Guide

Get Self Assessment right each time

Answers for real world questions for the self-employed, landlords, company directors, investors, and more.

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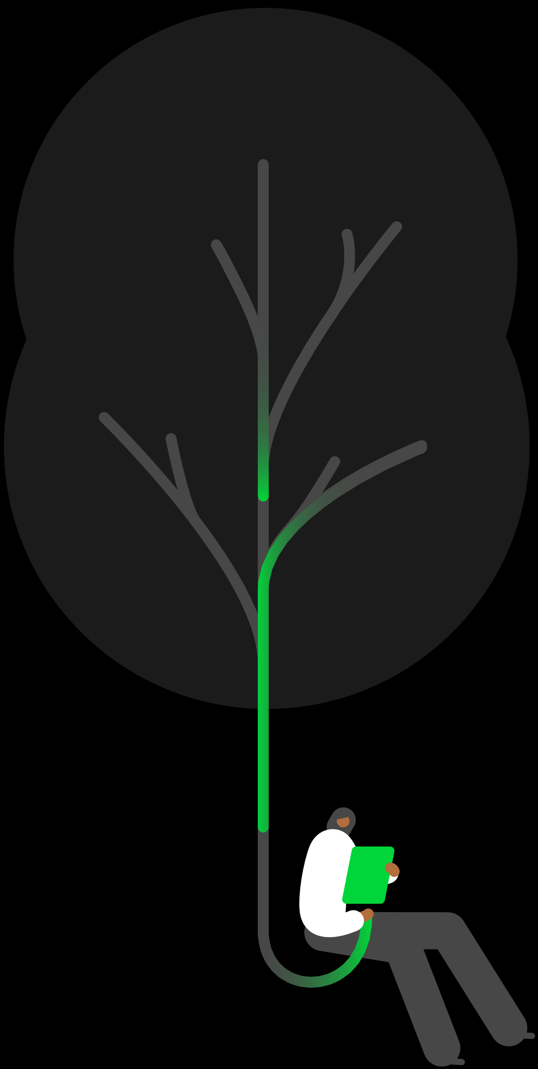


Say hello to a better tax year

Once you've submitted your Self Assessment tax return, it can be tempting to forget all about taxes for another year.

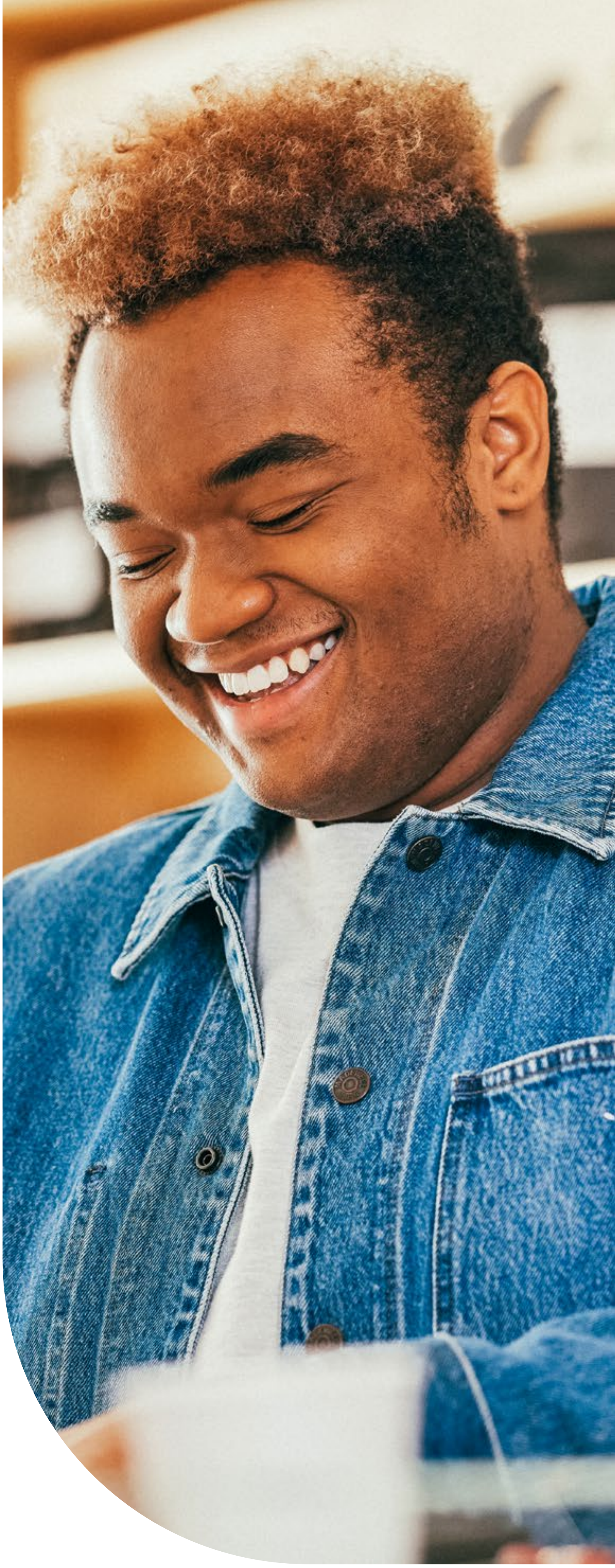
But a little preparation over the course of the year can make life so much easier when the **31 January deadline is looming**.

