

UK Self-Assessment System

Self-Assessment is a system for a taxpayer reporting his income and paying income tax to HM Revenue and Customs (HMRC) in a tax year. Self-assessment reporting period aligns with UK tax year which runs from 6 April to 5 April.

If a taxpayer's income solely comes from employment, his tax is deducted automatically from salaries, pensions, and savings. However, when people are self-employed or they receive any income other than from employment, they will need to submit a self-assessment tax return each year to pay balance of income tax and/or National Insurance.

If a taxpayer does not send his tax return or pay his income tax on time, a penalty is charged. The taxpayer needs to pay interest on the outstanding of income tax owing. All partners can be charged a penalty if a partnership tax return is filed late.

1. UK Income Tax paying through Self-Assessment Tax Return

Income Tax is a taxpayer paying tax to HMRC on his income through filing Self-Assessment Tax Return either on paper or online. Types of income need to pay tax on are:

- (1) Earnings from employment consists of salary, wages, allowances, overtime pay, pension, annuity, directors' fees, bonuses, management fees, gratuities, retiring allowances, extra salary or any emolument of any other kind paid or payable in relation to the taxpayer's employment;
- (2) Profits earned from self-employed, includes from services selling through websites or apps;
- (3) Some state benefits, for example: Carer's Allowance, Jobseeker's Allowance, State Pension;
- (4) Grants and support payments made support from HMRC to a self-employed taxpayer because of coronavirus. Grants include the Self-Employment Income Support Scheme, the Coronavirus Job Retention Scheme, the Small Business Grant Fund or the Retail, Hospitality and Leisure Grant Fund;

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- (5) The Test and Trace Support Payment in England (or the Self-isolation Support Payment in Scotland and the Self-isolation Support Scheme in Wales);
- (6) Most pensions, including state pensions, company and personal pensions and retirement annuities;
- (7) Rental income;
- (8) Income from a trust;
- (9) Interest on savings if income over annual savings allowance;
- (10) Dividends if income over annual dividends allowance.

Types of income do not pay tax on are:

- (1) If trading income earns from self-employment, casual and miscellaneous sources with expenses less than trading allowance of £1,000 can use the trading allowance to pay less tax or even no need to pay tax;
- (2) If income earns from property with expenses less than property allowance of £1,000 can use the property allowance to pay less tax or even no need to pay tax;
- (3) Income from tax-exempt accounts, like Individual Savings Accounts (ISAs);
- (4) Dividends from company shares under dividends allowance of £1,000 in the year 2023/24 (£2,000 in 2022/23);
- (5) Some state benefits, for example: Universal Credit, Pension Credit, or Child Benefit;
- (6) Premium bond or National Lottery wins;
- (7) Individuals, who let furnished accommodation in their only or main residence, receive rent from the lodger. The rent is below the Rent a room relief of £7,500.

2. Who needs to file a Self-Assessment Tax Return

Most people in the UK pay their tax 'at source' if they are employed, they pay tax through Pay As You Earn (PAYE), and are not required to file a tax return.

People and businesses with other income (including coronavirus grants and support payments) must report it in a tax return if one or more income of the following apply:

- (1) Self-employed as a 'sole trader';
- (2) A partner in a business partnership;
- (3) Earning £100,000 or more;
- (4) Pension income;
- (5) Receiving income from renting out a property;
- (6) Receiving interest from savings;
- (7) Receiving dividends from investments;
- (8) Receiving foreign income;
- (9) A minister of religion which is any faith or denomination;
- (10) A trustee or the executor of an estate.

3. Filing Deadlines

The self-assessment deadline is more important to self-employed people than salaried workers, as they are responsible for paying their own tax.

The deadline for submitting tax return on paper is 31 October, while those who filing online have until 31 January.

For 2022/23 the filing deadline:

- (1) 31 October 2023 for a paper tax return;
- (2) 31 January 2024 for an online tax return.

4. Penalties

If a taxpayer does not send his tax return on time, a penalty is charged. The taxpayer has to pay interest on both the owing amount and any penalties. All partners can be charged a penalty if a partnership tax return is filed late.

Even a tax return filed on time but not pay the tax on time, a taxpayer still has to pay penalties and interest for late payment.

(1) Penalties for sending a late tax return

If sending in tax return delays by:

- (a) 1 day - a penalty of £100;
- (b) 3 months - a penalty of £10 a day, for a maximum of 90 days (£900);
- (c) 6 months - a further penalty of 5% of the tax owing or £300, whichever is greater;
- (d) 12 months - a further penalty of 5% of the tax owing or £300, whichever is greater – in some cases, may be up to 100% of the tax owing.

(2) Penalties for paying tax late

In addition to any penalties for sending a tax return late, a taxpayer also needs to pay below penalties if paying tax delays by:

- (a) After 30 days - a charge equal to 5% of the tax owing;
- (b) After 6 months - a further penalty of 5% of the tax owing;
- (c) After 12 months - a further penalty of 5% of the tax owing.

(3) Interest for paying tax late

HMRC will charge late payment interest on tax that is outstanding after the due date, irrespective of whether any late payment penalties have also been charged.

The late payment interest will apply from the date the payment was due until the date on which it is received by HMRC. Late payment interest will be calculated as simple interest at a rate of 2.5% plus the Bank of England base rate.

(4) Time-to-Pay (TTP) arrangement

HMRC will offer taxpayers the option of requesting Time-to-Pay (TTP) arrangement. This enables a taxpayer to stop a penalty from accruing any further by approaching HMRC and agreeing a schedule for paying their outstanding tax. A TTP arrangement, if agreed, has the same effect of paying the tax and stops penalties accruing from the day the taxpayer approaches HMRC to agree it, as long as the taxpayer continues to honour the terms of the TTP agreement.

Late payment interest will continue to accrue on amounts not paid on time even if those amounts are included in Time-to-Pay arrangement.

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