Simmers & Co
Chartered Accountants

[FACTSHEET]

Personal Tax - When is Income Tax and Capital Gains Tax Payable?

Under the self assessment regime an individual is responsible for ensuring that their tax liability is calculated and any tax owing is paid on time.

Payment of tax

The UK income tax system requires the payer of certain sources of income to deduct tax at source which removes the need for many taxpayers to submit a tax return or make additional payments. This applies in particular to employment income. Interest is now received gross of tax but the savings allowance removes most taxpayers from the need to pay tax on such income. However deduction of tax at source is not possible for the self employed or if someone has substantial investment income. As a result we have a payment regime in which the payments will usually be made in instalments.

The instalments consist of two payments on account of equal amounts:

- the first on 31 January during the tax year and
- the second on 31 July following.

These are set by reference to the previous year's net income tax liability (and Class 4 NIC if any).

A final payment (or repayment) is due on 31 January following the tax year.

In calculating the level of instalments any tax attributable to capital gains is ignored. All capital gains tax is paid as part of the final payment due on 31 January following the end of the tax year.

A statement of account similar to a credit card statement is sent to the taxpayer periodically which summarises the payments required and the payments made.

Example

Sally's income tax liability for 2020/21 (after tax deducted at source) is £8,000. Her liability for 2021/22 is £10,500. Payments for 2021/22 will be:

	£
31.1.2022 First instalment (50% of 2020/21 liability)	4,000
31.7.2022 Second instalment (50% of 2020/21 liability)	4,000
31.1.2023 Final payment (2021/22 liability less sums already paid)	2,500
	£10,500

There will also be a payment on 31 January 2023 of £5,250, the first instalment of the 2022/23 tax year (50% of the 2021/22 liability).

COVID-19

Due to COVID-19 there is now enhanced time to pay for tax liabilities due in January 2021, providing an additional period of up to 12 months, if required. This could move the payment deadline to January 2022, but would involve paying interest on the outstanding balance from 1 February 2021.

The offer was not just for those who delayed to 31 January 2021 the second income tax self assessment payment on account for 2019/20, due by 31 July 2020. It could also be used to pay other amounts due by 31 January 2021: the balancing payment for the 2019/20 tax year and the first payment on account for 2020/21.

Taxpayers can access these terms by setting up a payment plan online, without the need to phone HMRC, if their self assessment tax debt is between £32 and £30,000 and the taxpayer meets certain other conditions. The link to the online facility is here https://bit.ly/38uOmbx. For larger debts, or to arrange longer to pay, contact HMRC's helpline https://bit.ly/3cu9qPa. Arranging this in good time should avoid late payment penalties.

Alternatively, if a taxpayer was able to, they can pay in full or in instalments on or before 31 January 2021, via the usual online service. Where this was settled in full by 31 January 2021, there is no interest to pay.

Late payment penalties and interest

Using the late payment penalties HMRC may charge the following penalties if tax is paid late:

- A 5% penalty if the tax due on the 31 January 2022 is not paid within 30 days (the 'penalty date' is the day following)
- A further 5% penalty if the tax due on 31 January 2022 is not paid within 5 months after the penalty date
- Additionally, there will be a third 5% penalty if the tax due on 31 January 2022 is not paid within 11 months after the penalty date.

These penalties are additional to the interest that is charged on all outstanding amounts, including unpaid penalties, until payment is received.

Nil payments on account

In certain circumstances the two payments on account will be set at nil. This applies if either:

- income tax (and NIC) liability for the preceding year - net of tax deducted at source and tax credit on dividends - is less than £1,000 in total or
- more than 80% of the income tax (and NIC) liability for the preceding year was met by deduction of tax at source and from tax credits on dividends.

Claim to reduce payments on account

If it is anticipated that the current year's tax liability will be lower than the previous year's, a claim can be made to reduce the payments on account.

How can we help

We can prepare your tax return on your behalf and advise on the appropriate payments on account to make.

We can advise you whether a claim to reduce payments on account should be made and to what amount. Please do contact us for help.

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