

Self Assessment The New Fiscal Year

Self Assessment is based around the fiscal year which runs from 6th April to 5th April (the following year). Taxes (Income Tax and Class 4) are paid on account.

There are 2 payment dates: -

31st January
31st July

The two payments are calculated on the taxable earnings in the previous year. It is assumed that this will be the same amount earned in the current year. This means that someone on self assessment is always paying half of the next year's tax in advance of the income being earned.

These payments are charged as follows: -

1 st Payment - 31 st January	50% of the previous tax liability based on the previous year's assessment.
2 nd Payment – 31 st July	The remainder 50% payable following the end of the year of assessment.
Balancing Payment – 31 st Jan	This is the difference between the actual tax liabilities for the year less the advance payments.

The tax payable is sent as a Request for Payment to each client (approx 6 weeks before payment is due) with a payment slip attached.

If the client knows that earnings have fallen dramatically, the payment could be in excess of the true tax amount due. In these situations a Form SA303 is included with the request for payment. The client needs to complete the form, detailing a fall in turnover or other reason for reduced income.

At this stage the accountant should calculate the correct tax payable, and give the client a revised payment figure.

The client's tax office will generally write to confirm that the reduction in payment is valid.

EXAMPLE

Business Accounts made up to 31st December

First Years accounts 31st December 2010

First Fiscal Year 6th April 2010 to 5th April 2011

Total Income Tax and Class 4 payable £5,000

31st January 2012

Tax due on accounts 31 st December 2010	£5,000
Payable on account for year to 31 st December 2011	
50% of taxes due based on 31 st December 2010	<u>£2,500</u>
TOTAL due	£7,500

31st July 2012

50% of taxes due on account for year 31 st December 2010	£2,500
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Second Years accounts 31st December 2011

Fiscal Year 6th April 2011 to 5th April 2012

Total Income Tax and Class 4 payable £8,000

31st January 2013

Tax due on accounts 31 st December 2011	£8,000
Less 2 payments on account of £2,500	<u>£5,000</u>
Balance due for year 31 st December 2011	£3,000
50% of taxes due based on 31 st December 2011	<u>£4,000</u>
TOTAL due	£7,000

31st July 2013

50% of taxes due based on 31 st December 2011	£4,000
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At this stage £8,000 has been paid on account for the business years accounts to be prepared for the year to 31st December 2011.

If the client thinks that the year to 31st December 2012 is going to be better than 31st December 2011, then do nothing, and pay the balancing amount in January 2013. If he thinks it is going to be less, then make an application on Form SA303.