

Academic Year 2009/2010

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**Accounting  
Technicians  
Ireland**

# Taxation

Northern Ireland



## CHAPTER 1: Administration and Procedures

This chapter will provide students with a broad understanding of the UK AND Northern Ireland tax system. Throughout this chapter the focus will be on the following syllabus areas:

<b>Syllabus Topic</b>
<b>Overview of the Operation of Revenue Authorities and Sources of Tax Legislation:</b>
<ul style="list-style-type: none"> <li>○ Overview of tax legislation, including Taxes Acts, Taxes Management Act, Budget Day, Finance Bill and Finance Acts</li> </ul>
<ul style="list-style-type: none"> <li>○ Role of HM Revenue &amp; Customs in particular General and Special Commissioners, HM Inspector of Taxes and Collector of Taxes</li> </ul>
<b>Self Assessment System:</b>
<ul style="list-style-type: none"> <li>○ Definition of chargeable person for the purposes of submitting income tax returns</li> </ul>
<ul style="list-style-type: none"> <li>○ Obligation to submit personal tax returns</li> </ul>
<ul style="list-style-type: none"> <li>○ Due dates for the submission of returns</li> </ul>
<ul style="list-style-type: none"> <li>○ Consequences for the late submission of income tax returns</li> </ul>
<b>Due Date for Payment of Taxes:</b>
<ul style="list-style-type: none"> <li>○ Calculation of tax due, due dates for payment and payments on account</li> </ul>
<ul style="list-style-type: none"> <li>○ Consequences of failing to adhere to payment dates for tax due</li> </ul>
<ul style="list-style-type: none"> <li>○ Completion and submission of returns online</li> </ul>
<b>Procedures for Raising Assessment and Collection of Taxes</b>
<ul style="list-style-type: none"> <li>○ Procedures for the raising of assessments</li> </ul>
<ul style="list-style-type: none"> <li>○ Collection of taxes</li> </ul>
<b>Appeal Procedures</b>
<ul style="list-style-type: none"> <li>○ Appeal procedures up to hearings before the General or Special Commissioners</li> </ul>
<b>Ethical Issues and Responsibilities Accruing</b>
<ul style="list-style-type: none"> <li>○ Relevant professional ethical issues</li> </ul>
<ul style="list-style-type: none"> <li>○ Communication with relevant parties in writing in a professional manner</li> </ul>

## UK Tax System

Central Government raise revenue through a wide range of taxes. The Treasury formally imposes and collects taxation. The management of the Treasury is the responsibility of the Chancellor of the Exchequer. Her Majesty's Revenue and Customs (HMRC) carries out the administration function for the collection of tax.

HMRC staff are referred to as "Officers of the Revenue and Customs". They are responsible for supervising the self assessment system and agreeing tax liabilities.

General Commissioners are appointed by the Lord Chancellor to hear appeals against decision which have been made by HMRC. Each division / local area is allocated a General Commissioner.

Special Commissions, also appointed by the Lord Chancellor, hear more complex appeals. Unlike General Commissioners, these officers are full time, paid professionals.

A summary of the main taxes is shown below, together with the statute law governing the tax:

<b>Tax</b>	<b>Type</b>	<b>Tax Payer</b>	<b>Statute Law</b>
<b>Income Tax</b>	Direct Tax	Individuals Partnerships	Income and Corporation Taxes Act 1988; Income Tax (Earnings and Pensions) Act 2003; Income Tax (Trading and Other Income) Act 2005; Income Tax Act 2007; Capital Allowances Act 2001

<b>Corporation Tax</b>	Direct Tax	Companies	Income and Corporation Taxes Act 1988; Capital Allowances Act 2001 Taxation of Chargeable Gains Act 1992
<b>Capital Gains Tax</b>	Direct Tax	Individuals Partnerships Companies	Taxation of Chargeable Gains Act 1992
<b>Inheritance Tax</b>	Direct Tax	Individuals	Inheritance Tax Act 1984
<b>National Insurance Contributions</b>	Direct Tax	Individuals	Social Security Contributions & Benefits Act 1992
<b>Value Added Tax</b>	Indirect Tax i.e. it is charged on the final consumer	Businesses	Value Added Tax Act 1994

