

ACTIVE PRACTICE UPDATES

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CRANE & JOHNSTON

CHARTERED CERTIFIED
ACCOUNTANTS
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GEARING UP FOR SELF-ASSESSMENT

Don't leave it until the last minute, especially in 2020.

With only two months left until the 31 January deadline for online returns, self-assessment is very much on our minds.

There's a first flurry of activity around the deadline for paper filing at the end of October, now far behind us, but December and January are when things really get hectic.

We all have stories about clients who turn up with wheelbarrows full of crumpled receipts on 28 January, or last-minute signups with financial affairs so complicated they might have been designed to test brainpower and resilience.

We make sure our clients get their returns in on time, however much work it takes, but life would certainly be easier if the workload was spread across the year.

There's an added urgency this year thanks to the complication of Brexit. At present, the UK is scheduled to leave the EU on the same date as the self-assessment deadline, which could cause more problems for HMRC than usual.

At the same time, individuals required to submit self-assessment tax returns are no doubt fed up of being pushed to file earlier, not only by their accountants but also by the government.

GET IT OUT OF THE WAY

HMRC runs an almost year-round campaign aimed at convincing people to file ahead of the midnight deadline on 31 January.

From their perspective, there are various advantages to nudging people towards that behaviour, not least that it reduces the risk of IT systems failing due to overload.

Self-assessment veterans will know that IT failures have been a recurring theme since online tax returns were introduced almost 20 years ago. In 2002, the system was shut down after users were shown data relating to other people's accounts.

The next year, people who thought they'd filed and paid were fined anyway and 12 months on from that, the HMRC website went down for a whole weekend just weeks before the deadline.

As recently as 2018, the failure of the HMRC website on a Saturday in early January frustrated many who had set aside a precious day of free time to get their paperwork dealt with.

Most people would probably regard this as HMRC's problem, however, and a more persuasive argument from the Revenue's marketing masterminds is the sanctity of Christmas.

Exactly 2,616 people filed returns on 25 December 2018 when, as the argument goes, they should have been relaxing with family or otherwise enjoying the fruits of the season.

The number of taxpayers filing on deadline day is no less startling: according to figures released by HMRC, 735,258 returns were submitted on 31 January 2019 with 60,000 of those landing in the last hour of the typical nine-to-five working day.

The frustrating thing is that there really is no reason not to have the bulk of your return done and dusted by the end of July.

Instead, too many people seem to spend the year both putting it off and worrying about it, or perhaps we might say more accurately, they defer it because they are worried about it.

How difficult is it going to be to get the paperwork together? How tricky will the online filing process be? What might be lurking in the numbers they'd rather not know about?

The fact is, though, that for most people, it's not complicated.

The majority of those completing tax returns are paying tax on their primary source of income through PAYE and only need to account for a single additional source of income.

THE AGE OF THE SIDE HUSTLE

Whether it's renting out property, undertaking freelance work, driving a cab or selling online, more British people are making a bit of extra money through a bolt-on to the day job.

Recognising this, and keen to keep things simple, a £1,000 trading allowance was introduced for 'micro-entrepreneurs' making a small amount of money through trading or 'odd jobs'.

There's a similar allowance for individuals making less than £1,000 per year from property by, for example, renting out a garage or parking space on their driveway. That allowance doubles if the property is co-owned.

These are for people who aren't otherwise engaged in business, so there are restrictions on who can claim. For example, you won't be eligible if you've also got trade or property income from a company you or someone connected to you owns or controls.

Even if you do have to pay some more tax on additional income, however, it won't be difficult for us to manage as long as you've kept all the paperwork in good order.

Those with more complex financial situations, such as the owners of multiple businesses or serious property investors, may find completing a tax return more challenging, especially if they want to claim all the tax reliefs to which they're entitled.

Even so, at least these days, HMRC's electronic systems aren't the obstacle they once were.

DESTINATION DIGITAL

While there are still too many IT problems and errors, the Revenue's systems have become generally more stable and the online filing process less confusing.

That's partly because of a commitment to stability and simplicity in digital policy in the past 12 or so years which has given the HMRC tax website time to mature and evolve rather than lurching from relaunch to relaunch.

Beyond that faint praise, there are benefits to completing your tax return digitally, too.

In the old days, completing a return, posting it off, waiting for a reply, resubmitting and so on, was time consuming.

With online returns, feedback is usually instant and onscreen, meaning most errors are headed off before you hit 'submit'.

As digital becomes the norm, and the systems settle in, the proportion of returns filed online keeps growing. In 2017/18, more than 10 million tax returns were submitted online, representing 93.5% of the total.

Making Tax Digital, a government initiative aimed at getting individuals and businesses onto digital accounting systems for recording and reporting, rolled out phase one this year.

Under this new regime, VAT-registered firms with a turnover above £85,000 are obliged to keep digital accounts and file returns through approved software.

At some date in the next few years, but no earlier than 2021, digital returns for income and corporation tax will become mandatory for some businesses and landlords.

The aim is that – probably in the next decade – all taxpayers will be keeping digital records which interface seamlessly with government tax systems, perhaps making the self-assessment tax return a thing of the past.

DEADLINES AND PENALTIES

Some people kid themselves that missing the deadline isn't such a big deal, or simply forget about it.

We never like to see clients pay more to the Revenue than is necessary, and easily-avoided fines are a particular frustration.

Remember, if you don't file by midnight on 31 January, you'll immediately be slapped with a £100 fixed penalty.

That applies even if the reason you've been putting off your return is because you don't think there's any tax to pay.

After three months with no return, you'll face penalties of £10 for each day after that second deadline – up to a maximum of £900.

After six months, then 12 months, the screw gets turned tighter and tighter with additional charges of 5% of the tax outstanding or £300, whichever is greater. There are also penalties in place for the late payment of tax.

Despite the constant reminders, despite the relative ease of the online process, and despite the willingness of accountants to support people through the process, 731,186 taxpayers missed the midnight deadline on 31 January 2019.

That equates to a frankly terrifying £73 million in day-one instant fines. As HMRC reported, though, some of the excuses for failing to file on time were rather entertaining. "I was just too busy," said one. "My first maid left, my second maid stole from me, and my third maid was very slow to learn."

 **We handle every aspect of self-assessment.**