



Personal Tax

Self Assessment and Personal Tax

As almost everyone pays personal tax in a visible way this is perhaps the most understood of all taxes. Under the self assessment regime, an individual is responsible for ensuring that their tax liability is calculated and that any tax that is owed is paid on time.

Who completes self assessment?

HMRC will require a self assessment personal return to be completed, if you are;

- Self employed
- A higher rate tax payer
- A director
- Receiving untaxed income, including property rents.

The return needs to correctly disclose all taxable income sources and claims for all valid tax deductions.

About self assessment

HMRC issues tax returns shortly after the end of the fiscal year which runs from 6 April through to the following 5 April. If a taxpayer is not issued with a tax return but knows they need to complete one, they should inform HMRC at the earliest opportunity and no later than 31 October following the tax year in question i.e. for 2009/10 that would be 31 October 2010. HMRC will then issue a return.

A taxpayer is 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, then an automatic penalty of £100 is imposed. If you want to complete your return on paper a new deadline for submission has been introduced for 2007/08 and later years of 31 October, after which your return can only be filed online otherwise a penalty will be automatically issued. If you are an individual taxpayer you can

mitigate this penalty by making payment of your tax on time i.e. before the 31 January deadline, however if you are required to complete a partnership tax return (which is an information only return) the penalty will stand.

Payment of Tax

For those in employment or with savings incomes, tax is deducted at source which removes the need for many tax payers to submit a tax return. This is not possible however for the self employed or if someone with an investment income is a higher rate taxpayer.

Capital gains tax is always due on 31 January following the tax year. Income tax however may be payable either 'on account' or as a balancing payment or both depending on your liability under self-assessment for the prior year. So for the first year of self-assessment you always only ever make a balancing payment on 31 January following the tax year. Then if your balancing payment is less than £500 or 20% of your total liability to tax (taking into account any tax deducted at source) you will only be required to make a balancing payment for the following year.

For the self-employed this rarely happens and more often than not payments on account are required, these are payable at the same time as your balancing payment for the prior year i.e. 31 January and following 31 July and are each equal to one half of the prior years liability. Any balance of tax to pay or repayment to be made will become due on 31 January following the year in question and so on.

Each taxpayer will receive a statement of account, which looks similar to a credit card statement. This document will summarise the payments required and the payments that have been made.

Example:

Jenny'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:

31.01.09	First instalment (50% of 07/08 liability)	£4,000
31.07.09	Second instalment (50% of 2007/08 liability)	£4,000
31.01.10	Final Payment (08/09 liability less sums already paid)	£2,500
		£10,500

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

Interest and surcharges

Interest will be charged on any tax that's paid late. HMRC will also add interest when overpaid tax 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 by 31 July.

Corrections / Amendments to the tax return

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, if they make notice to HMRC, amend their self assessment at any time within 12 months of the filing date. An error or mistake claim may also be made by a taxpayer for earlier years where they fall within the timeframe of 6 years before 31 January following the tax year in question.

Enquiries

If HMRC wish to enquire into a return, they will provide written notice. In most cases the time limit 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 or HMRC makes a discovery. 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 underestimate of tax due. If an enquiry is opened, however, it does not automatically mean that a return is incorrect.

Keeping Records

If HMRC decides to enquire into the return, they need to ensure that the underlying records exist. Records are required of income, expenditure and reliefs claimed. If expenses are claimed, records are required to support the claim. Records must be reclaimed for 6 years after the end of the tax year.

Checklist of books and records required by HMRC enquiry**Employees and Directors**

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

Documents you have signed or 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, for example, certificates of any interest paid.

Business

- Sales invoices and/or till receipts
- Invoices for purchases and other expenses
- Bank statements, cheque stubs and paying in slips
- Details of personal drawings from cash and bank receipts

How we can help

We will ensure that your income and capital gains declarations are correct and that all expenses and claims have been made. We will ensure that you only pay the income tax and capital gains tax that is correctly due. Specific areas where Howsons can help;

- Maximising pension contribution relief.
- Advising on the tax implications of income from pensions, savings, investments, employment and benefits in kind.
- Completing your tax returns for self-employment, property income and capital gains.

- Ensuring timely completion of tax returns and that tax is paid on time.

We can also help with;

- International tax matters.
- Checking HMRC tax calculations; dealing with HMRC paperwork.
- Ensuring income tax bands have been efficiently utilised.
- Dealing directly with HMRC on your behalf.
- Personal tax planning.
- Tax efficient structuring of your affairs including income, asset ownership and business structuring.
- Tax enquiries and investigations.

Peace of Mind Protection

Clients who would like peace of mind regarding HMRC investigations should consider taking out fee protection insurance arrangements which will cover the high costs associated with the complex and drawn out process of an investigation.

Call our Tax Specialists for more help

We have offices throughout Staffordshire and North Shropshire. Our tax specialists are:

Stoke Office – 01782 848838

Vicky Hulse

Leek Office – 01538 393600

Nick Armstrong, Joy Edwards

Burslem Office – 01782 834775

Andrew Riley

Uttoxeter Office – 01889 563550

Stephen Eardley

Newport Office – 01952 813330

Mervyn Davies

To email: initialsurname@howsons.com

(N.B When addressing Leek Office, please replace .com with .net)

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