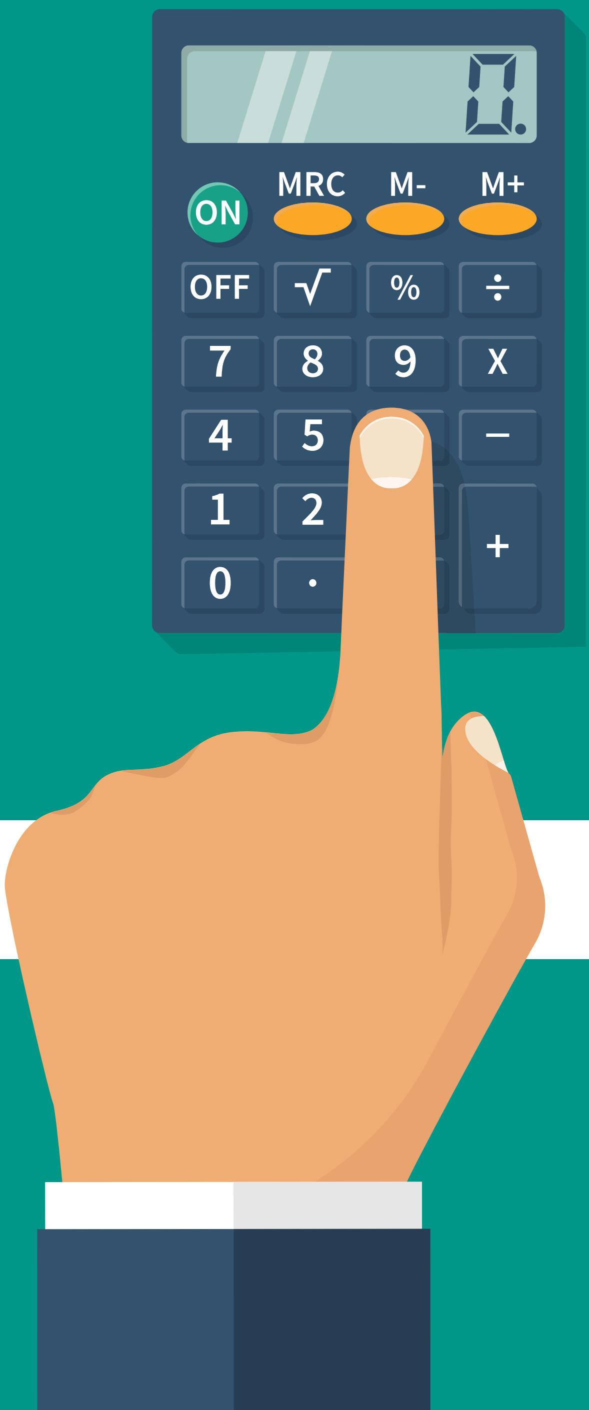
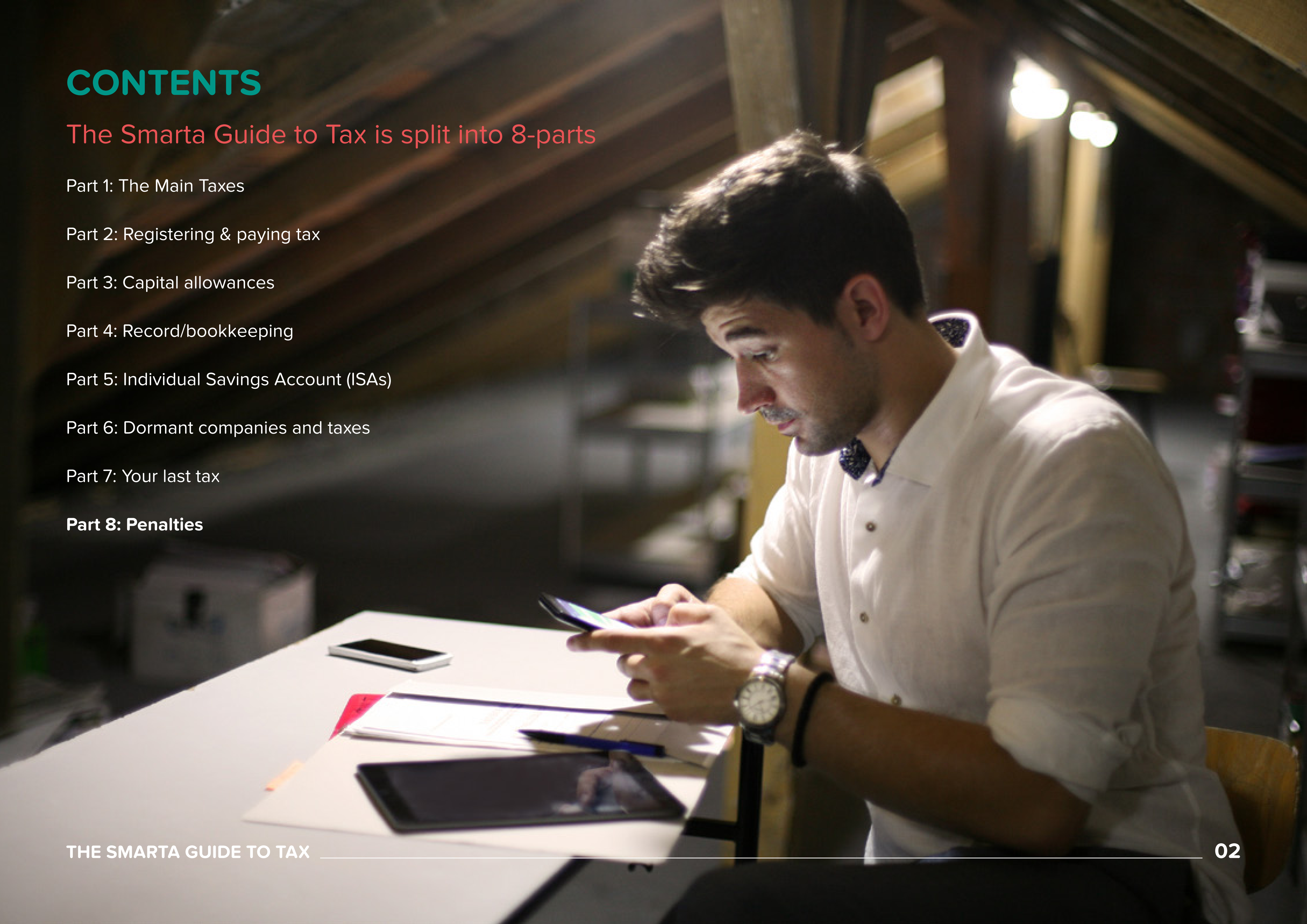


