than £1,000 or if more than 80% of that year's tax liability was collected at source.

The third (or only) payment of tax will be due on 31 January following the end of the tax year e.g. for the 2015-16 tax year a final payment is due on 31 January 2017. This is the same date as you will have to pay any Capital Gains Tax and you will also have to make your first payment on account for 2016-17 at the same time.

Worked example

John's Income Tax liability for 2014-15 after tax deducted at source was £30,000. John's Income Tax liability for 2015-16 is 40,000.

John's tax payments for 2015-16 are calculated as follows:

31.1.2016	First payment on account—50% of 2014/15 liability	£15,000
31.7.2016	Second payment on account—50% of 2013/14 liability	£15,000
31.1.2017	Final balancing payment—e.g. £40,000 less £30,000	£10,000
31.1.2017	First payment on account 2015/16—50% of 2015/16 liability	£20,000

Surcharges and interest

There is an automatic 5% surcharge on tax outstanding at 28 February following the end of the tax year e.g. payments outstanding at 28 February 2016 for the 2015-16 tax year will be subject to a surcharge with a further 5% surcharge on any tax still outstanding on 31 July 2017 and a further 5% after one year.

Interest will also be due on tax paid late. HMRC will pay interest on tax refunds that are paid late.

Changes to tax returns

Both HMRC and taxpayers have the right to amend or correct tax returns following submission. Taxpayers have one year from the filing date to amend their tax return whilst HMRC have 9 months from the date the return was received to correct obvious mistakes or errors.

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High Income Child Benefit charge

The High Income Child Benefit charge came into force in January 2013 and applies to taxpayers whose income exceeds £50,000 in a tax year and who are in receipt of child benefit. Taxpayers affected by the change have the choice to keep receiving child benefit and pay the tax charge through self assessment, or elect to stop receiving child benefit and not pay the new charge.

It is important that taxpayers who continue to receive child benefit (and earn over the relevant limits) ensure that they are registered for self assessment in order to avoid receiving penalties.

HMRC enquiries

HMRC can make enquiries to check that a return has been correctly completed within 12 months following the date the return was due or 12 months following the date the return was submitted, if later. No reason needs to be given for an enquiry nor does it mean that the return is incorrect.

If no enquiry is made by HMRC the return will not be subsequently examined except where the taxpayer makes an error or mistake claim or HMRC later discover that there was something wrong with the tax return. There are strict rules as to when HMRC can do this although taxpayers have less protection in this regard than used to be the case.

Determinations

If no return is submitted, HMRC can estimate the tax that a taxpayer should pay. This estimated amount is payable by the taxpayer without the right of appeal but will be superseded and any excess refunded if and when a Self Assessment return is submitted.

Records

All records relating to tax returns should be held for one year. In addition, records relating to trading or rental income should be held for a total of 5 years and 10 months.

For the self-employed the records that must be retained usually include the following:

- a record of sales, with copies of any invoices you've issued
- a record of business purchases and expenses
- invoices for business purchases and expenses
- details of amounts you personally paid into or taken from the business
- copies of business bank statements

For employees and directors the records will usually include some or all of the following:

- Interest and dividends
- Tax deduction certificates
- Dividend vouchers
- Gift aid payments
- Personal pension plan certificates
- Details of payments made for business expenses

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- Share options awarded or exercised
- Deductions and reliefs

How we can help

We would welcome the opportunity to assist you in completing your annual tax returns or resolving any disagreements you may have with HMRC.

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