These statutes are updated every year by the Annual Finance Act. The Finance Act incorporate the proposals set out in the Budget. These statutes set out the general rules for the application of each tax; however there is no single source of UK tax law. Therefore HMRC also provide the following guidance on the application of statutes:

- Statements of Practice – set out how the law will be applied in practice.
- Extra-statutory concessions – set out circumstances in which HMRC will not apply the law strictly, as it would create hardship or be unfair.
- Leaflets – aimed to provide the general public with a non-technical explanation of how the tax system works.
- Business Economic notes – notes on a particular industry which are used by HMRC and are published for general knowledge.
- Internal guidance – a series of internal manuals are used by HMRC staff for guidance.
- Tax bulletins and press releases – these are issued throughout the year and a range of issues and offer HMRC's opinion on certain issues.

On occasions where taxpayers and tax authorities cannot agree on the interpretation of the tax Acts, the case is brought to court. The outcome of the case forms an important point of law and becomes a precedent which may be referred to in subsequent cases.

### **Self Assessment System**

The self assessment system for individuals, including businesses is dealt within this Chapter. The self assessment system for companies is dealt with in Chapter 9.

The self assessment system places reliance on the taxpayer to file a tax return and to pay any tax due. The system is enforced by penalties and interest charges for failure to submit returns within the relevant period.

Many taxpayers earn income from a limited number of sources and the income can all be taxed at source i.e. through PAYE system or by a bank deducting tax at source on interest. These tax payers do not have to complete tax returns as the tax has already been collected. Generally, individuals who are self employed, company directors or who have complicated tax affairs, are required to complete a tax return.

The tax return is prepared by a taxpayer or their agent, and then is submitted to HMRC for checking along with any outstanding liability. Alternatively, taxpayers can choose not to perform the calculation and HMRC can advise them of their tax liability.

Once the taxpayer is within the self assessment system, they will be required to submit a tax return each year until HMRC decide that their tax affairs are straightforward and that a tax return is not required.

Taxpayers whose tax affairs have become more complicated and believe they may have an additional tax liability are obliged to notify HMRC within six months of the end of the tax year. An individual is not chargeable if all of the following are satisfied:

- All income is taken into account under PAYE
- The individual does not have any capital gains
- The individual is not a higher rate tax payer
- Income tax has been deducted at source

## **Tax Returns**

A taxpayer is issued with a formal notice requesting them to prepare and submit a tax return to HMRC. The tax return is posted to relevant taxpayers and comprises a six page form. The tax return is called a Form SA 100. It may contain supplementary pages for particular sources of income if HMRC believe they are relevant to the tax payer.

Tax returns can be completed and filed electronically using the HMRC Online service; this process is known as “Filing by Internet” (FBI). Tax payers with simple tax returns may be asked to submit a short return of four pages. The short return must be submitted in paper format.

Partnerships must submit a separate return containing a partnership statement, showing all sources of income and expenses in the year. Each partner must include their share of the partnership profits in their personal tax return.

Tax returns must be completed in full and cannot be submitted with outstanding information.

An overview of the main tax forms is provided below. Students may be asked to complete these forms in the examination.

- **Form SA 100** – a taxpayer must use this form to return information on their taxable income and capital gains. The information to be completed in this form in each of the relevant sections of this form is set out below:
  - Personal Details
  - Selection of applicable supplementary forms
  - Student loan repayments
  - UK interest and dividends
  - UK pension
  - Other UK income not on supplementary forms
  - Tax reliefs – registered pension schemes and charitable giving
  - Blind person's allowance
  - Service companies
  - Tax due/refunded – bank details
  - Agent details
  - Other information
  - Signature and declaration

- **Form SA 101** – a taxpayer must use this form to return information on the less common types of income, deductions and tax reliefs, and for other information. The information to be completed in this form in each of the relevant sections of this form is set out below:
  - Other UK income (stock dividends, life insurance gains)
  - Share schemes, employment lump sums, compensation and deductions
  - Other tax reliefs
  - Age related married couple allowance
  - Income tax losses
  - Pension details
  - Tax avoidance schemes
  - Additional information
  - Personal details
  
- **Form SA 103** – a taxpayer must use this form to return details of income from self employment. The information to be completed in this form in each of the relevant sections of this form is set out below:
  - Business details
  - Other information i.e. changes to accounting dates
  - Business income
  - Business expenses
  - Net profit or loss
  - Capital allowances
  - Calculating taxable profit or loss
  - Losses
  - Construction Industry Scheme deductions and tax deducted
  - Balance sheet
  - Class 4 National Insurance Contributions
  - Any other information

- **Form SA 105** – a taxpayer must use this form to return details of UK property income. The information to be completed in this form in each of the relevant sections of this form is set out below:
  - UK property details
  - Furnished holiday letting details
  - Furnished holiday letting losses
  - Property income
  - Property expenses
  - Calculating taxable profit and loss.
  
