

Self Assessment

Clients who are employed & self employed at the same time: Box 18.2 self-assessment

When a client is both employed and self employed an issue with their tax coding and any payments or repayment of tax can occur.

Generally most clients with this dual status will opt, if their tax payable is under £500, to have a change of coding notice. This will change their PAYE code for their employment and the Inland Revenue will collect the underpaid tax via the coding.

This can take a considerable length of time, as the tax underpaid in one fiscal year will not (in most cases) be collected for up to 2 years.

This is not a problem if the client continues to elect to have the tax collected through their code.

When the PAYE code is reduced within a tax year, it is normally operated as a w1/m1 basis and therefore an estimated underpayment will arise. The estimated underpayment is an estimate of the extra tax due on the reduced code from the 6th April to the date the new code started to operate.

Since April 2002, where there is a Self Assessment underpayment, it will not be automatically collected through the following year's PAYE code. In these cases, the PAYE coding notice, form P2, for the year of the estimated underpayment, will include a note stating that this will be collected through the self assessment balancing payment in the January following.

Where the estimated underpayment is **NOT** included in the following years PAYE code, box 18.2 should be nil.

Where the estimated underpayment is included in the code (as requested) then any underpayment should be an entry in box 18.2

NOTE

As an accountant, it is sometimes impossible to know if clients in these circumstances have made the balancing payments or opted for PAYE coding changes.

It is therefore vital that any tax computations are given based on the tax liability/refund for only the year in question, and any tax underpaid in prior years has not been included in the computation.