TOPICAL TIPS ON MAKING SURE LAST-MINUTE SELF ASSESSMENT RETURNS ARE CORRECT

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Topical tips on making sure last-minute self-assessment returns are correct

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Topical tips from ANNETTE MORLEY on making sure last-minute self-assessment returns are correct.

KEY POINTS

- Use this checklist for last minute returns and year-end planning.
- Don’t forget the 31 January deadline for amendments to last year’s return.
- Watch out for investment income glitches.
- Beware of changing limits to reliefs and election time limits.
- Use the checklist for added value “PR points” for clients.

For every adviser involved with personal tax 31 January is a momentous date in the calendar.

Whether we love it or hate it, we all need extra concentration to avoid missing a vital point when finalising clients’ tax returns under extreme time pressure.

It should also be used as a ‘PR’ opportunity to point out noteworthy items to clients for the current year, so they can allow for them in good time.

This article provides an aide memoire to assist those pressure moments. It cannot cover every eventuality, but it aims to remind readers particularly of the less common situations which might trip up the adviser in a rush. The points have been numbered for ease of reference.

Think before you start

1. Review the HMRC toolkits. They contain useful checklists and commentary, albeit representing HMRC’s opinions. They can be found in the agents’ section of the HMRC website, via a link under ‘Tools’.

2. Although none specify the completion of tax returns as their target, some are appropriate for certain pages of the tax return, such as:
   - business profits;
   - capital v revenue expenditure;
   - income tax losses;
   - private and personal expenditure; and
   - property rental.
3. Corrections to last year’s returns – remember 31 January is also the deadline for amendments to the previous year’s return. Review the file for any issues in doubt when the 2012 return was completed, and consider the 2013 figures which might indicate a different decision, such as on claims for loss relief.

4. Check office procedures for the way your office will handle last minute approval of tax returns by clients and ensure that all relevant staff are aware of their importance.

5. Check whether clients for whom 2013 will be their first tax return have a UTR – if they do not, contact HMRC well in advance of 31 January. Turnaround time can be as much as six weeks for registering for self-assessment.

6. Has HMRC authorisation been put in place for all new clients? There are always timing issues around HMRC’s registering of agents for new clients. Whether the 64-8 is used in paper form or online, beware the deadlines. For 31 January 2013 it was 27 December 2012 for paper based 64-8s and 16 January 2013 for online registration. Timings are likely to be similar for agent authorisation needed by 31 January 2014.

7. Consider any new companies, remembering that all directors need to file a tax return. This can easily be overlooked, especially where clients set up their own company off the shelf.

Investment income

1. Review income listed as foreign dividends in portfolios. Not all brokers correctly show income that is properly taxable as interest as opposed to dividends because of the nature of the underlying offshore funds. Basically, this position applies where more than 60% of the funds generate interest not dividends. This is usefully explained in HMRC’s guidance in SA106, Foreign Notes within “Dividends from foreign companies”.

2. Where foreign dividends do qualify for the UK tax credit, for ease these can be included in box 5 of the main SA100 return rather than completing the foreign pages, provided they represent the only foreign income and total less than £300. Note that they would then only qualify for basic rate tax credit so it would not suit clients on a higher tax rate, who should use the foreign pages.

3. Watch for “excess of reported income”, relating to particular offshore reporting funds. Broadly, this is dividend income that is taxable because it arose within the year, but which was not within the reported distributions because of the nature of the funds and the associated accounting procedures. Consequently, it is not included within the composite tax certificate of most portfolios. Brokers are likely to have identified the excess income and relevant tax treatment in an accompanying letter, so ensure it has been read and retained.
4. Specifically, ask the client whether any bonds matured and were reinvested during the year. Interest added at the end of the term is easily overlooked where it was rolled up into the new bond.

5. Check for interest on children’s savings accounts where the funds are derived from a parent, who must then declare it as if his/her own. Remember that there is an exemption from reporting it if the income is less than £100. This applies separately to each parent and each child.

Employment income

1. Where a salary paid to a spouse has been claimed as a business expense, check that it was actually paid within nine months of the end of the accounting period. Remember that for 2013/14 this is a separate requirement from payroll reporting under RTI imposed from 6 April 2013.

2. Check whether the client had any salary additions, such as options exercised during the year. If so, has the tax position been treated correctly under the employment securities legislation? Is a share scheme in place? As a possible “PR point”, is a company share sale imminent? If so, discuss planning points with client.

3. Have employees been reimbursed at the full HMRC approved rate for business travel mileage in their own car? If not, they can claim tax relief on the shortfall through the employment pages.

4. Is there or could there be an IR35 situation? Remember the service company question on page TR5 of the self-assessment tax return. If only salary and no dividends were drawn from the company, no entries need be made. For clarification, read HMRC’s notes on page TRG23 of the How to Fill in Your Tax Return guide.

5. Where dividends are paid to a client who does come within the IR35 rules, double taxation can be prevented if the income distributed has also been taxed as deemed income under IR35. This would probably have been in a previous year. The relief is given under ITEPA 2003, s 58(4) and must be claimed in writing to HMRC within five years after 31 January following the tax year in which the distribution was made. Although the claim is made outside the tax return, dealing with it now ensures it will not be forgotten.

Overseas issues

In addition to reviewing foreign investment items within a portfolio (see above), remember the following points.

1. To use the remittance basis, it must be claimed in the residence pages of the tax return (Box 27 and associated).
2. Unless exemptions apply, using the RB leads to the loss of entitlement to UK personal allowances and annual capital gains tax exemption allowance.