In this guide, Sage experts answer real-life questions about completing Self Assessment returns and dealing with other aspects of income tax. These queries came from sole traders, landlords, property owners, company directors, investors, and others.

The answers provide a valuable education in the important everyday details of being self-employed and dealing with income tax.

If you spend a little time brushing up, you can be safe in the knowledge that you're doing things correctly and won't face any nasty surprises when it's next time to complete your Self Assessment tax return.

Learn more about Self Assessment **here**.



Property income

Individuals who let their property may need to declare the rental income on their Self Assessment return, pending the introduction of Making Tax Digital in 2026 —see **Page 9**.

You need to declare property income even if you own just a share of a property, or if you rent out part of your home.

However, if you rent out a room, and use the Rent a Room scheme, then the income may be wholly or partly exempt. If in doubt, consult an accountant.

Below, we have some questions people asked our experts about property income.

"What are the deadlines for income from rental property?"
For rental income from property that you own (either in whole or part), the deadline for filing your Self Assessment return and paying any tax or National Insurance due is 31 January each year. This deadline is the same for anyone using Self Assessment.

The deadline is earlier if you want to submit a paper tax return instead of sending it online. If you are sending a paper tax return, it must be with HMRC by midnight on 31 October.

During the pandemic, you might've heard that HMRC extended the Self Assessment deadline to the end of February instead of 31 January. But this was only a temporary measure in response to issues caused by the pandemic. It no longer applies.

The deadline for filing your Self Assessment return and paying any tax or National Insurance due is **31 January each year.**

"What are some examples of allowable expenses for a rental property?"
Allowable expenses can often be used to reduce your tax bill.

When it comes to property income for Self Assessment, the rules say expenses are those wholly and exclusively incurred for the purposes of renting out your property. This doesn't include improvements, but it does include general maintenance and repairs.

In other words, you can't upgrade a property's windows and doors to double glazing and then claim this as an expense. However, you can replace a window if it gets broken and claim that cost as an expense. This expense would include the cost of any parts, as well as the labour costs of the professional who fixed it, such as a glazier.

But what if you take the opportunity to replace the broken single-paned window with a double-glazed unit? In that case, you can only claim the equivalent cost of replacing the single-paned window as an expense. If the cost of the double-glazed window is £300, and an average quote is £100 for simply replacing the existing pane of glass, then you should claim £100 as an expense.

Here's some examples of expenses you can claim outside of general maintenance and repairs. Remember that these have to be things you pay for yourself:

- Utility bills, such as water, gas, and electricity. Council tax can also be claimed.
- Landlord's buildings and contents insurance, or public liability insurance.
- Costs for services like gardening (e.g. wages or fees).
- Letting and management agency fees.
- Accountant fees (but usually not for preparing the Self Assessment return itself).
- Legal fees but only for lets of one year or less.
- Legal fees for renewing a lease but only for less than 50 years.
- Ground rents and service charges.
- Rent costs you pay if you're subletting to another person.

“I started investing in properties with a business partner who’s not married or in a civil partnership with me. I own 75% of the properties, and he owns 25% of the properties. What are the ways we can allocate rental income?”
Usually, you pay income tax on your share of the rental income. This is measured by your share of the ownership.

Even if you don’t own the entirety of a property (or property portfolio), you’re considered to be running your own rental business and must declare income tax accordingly.

In other words, if you own 75% of a property, then you will probably receive 75% of the property rental. Therefore, you should declare this 75% of the rental income for income tax.

Alternatively, you might agree a different split for the rental income with your business partner. You might own 50% but agree that they receive 80% of the rental income. In this case, you would declare income tax on the 20% you receive.

