

Statement of Practice
SP3
Self Assessment Tax
Commencements and Cessations

A copy of Statement of Practice SP3.

Statement of Practice
Self Assessment Tax
Commencements and Cessations

Chapter II of the Finance Act, 1988 imposes an obligation on a chargeable person (a “Self Assessment Taxpayer”) to make a return of income on or before 31 December in the year of assessment and (if an assessment has not been made) to pay Preliminary Tax on 1 October in that year. The amount of the Preliminary Tax payable is the amount of tax which the Taxpayer considers is likely to be payable by him or her for the year. Section 20 of the Act sets out certain rules for the treatment of income chargeable to tax on the actual amount arising in the year (as distinct from income chargeable on the amount receivable in the previous year). Essentially the treatment provides that where the actual income is not yet known the income of the previous year is to be used. The tax position is reviewed when the amount of the actual income becomes known.

This Statement of Practice is being issued in order to set down a practice for calculating Preliminary Tax on sources of income which commence or cease during a tax year and for making tax returns in respect of that income. Such sources of income, if not already chargeable to tax on the actual amount received in the year, are so chargeable in the commencing and ceasing years of the source.

Part A: COMMENCEMENTS.

1. First Year

- (a) **Preliminary Tax:** Effectively, under the rules of section 20 a taxpayer is not required to pay Preliminary Tax on any source which commences in the year because there is no income from that source in the previous year on which to base a Preliminary Tax computation (a person who becomes a Self Assessment Taxpayer in the year by reason of the commencing source will not be required to pay Preliminary Tax for the first year because he or she will not have any income from the commencing source in the previous year on which to base a Preliminary Tax computation).

Tax will become payable when the assessment, or an amendment of the assessment, for the year is made on submission of a return containing the commencing income (usually the subsequent year).

- (b) **Return of Income**: Where the source commences before the Taxpayer has made a tax return for the year of commencement, it would be of assistance if the return made a reference to the source with an indication that it has only commenced in the year.

2. **Second Year**

- (a) **Preliminary Tax**: The amount of Preliminary Tax payable for the second year, in relation to the commencing source, is to be based on the income from the date of commencement to 5 April in the first year. In the case of income from a trade or profession, if accounts have been prepared before the 1 October due date, the income may be arrived at by apportionment as necessary. If accounts have not yet been prepared, payment should be made on the basis of an estimate of the income for the period. The usual consequences will apply if the tax paid is less than the amount of Preliminary Tax properly due.
- (b) **Return of income**: The Return of Income for the second year is to be made by 31 December in that year. The income to be included is the income from the date of commencement to the following 5th of April. In the case of income from a trade or profession, if accounts are not available an estimate should be shown with an indication to the effect that it is an estimate. The correct figure should be provided as soon as possible, particularly if the estimate was inadequate and interest arises.

Part B: CESSATIONS.

3. (a) Preliminary Tax

Preliminary tax may be paid by reference to the Taxpayer's estimate of the "actual" income to the date of cessation (instead of the "preceding year" basis). The normal consequences will apply should the amount of the tax paid in October be less than the Preliminary Tax properly due by reference to the amount of the correct "actual" income.

(b) Return

The obligation to enter the previous year's income on the return is unaffected by this practice.

(c) Assessments

Assessments will normally be made by reference to the preceding year's income unless prior to the making of the assessment the Inspector is advised of the correct "actual" figure. If this figure is not known, Inspectors, if contacted and advised of the position, will usually allow a reasonable period for the figures to be submitted and will suspend collection until they are received, provided they are received in that period. The original due dates will apply to the assessment or amended assessment and interest will be charged unless the normal preliminary tax conditions (see paragraph (a) above) have been met.