SELF ASSESSMENT

The purpose of this document is to give a reasonably detailed overview of the most important aspects of the Self-Assessment system. Should you have any questions on any particular part of it, please do not hesitate to contact a member of our Tax Department.

SELF ASSESSMENT

Registration

Obligation to notify HMRC

Taxpayers who fall under the criteria for Self-Assessment, and who are not already within the regime, must notify HMRC of their new circumstances by 5 October following the tax year in which they first arise.

HMRC's website (http://www.hmrc.gov.uk/sa/need-tax-return.htm) has examples of circumstances which give rise to a requirement to submit a tax return under Self-Assessment.

Failure to notify

Taxpayers who fail to notify HMRC of their need to be within Self-Assessment will be liable to a penalty. This is based on the behaviour of the taxpayer, the type of income and gains involved, the amount of time that has passed between 5 October and the date on which HMRC become aware, and whether the taxpayer has told them with or without being prompted.

The table below is a detailed summary of the penalty provisions. The relevant percentage is applied to the tax shown in the tax return.

Obligation is due to UK or category 1 overseas income and gains

Behaviour	**Unprompted disclosure**			**Prompted disclosure**		
	Maximum	**Minimum**		**Maximum**	**Minimum**	
		<12 months	**≥12 months**		**<12 months**	**≥12 months**
Any other case	30%	0%	10%	30%	10%	20%
Deliberate but not concealed	70%	20%	20%	70%	35%	35%
Deliberate and concealed	100%	30%	30%	100%	50%	50%

Obligation is due to category 2 overseas income and gains

Behaviour	**Unprompted disclosure**			**Prompted disclosure**		
	Maximum	**Minimum**		**Maximum**	**Minimum**	
		<12 months	**≥12 months**		**<12 months**	**≥12 months**
Any other case	45%	0%	15%	45%	15%	30%
Deliberate but not concealed	105%	30%	30%	105%	52.5%	52.5%
Deliberate and concealed	150%	45%	45%	150%	75%	75%

Obligation is due to category 3 overseas income and gains

Behaviour	**Unprompted disclosure**			**Prompted disclosure**		
	Maximum	**Minimum**		**Maximum**	**Minimum**	
		<12 months	**≥12 months**		**<12 months**	**≥12 months**
Any other case	60%	0%	20%	60%	20%	40%
Deliberate but not concealed	140%	40%	40%	140%	70%	70%
Deliberate and concealed	200%	60%	60%	200%	100%	100%

Filing

Notice to complete a tax return

HMRC must issue a notice to the taxpayer before they are required to submit a tax return. Without one there is no such requirement, notwithstanding the obligation to notify HMRC as referred to above (see obligation to notify HMRC).

HMRC do sometimes issue notices to taxpayers in error. In these cases, they may be approached and, on the taxpayer's promise that there are no reasons why they should be within Self-Assessment, the notice will be cancelled and, thus, no tax return will be due.

Due dates for tax returns

Format	**Due by the later of...**
Electronic	31 January following the tax year, or 3 months from the notice date
Paper and calculating own liability	31 October following the tax year, or 3 months from the notice date
Paper and HMRC calculating liability	31 October following the tax year, or 2 months from the notice date

Late filing penalties

Taxpayers who fail to submit their tax returns on time will be liable to penalties. These are cumulative and, after 12 months of default, the additional penalties will be determined in accordance with the taxpayer's actions and the type of information which ought to have been reported on time.

The table below is a detailed summary of the penalty provisions.

Period of default	**Penalty**	**Notes**
Up to 3 months	£100	
Over 3 months (additional)	£10 per day	• HMRC must issue a notice of their intention to do so. • If HMRC have decided that the penalty should apply, it can only be levied for a maximum of 90 days; i.e. up to £900.00
Over 6 months (additional)	Greater of – 5% of the tax liability; and £300	
Over 12 months (additional)	Greater of – 5% of the tax liability; and £300	

Information withheld deliberately	**Penalty for unprompted disclosure**		**Penalty for prompted disclosure**	
	Maximum	**Minimum**	**Maximum**	**Minimum**
Category 1 information:-				
Deliberate but not concealed	70%	20%	70%	35%
Deliberate and concealed	100%	30%	100%	50%
Category 2 information:-				
Deliberate but not concealed	105%	30%	105%	52.5%
Deliberate and concealed	150%	45%	150%	75%
Category 3 information:-				
Deliberate but not concealed	140%	40%	140%	70%
Deliberate and concealed	200%	60%	200%	100%

Payment

Instalments

Income Tax and Class 4 National Insurance Contributions (NIC) are due in two instalments which are each equal to 50% of the previous tax year's liability to those taxes. The due dates are –

31 January during the tax year; and
31 July following it.

If the current tax year's liability to all taxes is higher than the sum of the two instalments paid, then a balancing payment will be due by 31 January next. Note that this is the same as the due date for electronic tax returns (see due dates for tax returns).

