Income tax self-assessment

About one in three taxpayers is affected by self-assessment. If you are one of them, there is no need to be concerned. As long as you keep detailed financial records and meet the deadlines for completing the return and paying tax, you should not have a problem.

This briefing explains:

- Who is affected by self-assessment.
- What you must do and by when.
- What paperwork you need.
- Where to get help.

1 It could be you

1.1 Nearly nine million taxpayers **receive** a tax return automatically. You should receive a tax return in April if you are:

- A sole trader or in partnership.
- A company director receiving remuneration or benefits.
- An employee with more complicated tax affairs (eg if you have a company car).
- An employee or pensioner who receives income in addition to your salary or state retirement pension.
- A higher rate taxpayer with savings or investment income that needs to be taxed at the higher rate.
- A taxpayer who receives untaxed income.

An employee who pays tax through the PAYE system and who has no other source of income is unlikely to receive a tax return.

1.2 You may need to **ask for** a tax return. It is your responsibility to ask for a tax return if you have income or profits to declare, even if HM Revenue & Customs (HMRC) is aware of them but has not sent you a return.

You must notify HMRC within six months of the end of the tax year (ie by 5 October) if:

- You received any untaxed income during the tax year.
- You need to pay tax at a higher rate on income (such as interest or dividends) that has been taxed at a lower rate.
- You sold assets (eg land, investments or a business) and may need to pay capital gains tax (see **3.3**).

If you only want your tax allowances adjusted, or want to reclaim tax on savings or investments, you should be able to do this without completing a tax return.

Check that you have received the correct supplementary pages from HMRC, as soon as possible. If you are missing any, contact the HMRC Orderline (08459 000 404) or download them from the website at www.hmrc.gov.uk/sa/forms/content.htm.

2 Your obligations

HMRC must receive your tax return by **31 October** if you want to submit a paper return, you want the tax office to calculate and tell you how much tax you owe or if you want the tax office to collect tax through your tax code. You can still submit a paper tax return after 31 October, but you will be charged a £100 late filing penalty.

2.1 If you want to submit your tax return online, you can delay submiting your tax return until the '**fixed filing date**', which is 31 January.

- If you are sending the form in the post, allow a few days for delays. You can also file tax returns over the Internet. Visit www.hmrc.gov.uk.
- If you fail to submit your tax return by 31 January, you will incur a fine of £100. You will be fined a further £100 if the tax return is still outstanding on 31 July. If you still fail to submit your tax return after this date, you can be fined up to £60 a day.
- Your fine will be related to the tax due if you fail to submit your return within 12 months, but cannot exceed the total you owe.

When is the tax due?

There are two tax payment dates in the year — 31 January and 31 July.

A If you are an **employee**, you probably only need to make one payment, by 31 January (nine months after the end of the tax year).

This will be any tax you owe after taking into account the tax already deducted from your salary under PAYE.

- If you owe less than £2,000 and submit your return by 31 October, the tax can be collected from your salary under PAYE.

B If you are **self-employed**, you are usually required to make two payments 'on account', based on your profits for the previous year.

The first has to be paid by 31 January, before the end of the current tax year. The second, by 31 July, is after the end of the tax year. Any outstanding tax must then be paid by the following 31 January.

- Interest is charged on late payments.
- A 5 per cent surcharge will be charged on any outstanding tax remaining unpaid after 28 February.
- A further 5 per cent surcharge will be charged on any outstanding tax remaining unpaid after 31 July.

2.2 You must **pay** your tax on time (see box).

2.3 You must keep **detailed records** to support the information provided in your tax return.

- The self-employed, those in partnership and those who let property must keep records for five years and ten months after the end of the tax year to which they relate.
- If you are not running a business, you are normally required to keep records for 22 months after the end of the tax year to which they relate.

If you fail to keep adequate records, you can be fined up to £3,000.

3 The return

3.1 Tax returns vary in **length** as they are tailored to each individual's circumstances.

HMRC will only send you the forms it thinks you need.

- 90 per cent of paper tax returns will be 12 pages or fewer.
- You must request any additional pages you require which are missing (see **3.3**).

3.2 Everyone must fill in the **main six-page** paper tax return (or the online equivalent).

This covers:

- Income from savings and investments.
- Pensions.
- Tax allowances and tax reliefs.
- State benefits.

3.3 You must also complete the **supplementary pages** or equivalent online sections covering any other types of income and gains which apply to you.

You will need to complete:

- Employment, if you were an employee. You will need a separate form for each job held during the tax year.

- Share options, if you were granted or exercised share options.
  You do not usually have to complete this form for SAYE (Save As You Earn) and other approved schemes.
- Self-employment, if you were a sole trader (not in partnership), or received any other earnings in addtion to your main job (eg freelance or consultancy earnings).
- Partnerships, if you had partnership income.
  The shorter form is for partnership income from a business. The longer form covers other partnership income (from savings, investments or rents, or from overseas).
- Land and property, if you received rental income.
- Foreign, if you had income from overseas investments, pensions, benefits and rents.
  You do not need to complete this form for overseas employment, unless you have been taxed both overseas and in the UK and want to reclaim tax.
- Trusts, if you received income from a trust fund or have set one up.
- Capital gains, if you sold assets and the gains were over £10,100 (the 2009/10 capital gains tax threshold).
  You do not need to complete this form for private possessions, such as your main home or private cars, unless they were used for business.
- Non-residence, if you lived or worked abroad during the tax year.