- **Form SA 108** – a taxpayer must use this form to return details of UK property income. The information to be completed in this form in each of the relevant sections of this form is set out below:
  - Summary of enclosed computations (gains and losses)
  - Listed shares and securities
  - Unlisted shares and securities
  - Property and other assets and gains
  - Any other information

### **Due Date for Submission of Tax Returns**

Tax returns, including supplementary forms must be submitted by:

- 31 October following the relevant tax year, if submitted in paper format.
- 31 January following the relevant tax year, if submitted in electronic format.

There are two exceptions to this:

- If HMRC did not issue notice to file a tax return until after 31 July, the latest filing date for paper returns is three months from the date of the notice. The date for electronic filing remains 31 January.

- If the notice to file a tax return was not issued until after 31 October, the latest filing date is three months from the date of the notice.

Penalties are imposed if tax returns are submitted after the “filing date”, which is generally 31 January. These penalties are detailed below:

<b>Tax Return Submitted</b>	<b>Penalty</b>
Up to 6 months late	£100
More than 6 months late but less than 12 months late	£200
More than 12 months late	£200 + 100% of the tax liability

It may also lead to the taxpayer becoming liable to interest and surcharges on overdue tax.

HMRC can correct obvious errors in a tax return within nine months if they believe it to be incorrect. If the taxpayer does not agree with HMRC’s decision, they can object within 30 days and an enquiry into the return will occur.

A taxpayer may correct their return or tax liability within twelve months of filing the return. If the individual believes that there is an error in the tax return which has significantly over stated the tax liability, they can submit an error or mistake claim within five years after the filing date.

### **Due Date for Payment of Tax Liability**

The tax due in relation to self assessment is payable in the form of payments on account and a final balancing payment. The payments are due as follows:

<b>Date</b>	<b>Payment</b>
31 January in the tax year	1 <sup>st</sup> payment on account – 50% of previous year’s liability

31 July following the tax year	2 <sup>nd</sup> payment on account – 50% of previous year's liability
31 January following the tax year	Final payment to settle any remaining liability

Payments on account (POA) are not required if the liability is below £500. Also, payments on account are not required if 80% or more of the liability for the previous year was paid through PAYE or otherwise deducted at source.

POAs are usually fixed on the previous year's liability, however if the tax payer believes their liability will be lower this year they can claim to have the POA reduced.

### Interest and Surcharges on Late Payment

Interest may be charged on late payment of POAs and balancing payments. The interest rate will be given in the exam and it runs from due date i.e. 31 January to the day before the actual date of payment.

Surcharges are imposed on the late payment of tax and apply to:

- Balancing payments
- Tax due on an amended tax return
- Tax due on a discovery assessment by HMRC

The surcharge percentages are:

<b>Paid</b>	<b>Surcharge</b>
Within 28 days of due date	None
More than 28 days but less than 6 months after the due date	5%
More than 6 months after the due date	10%

## Enquiries

HMRC officers are empowered to enquire into any tax return. The most common reason for an enquiry is that HMRC suspect that something is wrong with the return submitted. However, officers can also select cases at random and HMRC are not required to justify the reason for the enquiry.

The window of opportunity for HMRC to commence an enquiry is limited to 12 months from the return is filed. If the return was filed late or an amended return was submitted, the deadline is extended until the quarter day following the first anniversary of the actual filing date. Quarter days are 31 January, 30 April, 31 July & 31 October.

## Discovery Assessments

HMRC may raise a discovery assessment if it is discovered that full disclosure was not made on a tax return and a result tax has been lost. The time limits for raising discovery assessments are:

- If due to fraud or negligence - 31 January in the twenty first tax year following the year to which the assessment relates.
- If due to incomplete disclosure without fraud or negligence – 31 January in the sixth tax year following the year to which the assessment relates.