Capital Gains Tax and Student Loan repayments are always due by 31 January following the tax year, and they are not included in the calculation of instalments for the next year.

Claim to reduce instalments

We all know that income levels can vary between tax years, and for this reason a taxpayer may claim to reduce the amount of their instalments on the basis that their liability for the current tax year will be less than that for the previous year.

If the reduction later proves to have been excessive, HMRC will charge interest. Furthermore, if HMRC believe that the taxpayer's claim was made to obtain a cash flow advantage, they may charge a penalty. This can be up to a maximum of the difference between the amount that should have paid and the amount paid on account.

If you think that your liability for the current tax year may be lower than the instalments which you are due to make, please do not hesitate to contact us.

No requirement for instalments

A lot of taxpayers are not required to make payments on account because either their liability for the previous tax year is below £1,000.00, or 80% of it was deducted at source.

Late payment penalties and interest

Late payments will always incur interest, which accrues from the due date to the day before settlement is received by HMRC.

Taxpayers who fail to make their balancing payment on time will be liable to a penalty, as detailed in the table below.

Period of default	**Penalty**
30 days	5% of the unpaid liability
6 months	5% of the unpaid liability (additional)
12 months	5% of the unpaid liability (additional)

Amendments and enquiries

Amendment by the taxpayer
Taxpayers may submit an amended tax return up to a year after the normal due date for electronic filing (see due dates for tax returns). After this time, the amendment must be made in writing within a specified format. If a repayment is involved, HMRC have the right to refuse to make it under certain circumstances.

Regardless of the above deadlines, if a taxpayer discovers that they have underpaid tax due to submitting an incorrect tax return, they must notify HMRC as soon as possible. This will limit their exposure to penalties.

Amendment by HMRC
HMRC may amend a taxpayer's tax return for obvious errors or omissions within nine months of receiving it. If the taxpayer has submitted their own amendment, then the nine month deadline is extended for matters covered by that amendment.

HMRC enquiries
There are two forms of enquiry which HMRC may conduct into a taxpayer's tax return.

The first may be initiated for any reason, and HMRC must do this by notice to the taxpayer within one year of the date that they received the tax return under review. However, if the taxpayer submitted that tax return late (see due dates for tax returns), the deadline is extended to the quarter day following the anniversary of the date of receipt. For this purpose, quarter days are 30 April, 31 July, 31 October and 31 January.

The second may only be initiated if HMRC discover that there has been a loss of tax to them which they could not have been aware of within the time limit mentioned above, or because of an error on the part of the taxpayer which is attributable to their careless or deliberate actions. The time limits for enquiries of this sort are summarised in the table below.

Loss of tax brought about...	... following the tax year under review
For any reason	4 years
Carelessly by taxpayer	6 years
Deliberately by taxpayer	20 years

Penalties for incorrect tax returns

The amount of the penalty

Taxpayers have a duty to ensure that their tax returns are complete and correct. Failure to do so is an offence, and if HMRC discover an error (via their own means or by disclosure from the taxpayer) they may charge a penalty. This is based on the behaviour of the taxpayer, the type of income and gains involved, and whether the taxpayer has told HMRC with or without being prompted.

The table below is a detailed summary of the penalty provisions. The relevant percentage is applied to the potentially lost revenue as a result of the inaccuracy.

Obligation is due to UK or category 1 overseas income and gains

Behaviour	**Unprompted disclosure**		**Prompted disclosure**	
	Maximum	**Minimum**	**Maximum**	**Minimum**
Careless	30%	0%	30%	15%
Deliberate but not concealed	70%	20%	70%	35%
Deliberate and concealed	100%	30%	100%	50%

Obligation is due to category 2 overseas income and gains

Behaviour	**Unprompted disclosure**		**Prompted disclosure**	
	Maximum	**Minimum**	**Maximum**	**Minimum**
Careless	45%	0%	45%	22.5%
Deliberate but not concealed	105%	30%	105%	52.5%
Deliberate and concealed	150%	45%	150%	75%

Obligation is due to category 3 overseas income and gains

Behaviour	**Unprompted disclosure**		**Prompted disclosure**	
	Maximum	**Minimum**	**Maximum**	**Minimum**
Careless	60%	0%	60%	30%
Deliberate but not concealed	140%	40%	140%	70%
Deliberate and concealed	200%	60%	200%	100%

Suspension of penalties

If HMRC believe that it is appropriate, they may agree to suspend all or part of a penalty imposed on a taxpayer because of an error in their tax return. Commonly this will be the case where the taxpayer has failed to keep adequate records and thus got their tax return wrong. HMRC would usually suggest a method for better record keeping and, providing that the taxpayer adheres to the conditions laid down by them, the penalty will be erased after a specified period of time.