Self Assessment for Sole Traders
Returns And Due Dates

INTRODUCTION

Running a business can be stressful enough, without worrying about your increasing tax bills. Missing important deadlines for sending in your own tax return, or paying your tax bill late, could see you facing mounting additional payments of interest, surcharges and penalties. These additional costs cannot be offset against the profits of the business and could be avoided with some planning.

For a lot of people, the basic deadlines for self-assessment (SA) remain a mystery unless professional tax advice is sought.

This factsheet aims to set out the basic requirements of SA and explore some consequences of missing these important dates.

NOTIFYING INCOME CHARGEABLE TO TAX

You must notify the Inland Revenue (IR) if you are chargeable to tax for a particular tax year, on or before 5 October following the end of that tax year, where you have not already been sent a return.

If you miss this deadline, and as a result there is outstanding tax at the due date for payment (31 January after the tax year), the IR will charge interest from the due date until payment. They can also levy a penalty of up to 100% of the amount of tax and Class 4 national insurance contributions (NIC) due as a result of the failure to notify.

You need to be aware this is an annual obligation. In practice, once you have notified the IR of your liability for the first period, you should receive a return for each tax year thereafter. Contact them straight away if you do not receive one when you think you should.

In addition, there is now a requirement to notify the Inland Revenue of liability to pay Class 2 National Insurance contributions within three calendar months from the end of the month in which you begin self-employment. In effect this will also notify chargeability to income tax as well. Failure to notify liability to Class 2 National Insurance contributions within the period will incur a penalty of £100.00.

IMPORTANT SA FILING DATES

The normal filing date for SA returns is 31 January following the tax year to which the return relates.

If a return is delivered to you after 31 October following the tax year, the filing date is 3 months from receipt.

Normally the return must include a Self-Assessment, which is a calculation of the actual tax liability and the amount payable after deductions at source.

However the IR guarantee to do this calculation for you, in time for the due date, as long as: –

You file the return by 30 September after the tax year (if it was delivered to you on or before 31 July)

Or

You file it within 2 months of receipt (if it was delivered to you at any time after 31 July following the tax year).

It is however possible to file your tax return on-line via the Revenue's website. This will produce an automatic calculation of your liability at that time.

Once the return is submitted, you can make an amendment within 12 months of the filing date. For SA returns issued at the normal time, the IR has the same time limit to open an enquiry on the return.

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PENALTIES ETC. FOR LATE FILING

If a correctly issued return is not filed by the filing date, a fixed penalty of £100 will be added to your statement. This is reduced, if the amount of tax actually outstanding at that time was less than £100.

A further fixed penalty of £100 is levied when the return is outstanding 6 months after the filing date.

The IR can also arrange for daily penalties of up to £60 per day to be levied until the return is received.

If the return remains outstanding at the anniversary of the filing date, penalties can be sought which could amount to 100% of the tax and Class 4 NIC liability, once the return is eventually submitted.

The IR can also issue a Determination in absence of a completed return. This is based on their "best estimate" of your income and forms the basis for other enforcing actions. There is no right of appeal against a Determination. The only way it can be displaced is by the submission of the outstanding SA return and this must be done by the earlier of 12 months from the issue of a Determination notice or by 5 years from 31 January following the end of the tax year in question.

PAYMENTS ON ACCOUNT

You usually need to make 2 payments on account of each year's liability. Each payment on account is set as 50% of the previous year's relevant amount of liability. They are payable on 31 January during the tax year and 31 July after the tax year.

The previous year's relevant amount is the amount by which the total income tax assessed exceeds the deductions at source. It does not include liability for Capital Gains Tax, but does include Class 4 NIC.

For the first year of liability that is not covered by deductions at source, such as PAYE, you will not be required to make payments on account.

You can claim for a reduction of the payments on account, if you believe that the current year's liability will be less than the previous year.

The Balancing Payment (Final Due Date)

A balancing payment is due on 31 January after the tax year, if further liability exists, at the same time as the first payment on account is due for the current year.

Example of Due Dates

Mr X commenced as a sole trader in the tax year 2002/03. Previously all his income was taxed at source and he had not needed to complete a return. He notified his self-employment to the IR and was sent an SA return in April 2003.

His tax liability (including Class 4 NIC) for 2002/03 was £6,000 of which £2,000 was deducted at source through PAYE from his employment.

For 2003/2004 his total liability was £8,000 of which £3000 was deducted at source.

The due dates and amounts are as follows: -

Due Date	Amount	Origin
31 January 2004	£4000	Balancing payment for 2002/03 *(First year of Self-Assessment– liability £6000 less £2000 deducted at source. £4000 is balance of tax and class 4 NIC due)*
31 January 2004	£2000	First payment on account for 2003/04 *(Total liability for 2002/2003 £6000 less £2000 deducted at source X 50%)*
31 July 2004	*£2000*	Second payment on account for 2003/2004 *(As above)*
31 January 2005	£1000	Balancing payment for 2003/04 *(£8000 total liability less £3000 deducted at source, less £4000 payments on account)*
31 January 2005	£2500	First payment on account for 2004/05 *(Total liability for 2003/2004 £8000 less £3000 deducted at source X 50%)*
31 July 2005	£2500	Second Payment on account for 2004/2005 (As above)
31 January 2006	?	Balancing payment for 2004/2005 - and so on.

INTEREST AND SURCHARGES

The official rate of interest will be charged where either a payment on account, or a balancing payment, is paid late. It is calculated for the period between the due date and the date the payment is actually made.

Surcharges are levied on late balancing payments, but not late payments on account. An initial 5% surcharge on unpaid liabilities comes into effect 28 days from the due date of 31 January. A further 5% surcharge is levied on tax and class 4 NIC still unpaid 6 months after the due date. Surcharges have their own due date of payment, which is 30 days from the date of the notice. Interest at the official rate is also chargeable on the surcharges from their own due date until payment.

RIGHTS OF APPEAL

You have the right to appeal against charges of penalties, interest and surcharges. The rules are varied and depend on which appeal you intend to make.

To find out more on appeals, and for further advice on any of the points raised in this factsheet, the Business Support Helpline will be pleased to help.

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