Personal Taxation

Learning Outcome 1.6

By the end of this learning outcome you will be able to demonstrate an understanding of the UK tax system as relevant to the needs and circumstances of individuals and trusts including self assessment, Pay as You Earn, tax returns and payments, and tax evasion and tax avoidance issues.

1.6.1 Introduction

Careful tax planning provides the customer with added disposable income and enables them to afford other product recommendations, thus providing the adviser with more sales opportunities.

The tax year runs from 6 April each year to 5 April, and a single tax return covers all taxes payable by an individual.

1.6.2 The main taxes that apply to individuals

Her Majesty's Revenue and Customs (HMRC) administer and collect all direct taxes and most indirect taxes.

Direct taxes are those imposed on customers and their businesses. Indirect taxes are those that customers pay when they buy goods or services.

Direct taxes	Indirect taxes
• Income Tax • Capital Gains Tax • Inheritance Tax • National Insurance	• Value Added Tax • Stamp Duty on share or property purchases • Flight taxes from the UK • Customs duties on imported goods • Excise duties on alcohol, tobacco and fuel • Insurance Premium Tax • Business rates • Corporation Tax on business profits

1.6.3 Pay As You Earn (PAYE)

Employers and employees are covered by the PAYE System.

Employers deduct income tax and national insurance from employees' earnings.

The employer then pays the PAYE bill to HMRC.

Each employee has a tax code, given to their Employer by HMRC, made up of a letter and numbers, for example:1150L.

If the employee's tax code is a number followed by a letter, they need to multiply the number in their tax code by ten, to discover the total amount of income they can earn in a year before paying tax.

The letter shows how the number should be adjusted following any changes to allowances announced by the Chancellor. See www.gov.uk/tax-codes/overview .

1.6.4 Individuals under Self Assessment

- Self employed
- Most company directors
- Individuals liable to higher and additional rate tax on their investment income
- Anyone who has further tax to pay and has not received a tax return or been asked to submit one

1.6.5 Payments due under Self Assessment

- Income Tax from all relevant sources
- Capital Gains Tax
- Class 4 National Insurance Contributions (NICs)

1.6.6 Employed or Self Employed

Sometimes it is difficult to establish whether an individual is employed or self employed. The relevance here is that it will determine how they will be taxed.

HMRC has issued the following guidance:

If the answer is 'Yes' to the questions in the first column below, then the worker is probably an employee. If the answer is 'Yes' to the questions in the second column, then the worker is probably self employed.

Employee	Self Employed
✓ Do they have to do all the work themselves?	✓ Can they hire others to do the work, at their own expense?
✓ Can someone tell them what to do, where, when and how to work?	✓ Do they risk their own money?
✓ Can they work a set amount of hours?	✓ Do they provide the equipment to do their job?
✓ Can someone move them from task to task?	✓ Do they work for a fixed price regardless of how long the job takes?
✓ Are they paid by the hour, week or month?	✓ Can they decide what work to do, where to work, when and how to work?
✓ Can they get overtime or a bonus payment?	✓ Do they regularly work for a number of different people?
	✓ Do they have to correct unsatisfactory work in their own time?

1.6.7 Key dates under self assessment

Payments under self assessment are payable over three instalments. Tax payments for the tax liability for 2017/18 are due as follows:

- First payment on account 31st Jan 2018
- Second payment on account 31st July 2018
- Balancing payment 31st Jan 2019

How these dates are applied is shown in more detail in the table on the next page:

Self Assessment Payments

Previous Tax Year 6 April 2016 to 5 April 2017	Current Tax Year 6 April 2017 to 5 April 2018		Next Tax Year 6 April 2018 to 5 April 2019	
31 Jan 2017	31 July 2017	31 Jan 2018	31 July 2018	31 Jan 2019
1st payment on account for tax year 16/17. 50% of previous tax year's figure.	2nd payment on account for tax year 16/17. 50% as per 1st payment.	Balancing payment for tax year 16/17. Tax bill less 1st and 2nd payments, bill plus NICs and CGT.		1st payment on account for tax year 18/19.
		31 Jan 2018	31 July 2018	31 Jan 2019
		1st payment on account for tax year 17/18. 50%.	2nd payment on account for tax year 17/18. 50%.	Balancing payment for tax year 17/18 Tax bill less 1st and 2nd payments, bill plus NICs and CGT.

All payments made also include Class 4 National Insurance contributions due.

Have a go at this example:

Edward is a self employed decorator.

His income tax liability for the tax year 2016/17 was £10,000.
£8,000 was paid on account.

He believes that his income tax liability for the tax year 2017/18 will be £12,000.

State the precise dates on which Edward will have to make payments of income tax in respect of the tax year 2017/18. For each date identified, state the amounts payable including any tax due in respect of other tax years.