THE SMARTA GUIDE TO TAX

Part 8: **Penalties**

Smarta
TAX SERVICES



CONTENTS

The Smarta Guide to Tax is split into 8-parts

Taxes are simply unavoidable and, if you're a small business owner, it's best that you know your way around them and their millions of acronyms.

Although there are multiple taxes, each with their own rules and regulations making it seemingly impossible to comprehend these mandatory financial charges; we have put together this comprehensive 8-part guide on all things tax. It covers both the basics and the more complex aspects of the world of taxation and is essential reading for any and all small business owners. Whether you're an expert on tax or a novice to the subject, we hope this guide will have something for you.

If you need further support on your business' tax or accounting, then contact Smarta Tax Services today.

Smarta also offer further aid for small businesses. We have a thoroughly in-depth and expansive blog site (www.smarta.com) with all the information and help you could possibly need when starting up your own company. Additionally, we offer the Smarta Business Builder, a monthly subscription service that provides you will all the tools you would need to start, manage and grow your business. If you're looking to register as a limited company, then Smarta Formations is one of the simplest and quickest ways to incorporate your business.

PENALTIES

In this final section of the Smarta guide, we are going to have a look at all the ways you can incur penalties and the price you'll have to pay, in hope that this will persuade you to avoid them. For a start-up or small business, being forced to make these payments can really damage your annual turnover.