So long as the other individual is genuinely receiving 80%, and you’re receiving 20%, then you don’t need to take any special measures.

However, it gets a little more complicated if you also own 100% of a property (or properties) as well as owning a share in a property (or properties) with a business partner. In this case, the income from the shared ownership is considered a discrete rental business and should be declared separately from your own 100% ownership property income.

“What’s a Form 17 for tenants-in-common?”
If you own property jointly with a spouse or civil partner, the basic rule is that the income is split 50/50 for taxation purposes. So, if the rental income is £15,000, you would declare £7,500 for income tax, as would your partner.

But what if you own 20% of the property, while your spouse or civil partner owns the remaining 80%?

In this case, you can declare just 20%—known as the “actual basis” for taxation. However, you’ll need to let HMRC know about the ownership arrangements. This is what Form 17 is for. Its official title is “Declaration of beneficial interests in joint property and income”. You’ll need to provide proof of your split ownership, such as a declaration or deed for the property.

Form 17 is a declaration of beneficial interests in joint property and income.

Foreign income

Receiving money from non-UK sources can present issues when it comes to income tax and Self Assessment. Here's answers to some frequent questions.

"I work from the UK as a contractor for overseas companies. Do I need to declare income from these jobs in the UK?"
The generally accepted rule around the world is that you're taxed where the work takes place. So, if you're working in the UK—despite it being for a company based elsewhere—then you're taxed in the UK.

If you're self-employed then you'll need to declare these earnings for income tax purposes. If you contract as a personal services company (PSC) then you'll need to observe the same tax requirements as if contracting for a UK organisation.

“What’s arising basis of taxation for those domiciled in the UK?”
If you’re a resident in the UK and domiciled here—or are deemed domicile by the UK government—then you have to pay tax on all your income. This includes income from other countries, even if you haven’t brought that money into the UK.

This is known as the arising basis of taxation. While it can create administrative issues around being taxed in two countries (double taxation), from the perspective of income tax, you get to access the personal allowance threshold. In other words, for the year 2021/22, you won’t pay income tax on the first £12,570—even if all your income originated outside the UK.

If you’re not domiciled in the UK, but are resident here, then you usually pay tax only on UK income as well as any foreign income that you bring into the UK from abroad.

Because you’re taxed on money you’re remitting into the UK, this is known as the remittance basis.

“Will I be double taxed because of the arising basis of accounting? What can I do not to be?”
While wealthy individuals sometimes opt to move around the world to avoid being considered resident for tax purposes, this simply isn’t an option for most of us.

There are typically two routes forward, depending on your circumstances.

The first and perhaps best route takes advantage of the fact the UK has double taxation agreements with many countries. These are a form of tax treaty intended to prevent individuals and companies being double taxed.

It may involve applying for tax relief before you get taxed in the non-UK country. To do this, you’ll need to enquire with that country’s tax authority and fill in the required form. But you‘ll first need to get proof from HMRC that you’re a tax resident in the UK.

If you’ve already been taxed in the non-UK country, you can try and claim Foreign Tax Credit Relief in the UK. This involves declaring the non-UK tax paid on your tax return. How much tax relief you get depends on the country where you were already taxed.

The second route is to claim the foreign tax as an expense to reduce the profit from the foreign source of income. This isn’t as effective as a tax credit relief claim but is an option if there is no double tax agreement in place, or if you intend to increase a loss.

Making Tax Digital

Arguably the biggest tax shake-up in a generation, Making Tax Digital (MTD) is already revolutionising the finances of individuals and businesses. Here are some questions our experts were asked about MTD.

"What's the present timeline for Making Tax Digital as a sole trader?"
There are several different phases of MTD. Each affects only one kind of tax. Here's the key elements of the MTD timeline:

April 2019: MTD for VAT is introduced for VAT-registered businesses above the £85,000 registration threshold.

April 2022: MTD for VAT is expanded to all VAT-registered businesses, including those that voluntarily registered for VAT.

April 2026: MTD for Income Tax is introduced for sole traders and landlords with turnover above £50,000.

April 2027: MTD for Income Tax is introduced for sole traders and landlords with turnover above £30,000.

For many sole traders (e.g. tradespeople), MTD for Income Tax will impact them in April 2026 and will cover the tax year 2026/27.

However, if you're a sole trader and don't have a basis period that matches the tax year then some preparation will be required across 2023/24.

