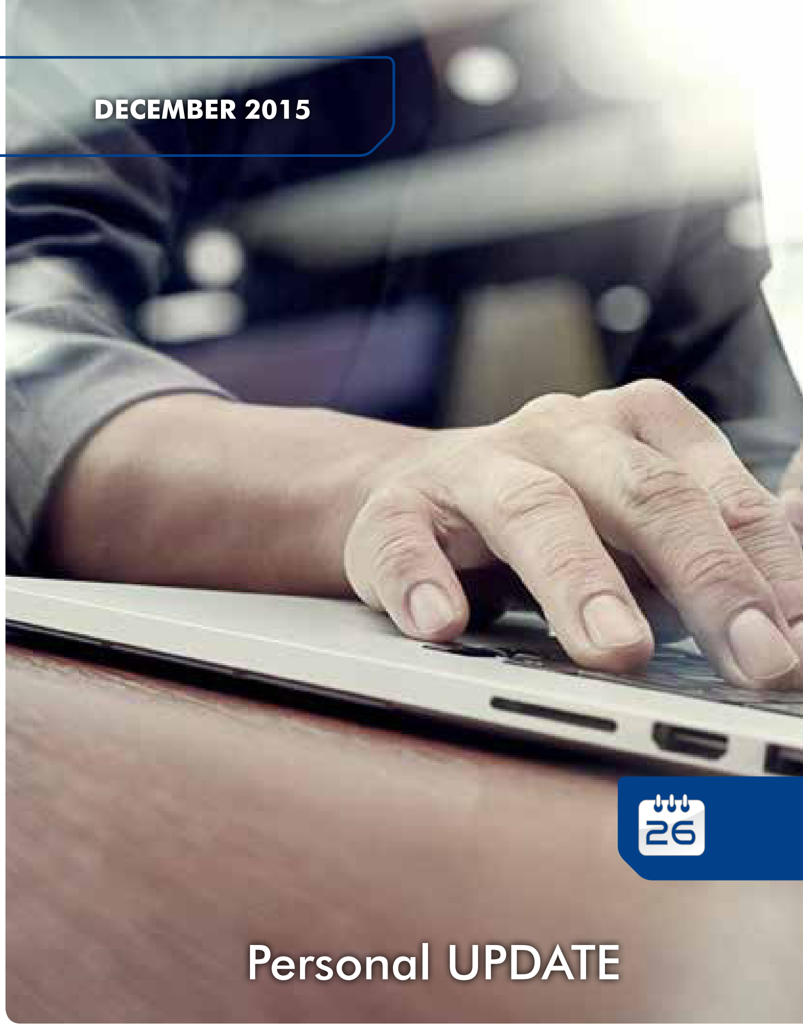
ACTIVE PRACTICE UPDATES



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Chartered Accountants

Self-assessment: an introduction

The what, when, how and why of completing your self-assessment tax return.

At the end of the year, most people have other things on their minds than tax returns. It would be a stretch to say it's an enjoyable experience, but getting self-assessment done and dusted as early as possible removes the stress of a last-minute submission and certainly makes the process more bearable.

This guide will give you the tools you need to submit your self-assessment tax return on time and error-free.

Self-assessment essentials

Self-assessment is the process by which individuals report and pay tax on income earned outside of formal employment.

Who needs to submit a tax return?

You will need to submit an online or paper self-assessment tax return if in the 2014/15 tax year:

- you earned an income from self-employment
- you earned untaxed income of £2,500 or more (for example from renting property or from savings and investments)
- you earned £10,000 or more from savings and investments
- you made gains from selling assets subject to capital gains tax (such as shares, certain types of property)
- you received share dividends while being a higher or additional rate taxpayer
- you acted as a company director for a private business
- your total income exceeded £100,000
- you need to pay the high income child benefit tax charge
- you earned untaxed income from abroad
- you earned income in the UK while living overseas
- you acted as a trustee for a trust or pension scheme.

What do you need to declare?

Your tax return must account for all of the income you received during the 2014/15 tax year. This includes but is not limited to:

Self-employed profits

All income generated by self-employment must be recorded on your return. Remember to include all tax-deductible expenses.