Self-assessment tax penalties

First, the deadlines you must meet:

Type	Deadline
Registering for self-assessment tax for the following tax year	5 October
Paper tax returns (via post)	Midnight 31 October
Online tax returns	Midnight 31 January (the new year)
Tax payment	Midnight 31 January (the new year)

The deadlines can be different however. For example, if you are a sole trader who would like any tax you owe to be automatically taken from either your wage or pension by HMRC, you should file your self-assessment tax return by midnight 30 December.

You will be charged a penalty if you either file your tax return late or make the payment late. If you do both late you will be charged double. For a tax return or payment that is up to three months late, the fee is £100 – this will increase if you are later than three months.

Note that you can appeal the penalty if you have a 'reasonable excuse' for the lateness. There are a large number of what may count as a reasonable excuse for a tax obligation, here are just a few:

- the business owner has died
- there was an issue with HMRC online service
- a disaster (flood, fire, theft) prevented your business from filing the tax return on time

If you make a mistake on your self-assessment tax return, you will not be penalised, however, you may end up paying more tax until this is resolved – or have to pay more tax after it is resolved. You have up to two years to make changes to the return. For example, if you made a mistake for the 2016-2017 tax, you must change this by 31 January 2019. This can be done online or via post by submitting a new tax return. If you need to edit a tax return sent before 2015, you should write to HMRC.

If you are owed a refund or required to make further taxation payments, HMRC will provide you with a notice within four weeks of you updating your self-assessment tax return.

2. VAT penalties

For every company, your VAT return deadline is different as it depends on when you registered to become a VAT eligible business. You can find the date on your VAT online account. Regardless, the deadline for filing and paying your VAT are usually the same.

Largely, HMRC penalty fees for missing VAT deadlines are sub-charges, these are a percentage of the amount of VAT you owe added on again. HMRC record a 'default' if you miss a deadline, this gives you 12-months to make any payments along with a sub-charge. If you do not make this second deadline – ergo default again – the sub-charged is increased and the penalty is increased. Kindly, HMRC do not charge you a sub-charge for the first time you default.

Number of defaults	Sub-charge for annual turnover of less than £150,000	Sub-charge for annual turnover greater than £150,000
2	No charge	2% (or no charge if this amounts to less than £400)
3	2% (or no charge if this amounts to less than £400)	5% (or no charge if this amounts to less than £400)
4	5% (or no charge if this amounts to less than £400)	10% or £30 (whichever is more)
5	10% or £30 (whichever is more)	15% or £30 (whichever is more)
6 or more	15% or £30 (whichever is more)	15% or £30 (whichever is more)

Sub-charges start off quite low, but, as you can see, you should try and deal with any VAT discrepancies straight away to avoid the bill from stacking up.

For VAT returns, several further penalties also apply. If you send a return with deliberate or careless inaccuracies, you must pay 100% of whatever extra tax you owe. You will also receive a £400 fine if you submit a paper VAT return via post, unless directly told to by HMRC.

Corporation tax penalties

It is most easy to get caught out for not paying or not paying enough for Corporation tax. You can find yourself being charged penalties for missing deadlines, inaccuracies within your tax return(s), not keeping sufficient records and even not providing HMRC with information or proof soon enough after they request it. In order to not get caught out, we here at Smarta have put together this comprehensive section, covering all you need to know to avoid paying unwanted fees.

Perhaps one of the most common penalties to do with Corporation tax is one that appears not to be your fault. Usually, it is HMRC's responsibility to provide a 'Notice to deliver a Company Tax Return' which outlines that your business should pay Corporation tax within a given period. However, sometimes, this notice is not delivered. If your company is required to pay Corporation tax and you do not receive a notice, you must inform HMRC within 12-months to avoid paying a fine known as the 'failure to notify' penalty. Note: there are no fixed penalties for Corporation taxation issues.

On the whole, penalties charged in terms of Corporation tax are meant to represent the amount of tax unpaid by your business. HMRC calls this potential loss revenue (PLR). You will have to pay PLR as well as make up for any Corporation tax fees that you missed.

