

## Self assessment for contractors - tax

### Introduction

As a contractor you are required to "self assess" the amount of income tax and capital gains tax payable each year and submit an annual tax return to HMRC.

This article explains how self assessment works and what you are required to do.

### Key dates

The UK tax year runs from 6th April to the 5th April the following year.

The final deadline for filing your tax return (sending it to HMRC) is 31st January following the end of the tax year.

If you fail to file your tax return by 31st January, you will be fined £100. Further penalties may arise for persistent late or non filing.

### Calculating your tax due

HMRC will calculate your tax for you if you submit your return by 30th September following the end of the tax year concerned.

If you file your tax return after 30th September, you will need to calculate the amount of tax payable. This can be dealt with by a qualified accountant or, if you are dealing with matters yourself, a suitable tax return software package.

### Payments of tax

Your self assessment tax liability is due on 31st January following the end of the tax year. For example, for the year ended 5th April 2005, the tax payment is due on or before 31st January 2006.

In addition, HMRC require payments on account for the following tax year, to be made on 31st January and 31st July following the end of the tax year.

For example, if your self assessment tax liability for 2004/05 was £10000, your liabilities would be as follows:

Payment	Amount
Payment for 2004/05 due 31 January 2006	£10,000
First instalment on account for 2005/06 due 31 January 2006	£5,000
Second instalment on account for 2005/06 due 31 July 2006	£5,000

### Contractors caught by IR35

If you are caught by IR35, then your self assessment liabilities payments are likely to be small or nothing, since your income will be dealt with through the PAYE system and you will be paying your tax liabilities each month according to your tax code.

### Contractors outside of IR35

If you are working outside the scope of [IR35](#) then any additional tax due will depend on whether you are a higher rate tax payer.

If you are not a higher rate tax payer then you are unlikely to have a very high self assessment tax liability. This is because your small salary will be dealt with through PAYE and your dividends up to the higher rate tax threshold will not incur any further tax liability.

You will become a higher rate tax payer if you earn more than £39,385 per year (2005/2006), which equates to roughly £25 per hour.

As a higher rate tax payer you will have a self assessment tax liability based on the higher rate tax arising on your dividend income over the higher rate tax threshold. Any self assessment tax liability arising will simply be the balance outstanding, i.e. HMRC will give you full credit for all PAYE, tax deducted at source (on bank interest etc.) and tax credit on dividends – you simply pay the balance of your liability as at 31st January, together with the payments on account.

### Why make payments on account?

HMRC's logic assumes your income and IR35 circumstances in the next tax year will be similar or higher.

Therefore, you make two instalment payments of 50% each, based on last years tax assessment, so that you will not have any balance to pay next year.

You can apply to reduce the instalments on account if you believe your income will be lower in the following tax year. But, be aware that HMRC can charge interest on tax which should have been paid by instalment if it turns out that your income is higher than expected in the following tax year.

### Calculating and saving for tax payments



You will become a higher rate tax payer if you earn above £25 per hour, assuming you work the full year (37.5 hours per week, 48 weeks per year).

All payments received via PAYE are already taxed, thus it is just the dividends that will attract extra tax. You will need to save 25% of all dividends taken that take your income into the higher rate bracket.

For a personal calculation of your additional dividend taxes to pay at the end of the year use our [Contractor Calculator](#).

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