A basis period is the period for which you calculate your tax. Most sole traders simply use the tax year as their basis period (6 April—5 April), but some chose different basis periods when they initially went into business. HMRC has announced mandatory basis period reforms that mean, across 2023/24, such businesses will need to switch to using the tax year as their basis period. This will be done by extending the basis period for 2023/24 so it ends at the start of the 2024/25 tax year.

For many sole traders MTD for Income Tax will impact them in **April 2026** and will cover the **tax year 2026/27**.

"What is the first tax year I need to use software for Self Assessment?"
There's currently no requirement to use software for Self Assessment.

However, from 6 April 2026, Making Tax Digital will become mandatory for sole traders and landlords earning over £50,000. From then on, sole traders and landlords will be legally required to keep digital records and to use MTD-compatible software for their income tax reporting. This will replace the need for Self Assessment.

There may be a few fringe instances where somebody needs to use both MTD and Self Assessment, for instance those that have to report certain kinds of investment or pension interest.

"When will partnerships be affected by Making Tax Digital?"
Partnerships were expected to follow MTD for Income Tax but these proposals have been deferred to a later date, yet to be announced.

Other partnerships, such as Limited Liability Partnerships (LLPs) and those with a corporate member, are currently excluded.

Registration and first Self Assessment

Getting up and running with Self Assessment isn't always straightforward. Here's some questions and answers about the process.

"How do I check if I'm registered for Self Assessment?"
There's a couple of ways you can check that you're registered for Self Assessment.

Once you've registered, HMRC will contact you with your Unique Taxpayer Reference (UTR). Assuming you haven't set up a limited company, the fact you have a UTR is in itself proof you're registered.

You can check with HMRC if you've forgotten your UTR. You can also ask them to reactivate your Self Assessment account if you've previous asked them to deregister you (for example, if you moved to full-time employment).

If you know your UTR, then you can try logging into the Self Assessment government portal.

Again, being able to log in is proof that you're registered.

"If I go from being self-employed to employed, do I have to deregister?"
If you no longer need to declare any income outside of your full-time job then it makes sense to deregister from Self Assessment. If you don't, and subsequently fail to submit a Self Assessment tax return, then HMRC might penalise you.

However, it's entirely possible to continue to submit a yearly Self Assessment tax return despite being in salaried employment where PAYE is used for your tax and National Insurance contributions (NICs). You can submit a return even if you have no earnings to declare, and therefore no tax or NICs.

Individuals who earn above £100,000 per year must register for Self Assessment.

"What's the latest I can register for Self Assessment as a newly registered self-employed professional?"
The deadline for signing up is no later than 5 October in your second year of being a sole trader.

As an example, let's say you became a sole trader in June 2021. This means your first Self Assessment tax return will be for the 2021/2022 tax year. The Self Assessment return for this will be due by the end of January 2023, at the latest, which is well into your second year of trading. In this scenario, you will need to have registered for Self Assessment by 5 October 2022.

"I've recently become self-employed. How much income can I earn before I have to register for Self Assessment?"
Everybody is allowed up to £1,000 trading income before they must tell HMRC about it.

This is known as the trading allowance. After that first £1,000 you must register for Self Assessment—even if you're already employed in another capacity (e.g. working full-time for an employer).

You must register for Self Assessment even if you know your income will be below the income tax personal allowance, or the Primary Threshold for National Insurance.

Trading allowance:
Everybody is allowed up to £1,000 trading income before they must tell HMRC about it.

Payments on account

Making tax payments is made a little more complicated by the payments on account system. This means you must pay 50% of the estimated current year's tax bill in January, and then the remaining 50% in July, following the end of the tax year. Any balancing payments outside of these payments must be paid by the following 31 January, when you submit your Self Assessment tax return.

Here's some questions we've been asked about how payments on account work.

"Is payment on account mandatory or can I pay in full on 31 January?"
This question misunderstands the timings around payments on account.

The first payment on account, due on 31 January, is for half the estimated tax payment for the tax year you are in. For example, a payment due on 31 January 2022 is for the 2021/22 tax year that ends the following April 2022.

Therefore, paying in full on January 2022 is impossible. The tax year has not yet ended, so you do not yet know your earnings.

You may be required to make a balancing payment on 31 January, following the end of the tax year. Payments on account are based on your previous year's earnings, so if your profits grow, you may have to pay more tax that wasn't included in your payment on account estimate.

"What is the eligibility criteria for payments on account?"
If your combined tax and National Insurance bill is more than £1,000, it's very likely that your accountant or HMRC will request payments on account.