## Determination

A HMRC officer can make a determination of tax due if an individual ignores the notice to submit a tax return. The officer can determine the tax liability to the best of information and belief within five years of the due date. A determination cannot be appealed or postponed. It can only be displaced if the individual submits their tax return.

## Records

Taxpayers are required to keep proper records so they can make a correct return. Taxpayers in business or who let property must keep records for five years of the date the return was made. In other cases, the records must be kept for 12 months of the return date. So for 2009/10 the limits are:

- If individual in business or property rental – 31 January 2016
- Otherwise – 31 January 2011

## Appeals

Under self assessment, a taxpayer has the right to appeal HMRC decisions. Appeals are normally made against a discovery assessment or against an amendment by HMRC to an assessment. Appeals must be in writing and within 30 days of the HMRC decision. The taxpayer can apply to postpone payment of all or part of the tax assessed, pending settlement of the appeal.

Most appeals are settled by informal discussion between HMRC and the taxpayer, however appeals can be referred to the General Commissioners or the Special Commissioners. The appeal commissioner may confirm, reduce or increase the assessment. The taxpayer or HMRC can take their appeal further, first to the High Court, then Court of Appeal and finally The House of Lords.

## Ethics & Communication

All accounting technicians should comply with the following five fundamental principles:

- 1. Integrity** – accounting technicians should be straightforward and honest in all professional and business relationships. They should not be associated with any reports or documents they believe may be materially false or contain misleading statements.

2. **Objectivity:** accounting technicians should be fair and should not allow bias, conflict of interest or undue influence of others to override professional or business judgements.
  
3. **Professional Competence and Due Care:** accounting technicians have a continuing duty to maintain professional knowledge and skill at a level required to ensure that a client or employer receives the advantage of competent professional service based on current developments in practice, legislation and techniques.

#### 4. **Confidentiality**

Accounting technicians should respect the confidentiality of information acquired as a result of professional and business relationships and should not disclose any such information to third parties without proper specific authority or unless there is a legal or professional right or duty to disclose. There are certain circumstances where disclosure by accounting technicians is specifically required by law. Examples of these circumstances are:

- Producing documents or giving evidence in the course of legal proceedings.
- Disclosing to the appropriate public authorities infringements of the law. Specific examples of this are money laundering or failure to disclose sources of income to HMRC – for example an individual may not disclose rental income they receive to HMRC. The relevant pieces of legislation are Money Laundering Regulations 2003, The Proceeds of Crime Act 2002 (as amended), Serious and Organised Crime and Police Act 2005 and the Terrorism Act 2000 (Business in the Regulated Sector and Supervisory Authorities) Order 2003. These pieces of legislation require accounting technicians to report to the appropriate authorities any suspicions they have formed in relation to money laundering offences and financing of terrorism offences. Accountancy

practices are required to establish specific procedures for the identification and prevention of money laundering.

When the accounting technician has determined that the confidential information can be disclosed, the following points should be considered:

- Whether all the relevant facts are known and substantiated, when the situation involves unsubstantiated fact or opinion, professional judgement should be used in determining the types of disclosure to be made, if any.
- What type of communication is expected and to whom it will be communicated.
- Whether or not the accounting technician would incur any legal liability having made a communication.

**5. Professional Behaviour** – Accounting technicians should comply with relevant laws and regulations and should avoid any action that discredits the profession.

## Chapter Summary

- HMRC carries out the collection of taxes.
- There is no single source of UK tax law; however statutes, statements of practice, extra-statutory concessions, leaflets, business economic notes, internal guidance and tax bulletins are all used to impose taxes
- There are two types of taxes: direct and indirect.
- Direct taxes are charged on income, profits and other gains; they include income tax, capital gains tax, corporation tax etc.
- Indirect taxes are taxed on spending; they include VAT and stamp duty.
- The tax year runs from 6 April to 5 April the following year.
- Self assessment relies on taxpayers to submit accurate and complete tax returns and supplementary pages.
- HMRC check the tax liability submitted through self assessment.

- Paper tax return must be submitted by 31 October following the tax year; electronic return are due on 31 January following the tax year.
- Payments on account are due on 31 January in the tax year, 31 July in the tax year and the balancing payment is due 31 January following the tax year.
- Penalties are payable on late submission of tax returns. Interest and surcharges may be imposed on the late payment of income tax.
- HMRC can make enquiries, discovery assessment and determinations on a taxpayer.
- All taxpayers have the right of appeal.
- All accounting technicians should comply with five fundamental principles.