If you are registered to use the HMRC Self Assessment Online service, the software will tailor the return to your own personal circumstances based on your answers to a few simple questions. This means you will only have to answer the sections and questions relevant to you.

4 Record-keeping

Before completing your tax return, it is essential that you gather all the information you need.

4.1 If you are an **employee**, you can copy most of the information required from documents given to you by your employer.

These include:

- Your P60 shows how much income tax and National Insurance you have paid during the tax year. Your employer should give this to you by 31 May following the end of the tax year on 5 April.
- Your P11D or P9D, if you receive any employee benefits or expenses.
  Your employer should give you this no later than 6 July.
- Your P45 (Part 1A), if you left employment during the tax year.

4.2 If you are **self-employed** or in partnership you will need:

- Details of income and expenses during your last accounting year.
  You will also want a copy of the previous year's accounts for reference.
- Profit and loss accounts.
- Copies of your 'statement of account' forms, showing you how much tax you have already paid.
- Your balance sheet (if you have one).
  If you do not have a balance sheet, you can leave this section of your tax return blank.

4.3 If you have **savings** and investments, you will need:

- Bank and building society passbooks and statements.
  Ask for a 'certificate of tax deducted' for each account that pays interest net of tax.
- Annual investment statements from unit trust and investment trust companies.
  ISAs and PEP investments do not need to be declared on your tax return.
- Share dividend tax vouchers.

4.4 If you contribute to a **personal pension** plan, you will need your annual contribution statement from your plan provider.

Read through the tax return and Guidance Notes as soon as possible after you receive them. Use this to check what paperwork you need, and arrange to get duplicates of any documents you are missing.

5 Completing the paper return

Collect all your tax return forms, Guidance Notes and paperwork before you start to complete the return.

5.1 Complete the paper return.

- Write in pencil so you can make corrections. Once you are happy with what you have written complete the return in blue or black ink.
- Only include income and gains during the tax year — from 6 April to 5 April — unless asked to do otherwise.
- Only fill in the boxes that are relevant to you. Do not worry if much of the return is left blank, but ensure that you answer all

the relevant questions.
Employees typically need to fill in only 40 boxes (including answers to simple questions such as 'Name of employer').
The self-employed with a turnover of over £30,000 per annum will need to fill in approximately 80 boxes.
- If you are unsure about an answer, give as much extra detail as possible in the 'additional information' boxes.

  This extra information may answer any questions the tax inspector has and prevent a HMRC enquiry.

5.2 Check the tax return before sending it off.

- Make sure that you sign the return (this is one of the most common mistakes).
- Make sure that you have included all the paperwork that you have been asked for.
- If you realise you have made a mistake after sending in your tax return, you can amend it within 12 months of the fixed filing date.

5.3 Wait for **HMRC** to:

- Check for mistakes and then send you a new tax calculation if necessary.
- Calculate your tax bill (if you have not done this already).
- Notify you if it plans to enquire into your return.

5.4 You must **pay** any tax owing by 31 January even if you do not receive a demand.

6 Getting help

6.1 Half of all taxpayers complete their returns **without professional help**.

If you are an employee, filling in your tax return is usually straightforward.

- Provided you have the correct information, it may take no longer than a weekend.

6.2 Make the most of free advice from **HMRC**.

- Use the Guidance Notes sent with your tax return.
- Consider using the HMRC Self Assessment Online service to file your return (www.hmrc.gov.uk/sa/file-online.htm).
  If you choose to complete your self assessment online, the software will tailor the return to your circumstances so that you only answer questions relevant to you.
  It will also calculate how much tax you owe and will send you a confirmation once your return has been filed.
  You can see a demonstration of the Self Assessment Online service at www.hmrc.gov.uk/demo.
- Ring the tax office listed at the top of the first page of your tax return for advice or call the helpline (08459 000444, open weekdays, evenings and weekends).
- Ask for free HMRC Help Sheets which explain different aspects of tax and give further information on how to complete your tax return.
  You can request these by ringing the HMRC Orderline (08459 000404).

6.3 If you are self-employed or have complicated financial arrangements, consider employing a qualified **accountant** or **tax adviser**, particularly if you have employees.

A good accountant or tax adviser will:

- Know of ways to save you tax.
- Be able to calculate your tax bill.
  This gives you more time in which to complete your tax return.
  Your adviser's fees may be a tax-deductible expense.

6.4 Choose your adviser carefully.

- An unqualified adviser may charge as little as £150 for filling in a basic tax return.
  You may be better off paying more to an expert who can save you more tax.
- Accountants should be members of the Institute of Chartered Accountants (signified by the initials ACA or FCA) or the Association of Chartered Certified Accountants (ACCA or FCCA) or the Association of Accounting Technicians (AAT).
- Tax advisers are members of the Chartered Institute of Taxation (CTA, ATII or FTII) or the Association of Taxation Technicians (ATT).

6.5 Remember your **responsibilities**.

Even if you employ an adviser:

- You will have to do the day-to-day paperwork yourself.
  You will have to supply details of income, invoices, receipts and expenses.
- It is still your responsibility to ensure that your tax return is correct, is filed by the deadline and any tax owing is paid on time.

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Tel: 020 8672 6844, www.bhpinfosolutions.co.uk