3. If the total of the unremitted foreign income and gains is less than £2,000, the above entitlements are not lost. In these circumstances, if no tax return is due to be completed it is unnecessary to do so just to claim RB. If a tax return is to be submitted anyway, then Box 28 must be marked.

4. If the client has been resident in the UK for at least seven out of the last nine years ("long term") the remittance basis charge (RBC), currently £30,000, must be paid and Box 30 marked. Boxes 32 to 35 must be completed as appropriate in respect of the nominated income or gains.

5. Remember: 2012/13 is the first year for which the new rate RBC is effective. The RBC increases to £50,000 for taxpayers UK resident in 12 out of the last 14 years. Tick Box 29 where this applies.

6. There is no RBC for long-term residents who are under 18 years on 5 April 2013 and claiming the RB, but entitlements to the allowances identified at (b) are lost. Box 31 must be marked.

7. HMRC guidance on completing the residence and remittance basis pages is in SA109 Notes, which can be downloaded as a PDF document. It is very helpful in deciding which boxes need to be marked to achieve specific outcomes.

8. Tick Box 36 if the new Business Investment relief claim is being made (see below ‘New entries’)

Specific reliefs and claims

In addition to those noted in the above sections, the following reliefs need to be considered when completing the tax return.

1. Pension contributions. An analysis is outside the scope of this article, but particularly watch the following.

   a) A claim for tax relief on £3,600 (gross) contributions is permissible whatever the level of net relevant earnings (NRE).

   b) For 2012/13 the maximum annual allowance on which tax relief can be obtained is £50,000. Where contributions made in the year exceed this amount, any unused allowance of the three previous years can extend this limit. This is the case even where the regime differed in the prior years. The £50,000 limit is used throughout. The carry-forward does not need to be claimed, it is mandatory, but awareness is essential when assessing the client’s tax liability. Note that the annual allowance will reduce to £40,000 from 6 April 2014. Advise relevant clients to project their NREs in good time to
optimise their contributions.

2. Gift aid. Tax relief on qualifying donations can be treated as made in the previous year. An election must be made prior to the submission of the tax return for that earlier year and in any event before 31 January following. Thus, 31 January 2014 is the deadline for submitting a tax return and electing for tax relief in 2012/13 on gift-aided donations made after 5 April 2013.

3. Trade loss reliefs. Check available reliefs and the time limits for making the claims. Broadly:

   a) Set off against general income and chargeable gains for the current or previous year must be made within 12 months from 31 January after the year of the loss.

   b) A similar time limit exists for the set off of new business losses, ie those incurred within the first four years of trading. They can be used against total income of the three prior years.

   c) Claim for carry forward of the loss against future trade profits must be made within four years of the end of the tax year in which the loss was incurred.

   d) The time limit is the same for terminal loss relief claims.

   e) Make a forward file note to claim against profits chargeable to Class 4 NIC any losses utilised against sources on which Class 4 NIC is not charged.

   f) Remember that sideways loss relief has reduced to £50,000, or 25% income if greater, from 6 April 2013. Think through any planning that needs to be carried out here, such as taking opportunities to maximise loss relief in 2012/13 rather than in 2013/14, maybe through maximum capital allowance claims, or, at least warn clients they might not have the same tax refund in the following year.

   g) Remember that sideways loss relief for furnished holiday lettings (FHL) ceased last year, on 5 April 2011. Remind clients with FHL of the more stringent letting qualifications that also came into being last year, on 6 April 2012. Check whether the 'grace period' rules might apply. Broadly, these permit one year of not having met the letting qualifications to be disregarded if they have been met in the previous year.

4. Capital gains tax on share sales. If provisional figures were used on the sale of a company in 2011/12 such as for earn-outs, check whether these need amendment once the actual figures have been ascertained.
New and irregular tax return entries

Make sure that the following less familiar items are queried with clients

1. High income child benefit charge (HICBC). Advisers should by now be aware of this tax charge. It arises where child benefit has been received and, broadly, at least one relevant parent earns more than £50,000. It needs to be reported on the tax return at page TR5. The amount to report will be the total child benefit received since 7 January 2013, the date from which the legislation first applied. Perhaps discuss with clients whether they would prefer to disclaim child benefit entirely - but tread carefully, it is not always a wise option.

2. Might the client have invested in SEIS, which commenced for investments made in 2012/13? A claim for the 50% reduction to set against income tax will usually be made through the tax return. Ask whether the capital gains tax exemption also applied. Note that conditions have to be met before these reliefs can be claimed.

3. When preparing smaller sole trader accounts, think ahead to next year. Might the new cash basis system available from 6 April 2013 be appropriate? Or, for any sole trader business, would the fixed rate deductions provide an easier calculation for eg mileage costs or use of home as office?

4. Business investment relief (referred to in the ‘overseas’ section above) has been available to UK resident, non-UK domiciles on the remittance basis since 6 April 2012. If the conditions have been met, it permits foreign income and gains to be brought into the UK without being subject to the normal remittance basis rules if invested in a qualifying UK business.

Concluding

In a bid to catch the obscure, remember the obvious checkpoints as well:

- Are there any student loans?
- Has the client reached state pension age?
- Any pre-owned asset tax?
- Any capital gains tax negligible value claims?
- Any married couples allowance available for transfer?

Being organised in the approach to reviewing tax returns is at least part of the battle to sailing through the annual assault - good luck!