There are three different brackets of penalties: one for 'careless' mistakes, a second for 'deliberate' mistakes, and a third for 'deliberate and concealed' mistakes – i.e. mistakes you attempted to hide. As previously mentioned, there is no set penalty rate, however, there is a maximum fee you can be charged within each bracket.

Bracket	Maximum penalty charge
Careless or non-deliberate mistake	30% of PLR
Deliberate mistake	70% of PLR
Deliberate and concealed mistake	100% of PLR

As you can see, the penalties HMRC could force you into paying are rather pricey, in fact, if you are caught attempting to hide your tax evasion, you may end up paying double the Corporation tax you were originally charged.

Corporation tax penalties *continued*

Much like with VAT and self-assessment returns, you will not be charged a penalty if you have a reasonable excuse for any mistakes or lateness. Moreover, if you do make a mistaken without a reasonable excuse and inform HMRC before they notice, you will still be charged a penalty, but at a reduced rate.

As there is no set date for the filing of Company Tax returns, as HMRC usually sends an annual notice outlining deadlines, every business will be expected to file their return at a different date. If you miss said date you are likely to be charged a penalty, regardless of whether your company owes any Corporation tax. There is a set penalty scheme for the late filing of Company Tax returns:

Lateness	Penalty
1 day	£100
3 months	A further £100
6 months	An additional 10% of unpaid tax added on
12 months	A further 10% added on

After the six-month period, you will no longer be able to appeal against the penalty fee and must pay it in full. There are further penalties charged if you continuously miss the deadline each year, for example, if your tax return is late three times in a row, the £100 fees increase to £500.

In some cases, HMRC may request that you make taxation payments in instalments – this is primarily for companies with a larger annual turnover, however, could be requested of a start-up or small business if you reach a bracket of high sub-charges. Following this, a time to pay (TTP) arrangement will be agreed between your business and HMRC. This is commonly used to give you an extended period to make taxation payments and penalty fees if they appear to have a sizeable strain on your company's revenue. Note that the TTP arrangement is negotiable and you can request to extend the period at any time.

PAYE penalties

PAYE payments are usually made to HMRC either monthly or quarterly, meaning there is a higher chance of you being caught out for late or incorrect payments. Additionally, the PAYE scheme becomes an umbrella when it comes to penalties, as it covers a multitude of different forms of taxation and fees that your business might need to pay. Late or inaccurate charges can be placed on any of the following:

- your monthly/quarterly PAYE fees;
- Class 1A and 1B NICs, and any decisions around those;
- your – or an employees' - student loan;
- Construction Industry Scheme (CIS) deductions.

Much like the VAT penalty scheme, fines toward late and inaccurate PAYE payments work on a 'default' process: the larger number of defaults you gain, the higher penalty fee you will have to pay. Note: for your first mistake or late payment, you do not gain a default.

No. of defaults	Percentage fee (of that month's/quarter's taxed amount) added
1 to 3	1%
4 to 6	2%
7 to 9	3%
10 or more	4%

Although it may appear that the penalties are not too taxing - only valued at a few percent of your business's total due PAYE payments for that month – it can really add up over time, especially since PAYE is a form of tax you may be paying 12 times a year.

The percentage fees above also apply for inaccurate payments, however, if the full amount of taxation is not paid within six months, you will be charged an additional 5% on top of the current penalty amount. Furthermore, if you do not make payments within 12-months, a 5% will be added again.

For taxation that is due annually or at less frequent periods, such as payments for Class 1A and 1B NICs, penalty fees are different. These fines work in increments of five:

- for a penalty late by 30 days, a 5% penalty is charged;
- an additional 5% is charged if payments are not sorted within six months;
- and a further 5% is charged if payments are not made within 12-months.

Like all other forms of penalties issued by HMRC, you can appeal the decision in writing.

Claim a refund

On a slightly brighter note, if you end up paying too much taxation to HMRC via a miscalculation on either your or their part, you can claim a refund. Typically, HMRC will inform you using the P800 tax calculation letter if a mistake has been made in your tax return, this will also outline whether your business is liable for a refund. You can send a written letter to HMRC arguing that you deserve a tax rebate – to which they may – or may not – grant you a refund. Note: you can claim the refund online, by writing to HMRC or over the phone.