<u>31 January 2018</u>
£2,000 balance of income tax liability 2016/17
£5,000 payment on account 2016/17

<u>31 July 2018</u>
£5,000 payment on account 2017/18

<u>31 January 2019</u>

£2,000 balance of income tax liability 2017/18
£6,000 payment on account 2018/19

1.6.8 Penalties for non compliance with HMRC timescales

For returns filed online, the deadline is 31st January following the end of the tax year or three months after the return is issued if later. In this instance the client must calculate their own tax bill.

For returns filed on paper, the deadline is 31st October following the end of the tax year or three months after the return is issued if later. HMRC will then calculate the client's tax bill for them.

Penalties for missing the tax return deadline by...	
One day	£100. This applies even if the client has no tax to pay or has paid the tax owed.
Three months	In addition to the £100, £10 each day up to a maximum of £900.
Six months	In addition to the penalties above, £300 or 5% of the tax due whichever is the higher.
Twelve months	In addition to the penalties above, a further £300 or 5% of the tax due whichever is the higher. In serious cases the client may be asked to pay up to 100% of the tax due instead.

Penalties for paying late by...	
30 days	5% of the tax owed at that date
Six months	In addition to the above, a further 5% of the tax owed at that date
Twelve months	In addition to the above, a further 5% of the tax owed at that date

In addition, the client will have to pay interest at 3% on anything they owe and haven't paid, including any unpaid penalties, until HMRC receives their payment.

Penalties also apply for:

- failure to keep records and documents to complete the tax return
- for errors in the tax return and claims for reductions that are wrong
- and failing to notify HMRC of a liability on time

1.6.9 Amendments

Taxpayers can make amendments / corrections to their Self Assessment up to 12 months after the 31 January deadline following the end of the tax year.

If it is anticipated there will be a fall in tax due then a request can be submitted to HMRC to reduce payment on accounts. Each case is looked at individually and has to be supported by evidence.

1.6.10 HMRC Checks

HMRC has a right to enquire about accuracy of return and does not have to give reason for random audit / enquiry. Checks must normally be started within 12 months of the date HMRC receives return. Assessment is therefore final one year after submission by individual. In cases where there is a suspicion of fraud or negligence HMRC may commence an investigation at any time.

1.6.11 Tax Mitigation vs Tax Evasion

Tax mitigation is the process of choosing the best way to arrange your finances to result in the lowest amount of tax due. Examples include the sharing of assets to take advantage of two CGT annual exemptions or getting married to utilise two IHT Nil Rate bands.

Evading tax is a criminal act. It includes the failure to report, either at all or accurately, all taxable income and capital gains from all sources. A professional adviser knowingly assisting in an individual or business evading tax is also committing a crime.

1.6.12 Main principles of tax planning for an individual

- Make the maximum use of all tax allowances and exemptions

    - ISA and Pension contribution limits
    - CGT annual exemption and carrying forward any losses
    - End of tax year planning to effectively double up tax allowances
    - Transfer of ownership between spouses for best use of allowances

- Choose the most suitable investments based on the client's own tax position

    - Transfer of ownership between spouses based on lower taxpayer

- Consider investments that provide tax free returns

    - Individual Savings Accounts (ISAs)
    - National Savings Certificates
    - Children's Bonus Bonds / Junior ISAs

- Consider investments that qualify for tax relief on amounts invested

    - Pensions
    - Enterprise Investment Scheme and Venture Capital Trusts

- Tax administration and compliance

    - Ensure all available tax reliefs are claimed by eligible customers
    - Check all tax statements received to ensure HMRC calculations are correct and have used the correct figures
    - Ensure tax returns are completed correctly and on time as well as paying any tax due at the appropriate time to avoid late payment charges and interest
    - Review a customer's tax position on an annual basis to take account of advantages above as well as any legislative changes

- Maintain flexibility in the event that tax legislation changes or more suitable products are available in the future

- Remember, tax considerations are just one aspect of suitable financial advice – they should not lead the advice given

Personal Taxation Learning Outcome 1.6 (TAX1.6) – End of Module Test

Multiple Choice Questions

Question	Answer	
1.6.1 - What is the latest filing date for a tax return filed on paper under self-assessment?	A.	31st October following the end of the tax year to which it relates, or 3 months after its issue if later
	B.	31st October following the end of the tax year to which it relates, or 6 months after its issue if later.
	C.	31st January following the end of the tax year to which it relates, or 3 months after its issue if later
	D.	31st January following the end of the tax year to which it relates, or 6 months after its issue if later

1.6.2 - For tax year 2017/2018, when will George, a self-employed plumber, pay his first payment on account?	A.	31st January 2017
	B.	31st July 2017
	C.	31st January 2018
	D.	31st July 2018

