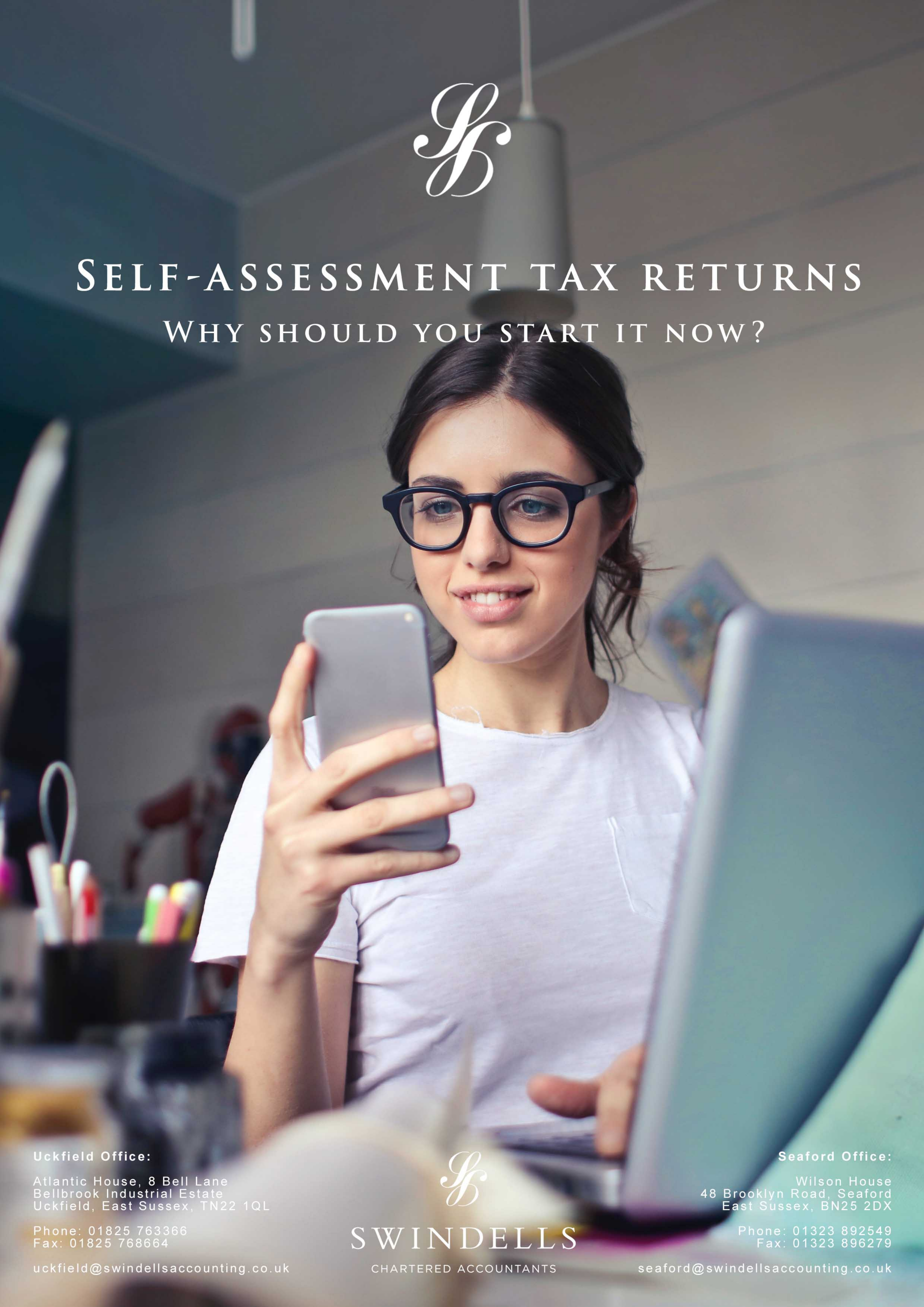

Self-assessment tax returns

Why should you start it now?

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SELF-ASSESSMENT TAX RETURNS

Reasons to start your self-assessment tax return now.

With the new year just around the corner and tax season fast-approaching, now's a good time to get a head start on your self-assessment tax return.

Self-assessment is a system HMRC uses to collect tax on income that wasn't taxed at source. People who are self-employed, such as sole traders, have to file a self-assessment return, along with partners in partnerships and landlords who receive rental income. Directors of limited companies who pay themselves a dividend may also need to file a return.

If you're not sure whether you're affected, you can check if you need to send a return on the Government website.

The deadline for completing your return for the 2021/22 tax year is 31 January 2023, and while HMRC gave taxpayers an extra month to get everything together and filed in 2022, it is unlikely this will be the case this year. Any taxpayers who don't file their return and pay any tax due by February 2023 will face penalties and interest.

It's a good idea to submit your return now to avoid incurring any extra costs. To help you get started, we've outlined some of the benefits of filing your return early below, along with some common mistakes and how to avoid them.