"My current tax year earnings are significantly lower than last year. How will this impact my payments on account?"
If you know your income is lower, then you can apply to HMRC to reduce your required payments on account. This reduction isn't guaranteed, but is likely.

Note that if you underpay, HMRC will charge you interest.

To reduce payments on account, you can get in touch with HMRC through your online Self Assessment account, or you can complete form SA303 and send it to HMRC via post.

Construction Industry Scheme (CIS)

The Construction Industry Scheme, or CIS, is a unique administrative burden that affects those working in construction—whether that's subcontracting, working as a contractor, or both.

However, with some basic knowledge of the rules and intelligent software, life can be made significantly easier.

"Can I submit monthly CIS 300 returns to HMRC using Sage Accounting?"
Yes, you can both create and submit a CIS 300 return in Sage Accounting, as follows:

1. Select Reporting.
2. Under Construction Industry Scheme Reports, select CIS Monthly Return & subcontractor statements.
3. Select a CIS Reporting Period (the start date will always be from 6th of the month and the end date to the 5th of the following month).
4. Select Create CIS Return.

“Can I use Sage Accounting to verify a subcontractor?”
Yes, Sage Accounting includes a tool that lets you connect to HMRC to verify a subcontractor is part of the CIS.

Here are the steps:

1. From Contacts, select Suppliers.
2. Select the subcontractor.
3. From the CIS tab, then the pencil icon.
4. Select Verify Details with HMRC. This takes you to the GOV.UK website where you can confirm if the subcontractor is registered and confirm their deduction rate.

“Do I have to register to CIS as a subcontractor?”
Yes. Often you can take care of this at the same time as you register for Self Assessment.

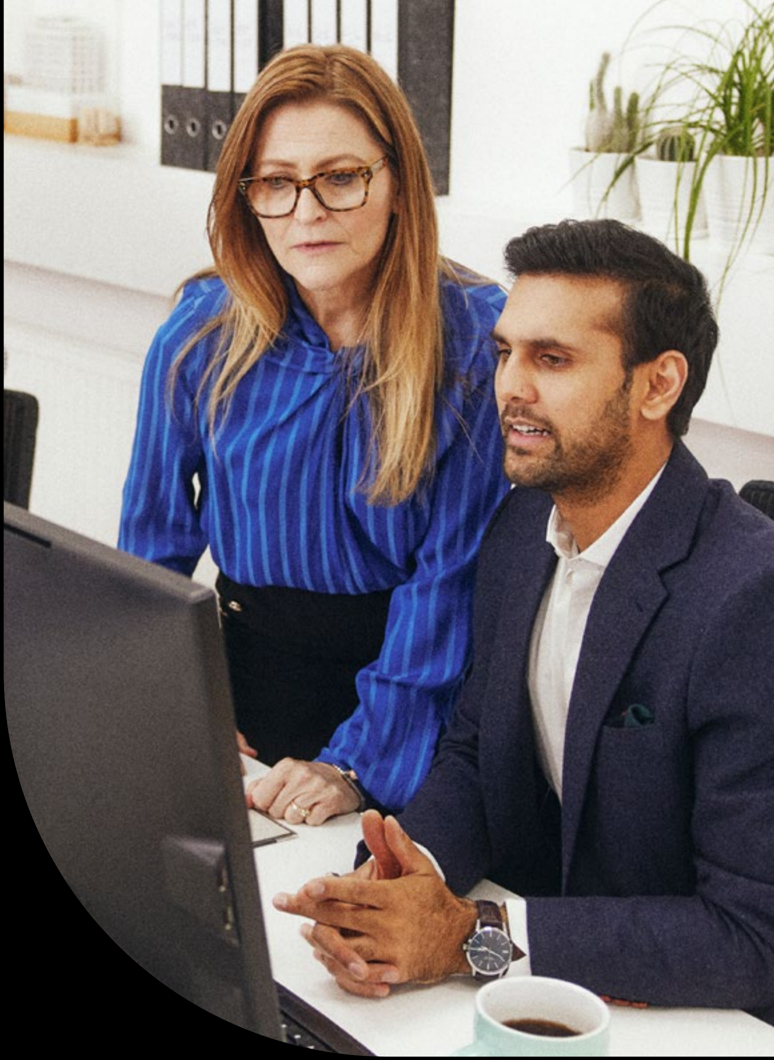
If you’re already registered for Self Assessment and want to register for the CIS as a subcontractor (or indeed, a contractor), then you can register online.

It’s worth noting that you can register for CIS as both a subcontractor and contractor if your role in various projects requires it.