Additionally, you may be also due a tax rebate for several different reasons, including the following:

- you have stopped work;
- you used your own money for your job – ie. to purchase fuel;
- you are a UK resident with a foreign income or a non-UK resident with a UK income.

After you provide HMRC with all the relevant information, for example for UTR if your company is liable for VAT, then they will refund your business either via a cheque in the post or a payment directly into your bank account.

So, there you have it: Smarta's guide to all things tax has come to an end. We hope that within these comprehensive pages you have found all the answers to any questions you must do with tax and your small business. However, as with most things, there is still more to learn before you become a full-fledged expert on the UK system of taxation for independently owned businesses.

Our team at Smarta Tax Services will be happy to talk through tax and accounting for your business.

Further reading and references

In this section, we have put together a list of the best resources that are set to help you and your small business grow, and answer any further questions you might have about taxation.

Smarta Tax Services

Smarta Tax Services will provide you with a personal experience with a dedicated Accountant that will ensure you keep track of day to day operations of your business, and you've completed all areas required to comply with HMRC and Companies House. Our trusted accountancy software allows transparency and you'll have 24/7 access online, so you can keep track of your business performance.

www.smarta.com/blog/

Smarta's blog has thousands of articles to help you in your business endeavours. We would recommend our content on how to find accountant, helping your business with tax.

www.gov.uk

The UK's government's website also has guides to help you and your business, additionally, here, you can use HMRC's online portal to pay tax.

www.which.co.uk/money/tax

Which? also offers many different guides to help you save and spend money appropriately; their few guides on taxation go into intimate detail.

The Daily Telegraph Guide to Tax

Every year the Daily Telegraph publish an in-depth guide to taxation with all the dates and changes made to the taxation for that specific. Usually, they are published in May so, it is worth looking out for the 2018 edition in a few months.

www.uktaxcalculators.co.uk

This site is updated yearly to accurately calculate the amount of any form of tax your business may own.

www.taxguideforstudent.org.uk

The Tax Guide for Students is a site that provides information for university students on taxation, how much they should be paying and if they appeal to HMRC for any reductions. The information they create will be extremely beneficial if you are a student looking to start your own business whilst in education.

www.taxcafe.co.uk

Tax Café is an award-winning website that focusing on the UK tax system – it is of particular use for information about property tax and letting.

www.moneysavingsexpert.com

Martin Lewis offers plentiful advice on all things monetary including tax. Although his guides are quite simple and largely aimed at families, it's worth a look.

www.cartaxguide.co.uk

It does what it says on the tin: the Deloitte Car Tax Guide offers users all the information they could want about the taxation of company cars, including a calculator to help you avoid penalties for inaccuracy.

The Bloomsbury Professional Tax Guide 2017/18

Published bi-annually, The Bloomsbury Professional Tax Guide provides a more complex analysis of UK and global taxation.

www.taxaid.org.uk

TaxAid offers help to anyone with tax-related problems; while their site has blogs on tax, they also provide volunteer helpline advisors who can sort out your problems over the phone.

www.searchaccountant.co.uk

This directory allows you to search for the best accountants up and down the UK, to help with your business's tax returns.

www.tax.org.uk

The Chartered Institute of Taxation is British NGO whose members are all highly qualified in dealing with any tax-related issues.

Glossary of acronyms

HMRC: Her Majesty's Revenue and Customs

VAT: Value-added tax

GST: goods and services tax

NI: National Insurance

NICs: National Insurance Contributions

PAYE: pay as you earn

FPS: Full payment submission

CGT: Capital Gains Tax

SDLT: Stamp Duty Land Tax

PLC: Private Limited Company

UTR: Unique taxpayer reference

LLP: limited liability partnership

PSC: personal service company

AIA: Annual investment allowance

ISA: Individual savings account

NGO: non-governmental organisation

DOR: Debt Order Relief

NT: Nil Tax Code

IPA: Income payment agreement

IPO: Income payment order

PLR: Potential loss revenue

TTP: time-to-pay

CIS: Construction industry scheme

Find out more at
tax.smarta.com

Smarta
TAX SERVICES