WHY YOU SHOULD SUBMIT YOUR RETURN NOW

Improved cashflow management

The earlier you submit your self-assessment return, the sooner you'll know how much tax you owe. You don't need to pay your tax bill at the same time as filing your return, so filing earlier will give you plenty of time to budget and manage your cashflow accordingly before 31 January.

Giving yourself that extra bit of notice enables you to adjust your finances and make provisions where you need to. Even if you end up with a bigger bill than you were expecting, it will be much easier to pay it when you've had a month or two to plan ahead.

On the other hand, missing the filing and payment deadline will result in having to pay interest on your tax bill, as well as penalties. Cashflow problems are very common this time of year, so avoiding this extra cost is crucial.

More time for tax planning

Making a headstart on your return will give you time to explore the wide range of reliefs and allowances available.

Moreover, filing early can give you more time to seek expert tax advice. Accountants know the tax system inside and out, and can advise you on how to become as tax efficient as possible while still staying compliant. Working with a specialist may introduce you to methods of reducing your tax liabilities that you were previously unaware of.

If you work as a sole trader or partner, you may be able to deduct some of your business costs as allowable expenses, which can include money spent on office supplies and travel, as well as the costs of running your business premises.

Other sources of tax relief include claiming on tax-free charitable donations and claiming any pension contributions that you make throughout the year.

Access tax refunds sooner

If you file your return early and you're owed a refund, there's a good chance you'll receive it ahead of the deadline.

HMRC will let you know the amount you've overpaid by as soon as you complete your self-assessment form. After that, they'll be able to process your refund, and you may not have to wait until 31 January to receive it. If you think you've overpaid, filing earlier can speed up the process.

Gain peace of mind

A looming tax deadline can make it hard to actually enjoy the holidays, but completing your forms now may alleviate some unnecessary stress in the coming weeks.

Common self-assessment mistakes

Thousands of taxpayers make mistakes when completing their tax returns each year, and this year will likely be no exception. However, once you know the most common mistakes, you can start to take steps to avoid them.

Missing deadlines

Missing the self-assessment tax return deadline can be expensive. People who file or pay their tax return up to three months late will need to pay a £100 penalty to HMRC, with increased fines thereafter. For those that pay their tax late they will not only be charged interest, but also a penalty which will be based on a percentage of the amount of tax outstanding.

Taxpayers often underestimate how long the process will take, so starting your return earlier will give you more time to meet the deadline. If you think that you won't be able to pay your bill in full by 31 January, you can arrange a payment plan with HMRC.

Your accountant can ensure your return is done on time by maintaining your records throughout the year, and submitting your forms on your behalf.

Submitting incorrect figures

It's easy to make mistakes when you're in a rush, so it's important to give yourself plenty of time to double-check your calculations. Submitting incorrect information may result in an investigation by HMRC, or even prosecution in the case of deliberate wrongdoing.

Maintaining accurate and up-to-date records throughout the year can help you avoid this problem, as well as make it quicker and easier to submit your return.

If you do make a mistake on your tax return, you can make a change up to a year from the amended deadline.

Underclaiming or overclaiming tax relief

It's important to claim the right amount of tax relief. People who miss out on available reliefs and allowances end up paying more tax than they owe, while those who overclaim may face an investigation from HMRC – or even prosecution.

Tax can be complicated and legislation changes all the time, so getting it right requires a keen eye for detail and some expertise. Working with a chartered accountant can help you retain more of your earnings, while ensuring that you are compliant with any rules and regulations.

It's important to keep detailed records of any business expenses throughout the year, too. While you may not have to submit them with your return, you'll need to keep them on hand in case HMRC asks for proof.

Forgetting about payments on account

On top of your bill for the 2021/22 tax year, HMRC may ask you to make an advance payment towards your next self-assessment bill. This is called payments on account, and can result in you paying 50% more than you were expecting on 31 January.

You'll need to factor this cost into your budget, and submitting your forms well in advance will give you time to set enough money aside. Likewise, you can start budgeting for the second instalment, which will be due 31 July 2023.

It also pays to think ahead. If you think your tax bill will be lower than last year, you can ask HMRC to reduce your payments on account online. Furthermore, looking at HMRC's guidance on payments on account can help you prepare.

Making sure you get it right

Many taxpayers choose to do their self-assessment tax return by themselves, but hiring an accountant can have a lot of benefits, especially if you run your own business or have multiple sources of income.

If certain factors make your return more complicated, getting it right may require an expert eye. Calculating business expenses can be difficult, for example, especially if you use some items for both personal and business reasons.

It's not just businesses that can benefit from this expertise. Hiring an accountant to file your return on your behalf can help ensure everything is submitted accurately and on schedule, and help reduce your tax liabilities.

Your accountant can also help you manage your finances and maintain accurate business records throughout the year. That way, filing your return next time will be much more straightforward.

Speak to an expert about your self-assessment tax return.