“Do I have to register to CIS as a contractor?”
Yes. The contractor does most of the work under the CIS, such as collecting, reporting, and subsequently paying deductions from subcontractors on behalf of HMRC. You’re obviously unable to do this without being registered.

You should also register for CIS as a contractor if your business doesn’t undertake construction work, but you’ve spent over £3 million on construction in the last 12 months.

Collaborating with an accountant



Accountants are the perfect business partner. Yes, they can help ensure your taxes each year are accurate, but they also have extraordinary amounts of experience in everything from business growth, to capitalisation, to payroll.

Making good use of them is vital. Here are some questions we have been asked.

"How can I ensure I find a good accountant?"
Generally speaking the following can help find the right accountant for your business:

1. Get references and check accreditation. Speak to people in similar trades to your own if you can. Check they're part of a chartered body in the ICAEW (in the UK, anybody can call themselves an accountant).
2. Create a shortlist of candidates. Differentiating factors are likely to boil down to cost, and what they offer. Nowadays accountants aim to be a business partner as well as just the person you consult about taxes.

An accountant can pay for itself in terms of the savings they identify as expenses.

"My self-employment income is just a minimal increment to my income via regular employment. Should I still use an accountant?"
It's down to personal preference. It's often said an accountant can pay for itself in terms of the savings they identify as expenses. For example, if you work from home, they'll know just how much you can claim for heating and lighting. If you bought equipment or supplies for the work, they'll help you claim for those too.

Expenses can mount up invisibly in the background and can make all the difference on a small tax bill.

If your business grows then they're in an ideal position to help, too.

Self-employment and PAYE

Being both employed full-time and working for yourself can present issues when it comes to tax. Here are the answers to some frequently-asked questions.

"I am a PAYE employee but also have income from self-employment. Do I have to pay NI on my self-employment income or will it be just income tax?"
As a reminder, there are three main classes of National Insurance contributions (NICs) deducted for employment:

- **Class 1:** deducted by an employer as part of PAYE if you're earning more than the Primary Threshold.
- **Class 2:** due on self-employed profits of £6,515 or more.
- **Class 4:** due on self-employed profits of £9,568 for 2021-22.

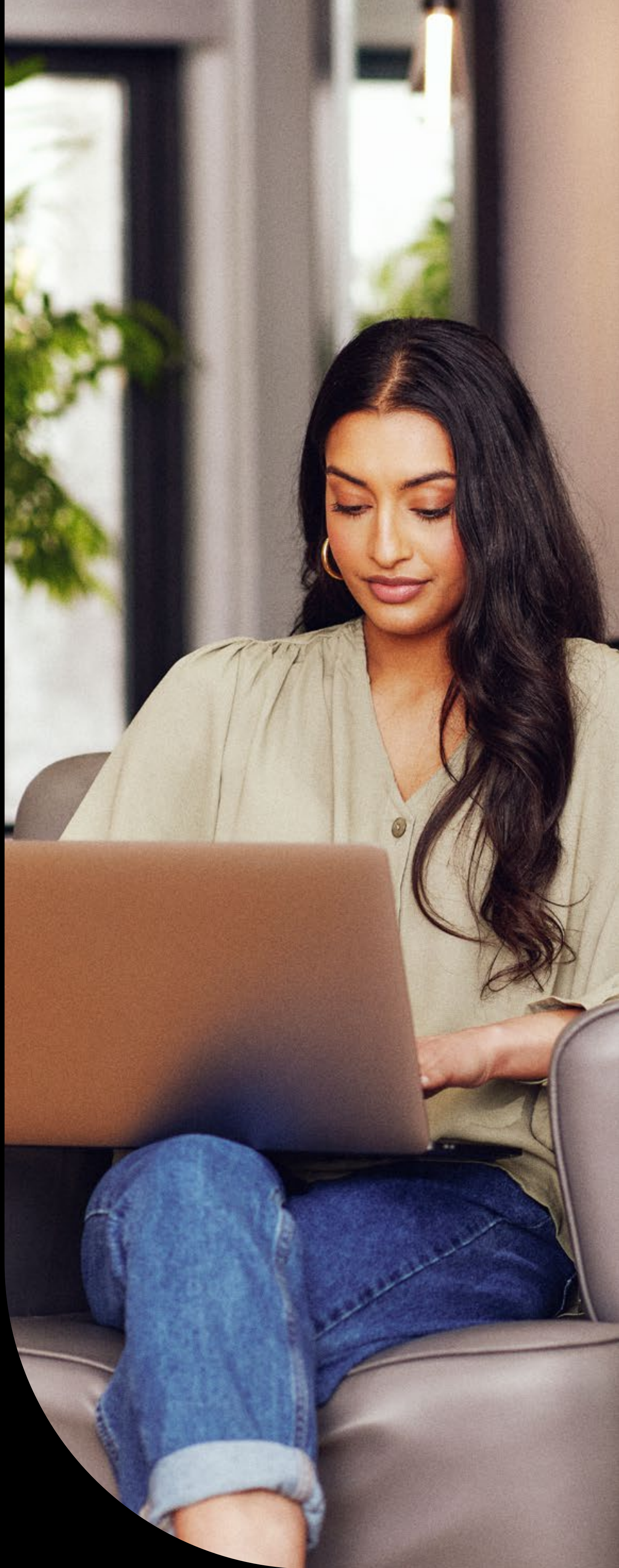
See www.gov.uk for more on rates and allowances.

