

AN INTRODUCTION TO SELF ASSESSMENT FOR INDIVIDUALS

It is a fundamental part of the self assessment system that responsibility lies with you, the taxpayer, to file Returns and pay the right amount of tax, at the right time – you must not wait for the Inland Revenue to ask.

Tax returns

Tax returns covering income for any year are issued just after 6 April, eg for the year ending 5 April 2005 there were issued will be issued on or after 6 April 2005, and consist of a main tax form and backing schedules. Your tax office will send out what they think are the relevant schedules. If you need other schedules you will have to ask for them. The completed full return has to be submitted to the Inland Revenue by the following 31 January (the 'filing date') – eg for 2004/05 by 31 January 2006.

If you don't want to work out your own tax bill, you must send the tax return in by 30 September rather than 31 January. However, you should note that your return must be completed as far as the total income on which tax has to be paid. Figures must be given for every item, even if only estimates. It is not possible to enter question marks or leave the tax inspector to decide whether an item is taxable or not. The only section that can be left for the tax office to complete is the actual calculation of the tax due on your total income.

If you have taxable income or capital gains for 2002/03 and have not received a tax return, you must advise your tax office by 5 October 2003 at the latest.

There are automatic penalties for late filing of tax returns. Failure to submit the tax return by 31 January incurs a £100 penalty. If it has still not been returned six months later, a further £100 will be charged. However, the penalties charged cannot exceed the total amount of tax due. In the most serious cases, there are provisions for penalties of up to £60 a day.

Amendments, investigations, and record keeping

You have one year from the filing date to make any amendments to the return. The Inland Revenue may correct obvious errors or mistakes within nine months of receipt of the return.

Within a period of one year from the date the tax return was due to be submitted (or when it actually was submitted, if later), the Inland Revenue will have a right to make enquiries to check that the tax return has been correctly completed. No reason for the enquiry need be given.

All records relating to the return should be kept during this one-year period. If trading or rental income is involved, all records should be kept for a further four years.

Determinations

If a return is not submitted by the due date, the Inland Revenue can, within five years of the filing date, make an estimate to the best of its information and belief of the amount of tax due. This amount of tax will be payable *without appeal*, but will automatically be superseded when the return and self assessment are sent in.

Payment of tax

Payments on account of income tax (and Class 4 national insurance contributions) for a particular tax year will be due on 31 January in the tax year and 31 July following the end of the tax year. These payments will be based on one half of the total income tax liability (less any tax deducted at source) for the previous tax year. You have the right to reduce payments on account if you believe the income tax for the current year will be lower than that for the previous year. However, you may be charged interest if the reduction is more than it should be. Payments on account will not be required where each payment works out at less than £250.

Example

<i>Tax year</i>	<i>Final liability</i>	<i>Payments on account</i>	<i>Balance due</i>
2001/02	£6,400	£5,500	£900
2002/03	£7,200	£6,400	£800
2003/04	£7,800	£7,200	£600

<i>Payment date</i>	<i>Amount due</i>		
	<i>On account</i>	<i>Balance</i>	<i>Total</i>
31 January 2003	£3,200	£900	£4,100
31 July 2003	£3,200	-	£3,200
31 January 2004	£3,600	£800	£4,400
31 July 2004	£3,600	-	£3,600
31 January 2005	£3,900	£600	£4,500

Surcharges and interest

An automatic surcharge of 5% will be levied on any tax outstanding at 28 February after the tax year, eg for 2004/05 on 28 February 2006, and a further surcharge of 5% will apply to any tax still outstanding at 31 July. Surcharges continue each year on 28 February and 31 July. There is a right of appeal against the surcharge on the grounds of reasonable excuse.

In addition, interest will run on tax (and surcharges and penalties) paid late, from the due date of payment to the actual date of payment. The Inland Revenue will pay interest on amounts overpaid, from the date of payment (or the due date if later) to the date of repayment.

Self assessment for employees

For employees, self assessment is not too drastic. The PAYE system means most employees should pay the correct amount of tax at source. An employee with relatively straightforward tax affairs is unlikely to be asked to complete a tax return.

Tax codes

The main cause of under or over payments of PAYE is actual benefits in kind being different from the estimates included in the tax code. If there are under payments of tax, they may be collected by direct demand or, if modest, carried forward as an adjustment to their tax code for the next tax year, but one.

Information deadlines

So that employees can complete their tax returns properly, information deadlines are imposed on employers:

- Forms P60 must be provided to employees by *31 May* following the end of the tax year
- Copies of forms P11D and P9D must be provided to relevant employees by *6 July* following the end of the tax year
- Form P45 has a part for the employee to retain

Table of key dates

30 September	- tax return for proceeding tax year to be submitted if you don't want to work out your own tax
31 January	- tax return for proceeding tax year to be submitted with self assessment
	- payment of balance of income tax proceeding tax year
	- payment of capital gains tax for proceeding tax year
	- first payment on account for next tax year (which will be the one you are currently in) - normally half the <i>total</i> 2001/02 liability, adjusted for tax deducted at source
31 July	- second payment on account

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