

Very Basic Personal Tax

Sole Traders, Individuals, Directors and Partners

Very Basic Personal Tax – Outline of the presentation

- What does it entail?
- Who needs to do a return?
- Timings – key dates
- What happens out of year
- Sections of the return
- When to send it to a specialist

Very Basic Personal Tax – What does it entail?

Everybody (if they breath) can be liable to personal tax

In a letter to Jean-Baptiste Leroy (13 November 1789) Benjamin Franklin said:

“Our new Constitution is now established, and has an appearance that promises permanency; **but in this world nothing can be said to be certain, except death and taxes.**”

Very Basic Personal Tax – What does it entail?

- **Children**

- each child can in the 2011-12 tax year earn up to £7,475 tax free from salary, savings or investments.

Special rules for money from parents

- However, there's a proviso that any interest earned on money specifically given to them by a parent is only tax-free up to £100 interest, per parent or step-parent. If your child earns more than £100, the *whole* lot is taxed at the parent's rate

Very Basic Personal Tax – What does it entail?

- **Adults**
- The bulk of adults are taxed through employment via PAYE
- Most interest income is taxed at source (unless they complete an R85) through UK banks and building societies
- Dividend income is paid net of tax
- Some benefits – i.e. Job seekers could be taxed
- Other income that may not be taxed
 - Foreign interest
 - Property income
 - Gilts

Very Basic Personal Tax – What does it entail?

- **Over the State retirement age.**
- If they are still employed they will cease to pay employee's NIC (but the employer still pays employer's NIC)
- Huge issue in the last 12 months as HMRC have demanded back tax from pensioners due to the fact they did not have joined up tax coding between the state pension and private pensions.
- Many elderly people pay tax on their interest income and should not.
- The elderly have enhanced personal allowances.
 - Aged 65-74 £9,940
 - Aged >75 £10,090
 - Married couples allowance £7,295
 - Income limit for age related allowances £24,000
 - Effect of the 50% band and the loss of tax allowance is NOT age related

Very Basic Personal Tax – Key Timings and Dates

The fiscal tax year dominates

Starts 6th April

Ends 5th April

An individual needs to register for self assessment before 5th October of the year in which the tax year ends.

For example if they have a requirement to complete a self assessment for the tax year ended 5th April 2011 they should register by or on 5th October 2011 to avoid any possible penalties.

Very Basic Personal Tax - Key Timings and Dates

The return has various filing deadlines which many of you will be familiar with

- 31st October - last date to file paper returns
 - You only have longer than this if you received the letter, telling you to send a tax return, after 31 October. In this case you'll have three months from the date you received that letter.
- 30th December – last date to ask HMRC to apply tax due to PAYE coding
 - You can only ask for this if you owe less than £2,000. Although HMRC will try to collect the tax due through your code, they can't always do so.
- 31st January – last date to file online and pay the tax due plus payment on account if due.
- 31st January – last date to avoid £100 non-filing penalty
- 31st July – second payment on account due

Very Basic Personal Tax

- **1 day late**

- A fixed penalty of £100. This applies even if you have no tax to pay or have paid the tax you owe.

- **3 months late**

- £10 for each following day - up to a 90 day maximum of £900. This is as well as the fixed penalty above.

- **6 months late**

- £300 or 5% of the tax due, whichever is the higher. This is as well as the penalties above.

- **12 months late**

- £300 or 5% of the tax due, whichever is the higher.
- In serious cases it may be up to 100% of the tax due instead. These are as well as the penalties above.

Very Basic Personal Tax - Penalties

- **New penalty regime for 2010-11 filing**
- Mrs A's tax return is due on 31 January 2012 but HMRC don't receive it until 5 August 2012.
- It is over six months late so she will have to pay all of the following:
- £100 fixed penalty
- £900 penalty - this is £10 each day from 1 May to 29 July, when the maximum 90 day penalty is reached.
- £300 or 5% of the tax due - whichever is the higher

Very Basic Personal Tax - Penalties

- **Reasonable Excuse – examples**
 - documents lost through theft, fire or flood that you can't replace in time
 - life-threatening illness, for example a heart attack that prevents you dealing with your tax affairs
 - death of a partner shortly before the deadline
 - industrial action by Royal Mail over a lengthy period of time
 - issues with the online service, with no work-round - you'll need to provide the error message you received

Very Basic Personal Tax - Penalties

- What happens for tax years before 2011-12
- For late return and payment penalties
- The 'old rules' still apply.
- For example if HMRC asked you to fill in a 2009-10 tax return and you still haven't sent it back.

Very Basic Personal Tax

- **Some individuals can still file paper returns up to 31st January**
 - MPS
 - Certain high worth individuals who have been identified by HMRC
 - Some celebrities can apply
 - WHY?
 - Privacy.....

Very Basic Personal Tax – Payment on Account

- **What is it?**
- For the tax year 2011-12 (6 April 2011 to 5 April 2012)
 - the first payment on account will be due on 31 January 2012.
 - The second payment on account will be due on 31 July 2012.
- The tax payer has to make payments on account if the previous year's tax was over £1,000 - unless more than 80 per cent of the previous year's liability was covered by tax taken off at source (i.e. through CIS)

Very Basic Personal Tax – Reducing Payments on Account

- **What if the payments on account are too high**
- Or if income for the current year will be lower than last year's you can ask to reduce your payments on account. But:
 - Interest is due on any extra tax that HMRC later find was due
 - There maybe a penalty if the individual asked to reduce the payments without taking proper care
 - The payments on account can be reduced on the tax return (need to explain why in the 'Additional Information' section.) Form SA303 can also be used to claim to reduce a payments or to change an earlier claim.
 - If the individual realises they have reduced the payments by too much – they need to tell HMRC and pay the additional payment – A delay may mean having to pay interest, additional charges or a penalty.