You're still liable to pay Classes 2 and 4 National Insurance on your self-employed income, even if you already have a job elsewhere for which tax and NICs are deducted via PAYE.

But you can ask to defer the Class 1 payments for PAYE until the tax year has ended, so that you don't overpay NICs. But you'll still have to pay 3.25% Class 1 NICs via PAYE and, of course, may have to make further NICs payments following the end of the tax year.

Deferment is only possible if your PAYE earnings are at least £967 per week (£4,189 each month) in one job, or £1,157 each week (£5,012 each month) in two or more jobs.

To apply for deferment, use form CA72A.



Pensions

You must pay income tax on pension income, no matter its source. However, after the age of 67, you no longer need to pay National Insurance.

Here's the answer to some questions our experts have been asked about income tax as it relates to pension payments.

"If I receive a pension on top of my self-employment income, is it my responsibility to declare it as part of my Self Assessment or is it my pension provider's responsibility to tax me?"
Just like an employer, the private pension provider is responsible for deducting tax. If you're paid by more than one private pension then one of them will handle the tax deductions, at the request of HMRC.

You should use the P60 issued by your pension provider(s) each year to ensure that you've paid enough tax. If there's anything wrong then you should use Self Assessment to tell HMRC and pay the outstanding amounts. When you come to complete your Self Assessment return, you should find the information from the P60 is completed automatically in the relevant boxes.

"I used to be self-employed but now I have retired. Do I need to tell HMRC anything?"
There are two issues in this situation.

1. You should use Self Assessment to tell HMRC how much you've earned in the most recent tax year just gone. If you complete the Self Assessment return online, the deadline for this will be 31 January. Remember that you need to declare income even if your earnings are so low that there's no tax or National Insurance payable.
2. If you no longer wish to be registered for Self Assessment then you should let HMRC know. This is very important because you might be fined if you don't complete a Self Assessment return by the deadline. But do remember that Self Assessment is used for all matters relating to income tax, so might still be required if you receive income from multiple sources such as savings or investment income.

Capital allowances

Sometimes you may need to buy one-off large purchases to be able to conduct your work. Examples might include a car, equipment or tools (but not things like stock you intend to sell).

These are known as capital allowances. Here are some questions we've been asked about them.

"What's a self-employed capital allowance?"
Capital allowances are different to trading expenses, which are usually much lower in value and required for the day-to-day operation of your business (e.g. stationery).

Another key feature of a capital allowance purchase is that you must intend to keep the item for at least a couple of years. Furthermore, if you subsequently sell or stop using the item then you usually have to deduct the value against further capital allowances.

Capital allowances are allowed if you're self-employed, but only if you're using traditional (accruals) accounting. If you're using cash basis accounting, capital allowances can only be used for a car (and there are limitations around the CO_2 emissions of the car).

Capital allowances are typically calculated by assigning the capital allowance purchase into various pools. You add together all the costs of items bought as capital allowances and then claim for the amount of the pool. You then claim a percentage of the pool against your tax bill. As mentioned earlier, the pool is sometimes decreased if you sell or stop using an item.

“What can and can’t be claimed under the capital allowance?”
Claims under the capital allowances typically relate to equipment, machinery, and business vehicles that you buy outright (rather than lease).

If you work from an office then you might claim the cost of computers and printers. If you’re a gardener, then you might claim for the cost of a lawn mower.

You can’t claim for purchases of property or land, but you can claim for certain types of improvements to property like integral features (e.g. lifts, air conditioning, electrical systems) and fixtures (e.g. bathrooms, kitchens, fire alarms).