1.6.3 - Steve is self-employed. His income tax liability for tax year 2015/16 was £12,500. His income tax liability for 2016/2017 is £14,000. Which ONE of the following statements is correct?	A.	He will have paid a first payment on account relating to tax year 2016/2017 of £12,500 on 31st January 2017
	B.	He will have paid a first payment on account relating to tax year 2016/2017 of £6,250 on 31st January 2016
	C.	He will have paid a balancing payment for tax year 2016/2017 of £1,500 on 31st January 2017
	D.	He will pay a balancing payment for tax year 2015/2017 of £1,500 on 31st January 2018

1.6.4 - When must HMRC normally start an enquiry into the accuracy of a tax return?	A.	Within 3 months of the date HMRC receive the return
	B.	Within 6 months of the date HMRC receive the return
	C.	Within 9 months of the date HMRC receive the return
	D.	Within 12 months of the date HMRC receive the return

1.6.5 - Which of the following type of taxpayer is not normally within self-assessment?	A.	Full time employees
	B.	Company directors
	C.	Self-employed individuals
	D.	Individuals liable to higher rate tax on investment income

1.6.6 - Gerry is a self employed plumber and has earnings from this of £35,000 in 2017/2018. In addition he has disposed of an asset which has realised a chargeable gain of £20,000 in the same tax year. The taxes and national insurance contributions he will have to pay are…	A.	Income tax only
	B.	Income tax, capital gains tax and Class 4 NIC
	C.	Income tax and Capital Gains tax
	D.	Income tax, Class 2 NIC, Class 4 NIC and Capital Gains tax

1.6.7 - Elaine has been told that she is liable to pay Class 4 National Insurance Contributions via self assessment. This means that...	A.	She has self employed earnings.
	B.	She has more than one job.
	C.	She has been on maternity leave.
	D.	She lived abroad for part of the current tax year.

1.6.8 - How will an employed higher-rate tax payer make any on account tax payments on their investment income?	A.	By making payments twice a year under the self-assessment regime.
	B.	Through the PAYE system.
	C.	By annual payments on 31st January under the self-assessment regime.
	D.	Through the P11D system.

1.6.9 - What is the latest filing date for a tax return filed online under self-assessment?	A.	31st October following the end of the tax year to which it relates, or 3 months after its issue if later
	B.	31st October following the end of the tax year to which it relates, or 6 months after its issue if later.
	C.	31st January following the end of the tax year to which it relates, or 3 months after its issue if later
	D.	31st January following the end of the tax year to which it relates, or 6 months after its issue if later

1.6.10 - How long do taxpayers have to make any corrections to their self-assessment once submitted?	A.	12 months after the 31st January deadline following the end of the tax year.
	B.	9 months after the 31st January deadline following the end of the tax year.
	C.	6 months after the 31st January deadline following the end of the tax year.
	D.	3 months after the 31st January deadline following the end of the tax year.

- **End of Questions** -

Answers

Question	Answer	
1.6.1 - What is the latest filing date for a tax return filed on paper under self-assessment?	A	31st October following the end of the tax year to which it relates, or 3 months after its issue if later
1.6.2 - For tax year 2017/2018, when will George, a self-employed plumber, pay his first payment on account?	C	31st January 2018
1.6.3 - Steve is self-employed. His income tax liability for tax year 2015/16 was £12,500. His income tax liability for 2016/2017 is £14,000. Which ONE of the following statements is correct?	D	He will pay a balancing payment for tax year 2016/2017 of £1,500 on 31st January 2018
1.6.4 - When must HMRC normally start an enquiry into the accuracy of a tax return?	D	Within 12 months of the date HMRC receive the return
1.6.5 - Which of the following type of taxpayer is not normally within self-assessment?	A	Full time employees
1.6.6 - Gerry is a self employed plumber and has earnings from this of £35,000 in 2017/2018. In addition he has disposed of an asset which has realised a chargeable gain of £20,000 in the same tax year. The taxes and national insurance contributions he will have to pay are…	D	Income tax, Class 2 NIC, Class 4 NIC and Capital Gains tax

1.6.7 – Elaine has been told that she is liable to pay Class 4 National Insurance Contributions via self assessment. This means that...	A	She has self employed earnings.
1.6.8 - How will an employed higher-rate tax payer make any on account tax payments on their investment income?	A	By making payments twice a year under the self-assessment regime.
1.6.9 - What is the latest filing date for a tax return filed online under self-assessment?	C	31st January following the end of the tax year to which it relates, or 3 months after its issue if later
1.6.10 - How long do taxpayers have to make any corrections to their self-assessment once submitted?	A	12 months after the 31st January deadline following the end of the tax year.