Very Basic Personal Tax - Statements

- **When is the Self Assessment Statement issued?**
 - within 45 days of a payment becoming due – July 2011 error
 - when underpaid tax is going to be collected through PAYE
 - when too much tax has been paid
 - after a check into the return changed the tax due
 - if an entry in the last statement has changed

Very Basic Personal Tax – Ready to complete the return

- If you are doing for someone else then you need to complete a 64-8 and file it with HMRC.
- Everyone gets the SA100 and the Additional Information sections
- Self Employment short form SA103S
- Why would you get the full form SA103F?
 - Annual business turnover over £70,000 (2010-11)
- Using HMRC online
- Using 3rd party software
- Make sure you have all the paperwork to start with

Very Basic Personal Tax – SA100

- HMRC are now asking for “status” i.e. married, single, widow etc
- You may need supplementary pages as the SA100 only covers
- Interest and dividend income
- Pensions, annuities and some state benefits
 - Taxable incapacity benefit
 - Jobseekers allowance
- Other UK income
- Tax Reliefs
- Charitable Giving
- Blind Person’s Allowance
- Service companies

Very Basic Personal Tax – Supplementary Pages

- Additional Information
- Employment
- Self Employment
- Partnerships
- UK Property
- Foreign – may need a specialist
- Trusts – may need a specialist
- Capital Gains
- Residence – seek additional advice

Very Basic Personal Tax – Additional Information

- Other UK income
- Interest from gilt-edged and other UK securities
- Life Insurance Gains
- Stock dividends
- Non-qualifying distributions and close company loans written off
- Approved Share Schemes
- Employment lump sums

Very Basic Personal Tax – Additional Information

- **Other tax reliefs**
- **Seafarers Earnings Deduction**
- **Foreign earning not taxable in the UK – normally complete residence pages**
- **Surplus Married Couple Allowance**
- **Income tax losses**
- **Trading losses**
- **Pension savings tax charges – even HMRC say you need help here.**
- **Tax Avoidance schemes that are registered with HMRC**

Very Basic Personal Tax – Additional Information

- **Always use the box**
- **Add key data like dates**
- **Explain odd incidences**
- **Write as much as you like – HMRC should look at it before they contact you and it is your once chance to explain fully enough that they don't bother you with an enquiry.**

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**
- Need an SA102 for each employment or directorship (except when there has been no payments of any kind – then tell HMRC why)
- Include all income received in the tax year, even if it was earned in an earlier year, or paid for work not done yet.
- Include
 - Salaries
 - Wages
 - Fees
 - Commission
 - Overtime
 - Bonus
 - Other contractual payments

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**

- Include

- Deemed employment income
- Tips
- Golden hellos
- Payments by employer for changes in circumstances
- Lump sums
- Sick pay
- Paternity pay
- Agency payments
- Loans written off by your employer
- Payments made by trustees of an approved profit sharing scheme
- Income from deferred remuneration scheme (News international)

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**
- Exclude
 - Payroll Giving
 - Profit related pay relief given by your employer
 - Contributions to a employer's pension scheme
 - Working family tax credit or child tax credit.
 - Any payments before tax in respect of lump sums and benefits paid on or following termination of employment, retirement or death. These payments should be in the additional information pages.
 - Job Seekers allowance should be included in box 14 in the income section of the SA100.

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**
- Additional Information pages
- Include
 - Lump sums and benefits paid on redundancy, retirement, death or payment received for agreeing to restrict employment activity.
 - Shares or interest received freely or discounted
 - Amount received for transferring, cancelling, releasing or not exercising a share option scheme.

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**
- UK tax taken off
- Enter the amount on the P60 or P45
- Include all tips and gratuities, even paid by a third party
- Close Company
 - Five or fewer participators

Very Basic Personal Tax – Supplementary Pages

- **Employment SA102**
- Benefits, normally detailed through the P11d to the employee
- Employer may have a dispensation when they only reimburse the amount claimed and for items such as mileage.
- Mileage – should be 40p (2010-11) or 25p for cars and vans, and 24p for motorcycles and 20p for bicycles.
- Less than the HMRC rates and the employee can claim tax relief on the shortfall.
- Remember carrying passengers adds 5p per mile per passenger
- Should include payments made by the employer on behalf of the employee – i.e. rental payments.
- Relocation – first £8,000 is tax free

Very Basic Personal Tax – Supplementary Pages

- **Extra statutory concessions**
- Fixed deductions agreed with various bodies or trade unions to cover the costs of that employment, either use these them or the actual values, but not both!
- <http://www.hmrc.gov.uk/specialist/esc.pdf>
- Pilots, engineers, dentists etc.....
- Professional fees
- Entertaining – not normally allowed for tax purposes
- Some capital allowances for the equipment needed for work (not cars and generally vehicles)

Very Basic Personal Tax

- **Key Advice**
- Make sure you have all the paperwork gathered together before you start.
- If you want to use HMRC's online system then you have to have registered in plenty of time to get a filing ID and password (at least 2weeks)
- Where you have a query you can ask the self assessment helpline 0845 900 0444. Anything more complicated will require the help of a specialist.
- Remember paper filing deadline of 31st October
- File before Christmas and make it a happy one