CLARITY ACCOUNTING

UNDERSTANDING YOUR SELF ASSESSMENT TAX BILL

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INTRODUCTION

If you are self employed then you have to file a self assessment tax return every year. You can either do this yourself or use an accountant to help you.

If you have filed your tax return online you will be able to 'view your calculation'. Which will show you how much tax and NI you owe and when it needs to be paid by. It can take up to 72 hours after you've submitted your return for this to be available in your account.

If you have submitted a paper return, HMRC will send your tax bill by post.

UNDERSTANDING YOUR TAX BILL

There are a few different scenarios when submitting your self assessment return here are a few of the main ones (for specific advice please contact us).

Employed part of the tax year - If this is your first self assessment return and you were previously employed part of the tax year, you will need to use the figures from your P45 when submitting your self assessment tax return.

HMRC will add 'pay from your employments' together with your self employed income to determine your total income received. Using the P45 figures HMRC will then calculate the total tax due less what had already been paid (in employment).

Self Employed for more than one tax year - If you have submitted self assessment tax returns in previous years you should see a balancing payment on your bill. If this is more than £1,000, your bill will usually include an additional payment towards next year's bill (known as a payment on account).

If you made payments on account last year then you'll meed to deduct any payments made towards this year's bill to work out what you owe.

To check the payments on account you made the previous year you can login to your account.

PAYING YOUR BILL

You need to pay your self assessment tax bill by midnight on 31st January (following the tax year you're paying for) to avoid a penalty.

Payments on account

If you're a UK taxpayer who pays less than 80% of your income tax at source and your tax bill is over £1,000, you may well be told by HMRC to make 'payments on account'. Payments on account are payments made towards your next year's income tax. The amount you have to pay for each payment on account is half of your previous year's tax bill. So for example if your tax bill for this year is £2,000 then you would have to pay £1,000 as your first payment on account (due 31st January) and £1,000 as your second payment on account (due 31st July).

As you are paying next year's based on this year's figures you may end up paying too much, but don't worry as HMRC will give you the difference back.

When making payments on account for the first time it is important to know what to expect, either in your first year of trading or the first time your tax bill is over £1,000. This may come as an unpleasant surprise, and a good idea why you should always do your tax return early so that you have time to put the money aside. You could always save a proportion of your income each month ready for your payments on account.

REDUCE YOUR PAYMENTS ON ACCOUNT

You may know in advance that you will pay too much on account as your tax bill will be lower next year, maybe you're winding down the business or because you're passing retirement age and will no longer have to pay class 4 National Insurance. If this is the case, you can apply to HMRC to reduce your payments on account.

This can be done online or by post, to do it online login to your HMRC gateway account and select the reduce payments on account option.

Or alternatively, apply by post using the SA303 form.