Employment income

Use the information detailed on your P60 (and P11D if applicable) to disclose income earned from employment. Any redundancy payments (even if they are not taxable) should also be declared.

Dividend income

You must declare any income earned from shareholdings. Currently, only higher and additional rate taxpayers are charged tax on dividend income. If you're a basic rate taxpayer you don't need to include your dividend tax credits on your tax return.

Rental income

All income earned from renting property needs to be recorded on your return. Don't forget to list your property expenses in the designated section.

Interest

You will need to include any bank or building society interest you have received, making sure to state the gross and net interest, and any tax deductions made by the bank.

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Capital gains

All gains and losses made on the sale of assets such as shares must be disclosed in the capital gains section.

Deadlines

There are 4 key deadlines to remember when preparing to submit your self-assessment tax return.

Returns for the 2014/15 tax year:

	Deadline
Registration	5 October 2015
Paper returns	Midnight 31 October 2015
Online returns	Midnight 31 January 2016
Tax payment	Midnight 31 January 2016

Penalties

Earlier in the year a leaked memo revealed that HMRC instructed its staff to waive late penalty fees without investigation for as many as 890,000 people. Those that were able to provide a "reasonable excuse" for missing the 31 January deadline had their fines scrapped.

While this suggests that the Revenue is moving towards a less punitive system of personal tax collection, missing the submission deadline remains a serious issue. By doing so you run the risk of incurring the following fines:

- an automatic £100 penalty for missing the deadline (for partnerships, £100 is charged to each partner on late filing of the partnership return)
- daily fines of £10 will be charged for a period of up to 90 days if the deadline is missed by more than 3 months
- further penalties will be added if you miss the deadline by more than 6 months and this will either be £300 or 5% of the estimated tax (whichever is greater)
- interest is charged where the penalty is not paid within 30 days.

Should you miss the deadline, you can appeal against penalties within 30 days of the date of issue.

Online vs paper tax returns

Taxpayers have a choice over whether they submit via paper or HMRC's online services. There are several advantages to filing online which make the process more intuitive for those who are less familiar with tax returns:

- online filers submit their returns 3 months later than those using paper
- your tax will be automatically calculated as you work your way through the form
- if HMRC owes you money, you will get it repaid faster if you filed using online services
- online tax forms will automatically fill in personal information already held by HMRC, saving you time.

It is important to note though that HMRC plans to move over to a fully online, digital tax account system by 2020. Whether this means the end of the paper tax return is unclear at this point.

Hints and tips

Depending on how you go about it, self-assessment has the ability to be either a pleasant or traumatic experience. By anticipating the potential pitfalls, you'll make the process easier.

Know your Unique Taxpayer Reference number

HMRC will have sent your Unique Taxpayer Reference (UTR) number when you first registered for self-assessment. You won't be able to file your return without your UTR so it's imperative you keep it safe and secure.

In case of loss, you will need to contact HMRC and wait several days to receive a new one through the post.

Leaving self-assessment until the last minute only to realise you've lost your UTR will inevitably result in a late submission.

Know your dates

Your tax return is for the 2014/15 financial year so it is essential to include all the income and expenditure between 6 April 2014 and 5 April 2015.

As far as invoicing is concerned, it's the date of issue that matters, not the date of payment.

If you sent an invoice in the 2014/15 tax year but received payment after 6 April 2015, you still need to include it on your return.

Check everything

Check your form carefully to make sure your figures are correct and that you haven't missed any important information. The smallest of mistakes could result in HMRC rejecting your return and issuing a penalty.

Use accounting software

Improving technology is fundamentally changing the way people handle their tax affairs. Purchasing bookkeeping software could help you organise your documents and calculate your income and expenditure.

Pay your tax

While this may sound obvious, it is surprisingly easy to forget – for first-timers especially. After digesting all of the rules surrounding self-assessment and then going through the painstaking process of collecting paperwork, doing calculations and filling out the form accurately, many people simply forget to pay their tax at the end of it all.

Remember, the 31 January deadline is not just for tax returns but for tax payment too.

Get expert help

Call us if you're still concerned about self-assessment. We will ensure that your calculations are correct, your tax is paid and your return is submitted on time and error-free.

Contact us to discuss how we can help you.