## SAMPLE QUESTIONS & SOLUTIONS PROGRAMME

The following questions examine the key areas you are expected to know for this particular subject, and will assist you significantly in your preparation for your examination in May/August 2010. In addition to the questions below, please also refer to the Summer 2009 examination paper which is contained in this manual for your reference. Pilot papers for this subject can be downloaded from [www.AccountingTechniciansIreland.ie](http://www.AccountingTechniciansIreland.ie)

### Question 1:

You have been asked to draft a memo to a new client outlining the Key Self Assessment tax return filing and payment deadlines together with the associated late return and late payments penalties that may be levied.

### Question 2:

**(Pilot Paper 1 2008/09)**

Sammy Silkstone is a client of your firm, and as such you prepare both personal tax returns (Form SA) for her and also prepare the Corporation tax return for the company she owns – Silky Fabrics Ltd. One of Sammy's friends has recently been the subject of an enquiry into their tax affairs by HM Revenue & Customs and she is now expressing concern that either her or Silky Fabrics Ltd's recent returns could also be subject to an enquiry.

Sammy Silkstone has asked you to explain the rules in respect of such enquiries to her.

### Requirement

Write a letter to Sammy Silkstone, in which you set out the tax position in respect of an enquiry carried out by HM Revenue & Customs. This letter should cover the following areas:

- (a) The scope of enquiries
- (b) The time limit for enquiries
- (c) HM Revenue & Customs entitlement and power to call for documents
- (d) The amendment of returns during enquiries
- (e) The completion of enquiries
- (f) The right of appeal
- (g) Payment of tax, interest and penalties

**Question 3:**

**(Pilot Paper 3 2008/09)**

You are an assistant working for a small accountancy practice in Coleraine, County Antrim. The partner Mr Woolley has recently seen a potential new client called Sidney Messer and has provided you with the following information.

Sidney Messer came to see Mr Woolley because a friend of Sidney's thinks that he may have a tax problem. For a number of years now, Sidney Messer has been in receipt of rental income from an investment property which he owns. He has never disclosed the income arising from this property to HM Customs & Revenue however, nor has he ever paid any tax on it. Sidney Messer has told the partner that he believed that he was not obliged to pay tax on the income because HM Revenue & Customs had never asked him to complete a tax return or sent him a demand for any tax due.

**Requirement**

Draft a letter to Sidney Messer, explaining his tax position. This letter should deal with the following areas:

- (a) His general obligation under the Tax legislation to report untaxed income to HM Revenue & Customs.

**5 Marks**

- (b) Possible consequences in terms of interest & penalties on any undisclosed income.

**5 Marks**

- (c) How many years HM Revenue & Customs can go back into the past in assessing this income?

**4 Marks**

- (d) Prepare a memo to the partner detailing the firm's obligations to make a full report to the Serious Organised Crime Agency (SOCA) and the ethical position of the practice if Sidney Messer decides not to make a full disclosure of this previously undisclosed income to HM Revenue & Customs.

**6 Marks**

**Total 20 Marks**

**Question 4:**

Mrs Molloy receives following income for the year ended 5 April 2010:

	£
Income:	
Occupational pension.....	15,920
Retirement pension .....	4,716
Rental income .....	3,500
Bank deposit interest standard deposit account (net)	2,300
Dividends from UK Trading company (net) .....	240

**Requirement:**

Outline the tax obligations under self assessment of Mrs. Molloy.

Solutions to the chapter questions above will be available online for students from January 2010 (in order to have provided you with sufficient time to have covered certain parts of the course.)

For those of you of wish to attempt any of the above chapter questions (and without looking at the solutions online!), you can email your answers to [solutions@accountingtechniciansireland.ie](mailto:solutions@accountingtechniciansireland.ie) from January 11<sup>th</sup>, 2010. Detailed feedback\* will be provided to you within 3 working weeks of receipt. (These questions will not in any way count towards your summer examination marks.) This is a free service to our students and you are strongly advised to avail of it as past students have noted the benefits.

*\* Proof of purchase of this manual may be required.*