Sole traders that also use the capital allowance item personally can only claim for a percentage that describes the amount of usage for business. For example, you might buy a laptop for work. You then use it for personal tasks in the morning and evening, but use it during the day for work. In total, you’re using it for 10 hours, of which three are personal tasks. Therefore, you might claim 70% of the costs as a capital allowance.

“How much is the self-employed annual investment allowance?”
For most capital allowances, the average self-employed individual is likely to use the Annual Investment Allowance (AIA).

This lets you deduct the full value of an item against an annual allowance.

The AIA amount is currently £1 million.

There’s a special allowance called enhanced capital allowances. However, this is limited to certain environmentally-friendly equipment (e.g. cars with zero CO_2 emissions).

“I know a business car is not included in the annual investment allowance, but I can claim relief writing down allowances. How are these calculated?”
How you claim for the vehicle will depend on which capital allowance pool you use, and that will depend on the CO_2 emissions of the vehicle.

Using the main allowance pool, you can currently claim 18% of the car’s value. Using the special allowance rate, you can claim 6% of the car’s value.

Capital gains

Capital gains can be considered the tax that you must pay when you dispose of an asset. Disposal typically means you've sold an item, but it can also mean giving it away.

It applies to all individuals, including the self-employed. Incorporated businesses typically declare such disposals within their profits liable to corporation tax.

As the name suggests, it only applies to any gains you make. So, if you buy a property for £150,000 and sell it for £200,000, then it's only the £50,000 profit that might be liable for capital gains tax.

"What's the capital gains allowance?"
As with many types of tax, capital gains tax only becomes due above a certain limit, called the Annual Exempt Amount.

In the 2022/23 tax year, this is £12,300.

The Annual Exempt Amount in the 2022/23 tax year is **£12,300**.

"Am I entitled to capital gains allowance if I am using the remittance basis?"
No.

"I sold a property abroad. Do I have to declare the sale in the UK as capital gain on the profit I made?"
Assuming you're a resident in the UK, then yes, you have to pay capital gains tax on the profit you make. Note that you may also be taxed in the country where the sale occurred, so you should take measures either there, or in the UK to make sure you're not double taxed.

If using Self Assessment, you can report the capital gains on your Self Assessment tax return. If filing online, you must report the capital gain by 31 January following the end of the tax year in which you made the gain.

If you dispose of UK residential property, you must use HMRC's Capital Gains Tax Property Service within 60 days of making the capital gain.

Bear in mind that if you haven't used any of HMRC's online services before, you'll need to sign up for a Government Gateway account. This can add to the time required, so make sure you don't leave reporting to the last minute.

Limited companies

Those who own or operate incorporated businesses might still have to account for and pay income tax. Here are some questions our experts have been asked about this.

"I'm a director at a ltd company and my tax is being deducted at source via PAYE. I have no other source of income. Do I still need to register and file a Self Assessment tax return?"
Directors are typically required to register for Self Assessment, unless all their income is taxed through PAYE.

Don't forget that anybody earning over £100,000 is required to register for Self Assessment regardless of the source of the income and may have to reduce their personal allowance.

"What are the tax rates for dividend income?"
You'd usually report all of your dividend income on your Self Assessment tax return.

The 2022/23 tax rates for dividends:

- Dividend allowance (up to £2,000): **0%**
- Basic rate: **7.5%**
- Higher rate: **32.5%**
- Additional rate: **38.1%**

If you're paid via PAYE, don't use Self Assessment and the dividends are up to £10,000, then you should contact HMRC. They will then most likely change your tax code so the tax is paid across the tax year.

If you don't use Self Assessment and the dividend is £10,000 or over then you should register for Self Assessment and use it to report and pay the dividend income—even if you're already paid via PAYE.

Conclusion

Getting your tax right doesn't need to be difficult. With just a few tips you can get on top of it easily.

A good place to continue learning about Self Assessment and also the upcoming plans for MTD is the **Sage Advice blog**.

Using the very best accounting software is another vital step that makes it effortless to manage your business cash flow and monitor your company's financial health. With the right software, you can easily issue and track invoices, keep on top of your accounts receivable payments, and chase late payments efficiently. With automation, you can instantly reconcile incoming bank payments against your invoices. A good accounting app can also scan and digitally record receipts, invoices and bills, sending the data straight into your accounting system. Spending just a few minutes doing this every day means you can save time overall, keep on top of incoming and outgoing payment requests, and keep your business finances up to date.

Discover how Sage Accounting can help you stay on top of your numbers **here**.

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