Averting a tax disaster

Nick Ledingham has advice for dentists running late on their tax bill

If someone doesn’t have enough money to pay their tax bill, then it’s not the end of the world. We sometimes get calls in February from clients who, for one reason or another, have not been able to meet the January 31st deadline. We thought it might be useful to let readers of Dental Tribune have an update on what happens when tax isn’t paid.

First of all, the rate of interest charged by HM Revenue & Customs when tax is not paid by the due date (in this instance 31 January) is currently three per cent per annum, (which is less than most people’s overdraft rate).

If however the tax remains unpaid by the end of February, then a surcharge will be made which amounts to five per cent of the actual tax owed at that date (not just five per cent per annum!). There will be a further five per cent surcharge if any of the tax that was due on 31 January still remains unpaid after 31 July.

Borrowing Time
It may effectively be cheaper to “borrow” from HM Revenue & Customs up until the end of February than to go into overdraft. However every effort should be made to pay the tax by the end of February to avoid the five per cent surcharge. Indeed, if somebody can only pay part of the tax bill by the end of February then they should do this, because it will save the five per cent surcharge on the amount that is paid.

If profits have fallen since the previous year end, then it may be possible to apply to reduce the payments on account and this can help reduce the amount due at the end of January, even if an application to reduce the payments on account is made after the end of January. Some tax payers however are tempted to apply for reductions in payments on account even when they know that their profits have not fallen. When this happens, interest still runs on the underpaid/postponed amounts at a rate of three per cent from the due date of payment (31 January) to the day before the actual payment is made (which would then usually be the following 31 January).

Options
If somebody is completely unable to scrape together enough money to pay their tax bill, then there are a couple of options open to them. The first is...
to ask HM Revenue & Customs for time to pay.

HM Revenue & Customs’ Business Payments Support Service was set up to meet the needs of businesses and individuals who are experiencing difficulties in paying their tax, originally in response to the “credit crunch”. Depending on the tax payer’s circumstances, HM Revenue & Customs may agree time to pay where it believes that somebody is genuinely unable to pay in full and on time. HM Revenue & Customs will still charge interest on any unpaid tax.

The five per cent surcharge on tax unpaid for more than 28 days will usually be waived, but only if the Business Payments Support Service is contacted prior to the date that the tax was originally due (usually 31 January). HM Revenue & Customs’ Business Payments Support Service can be contacted on 0845 302 1435.

Another option is to borrow the tax due.

There are a number of finance companies such as Braemar and LDF Professionals who specialise in making loans to dentists over six or 12 months to allow them to spread their tax bills.

The interest charged usually approximates to bank overdraft rates although it is usually much easier to borrow from one of these specialist companies.

A Rainy day

Although it is easy to say, the best answer is always to put some money aside each month in order to have sufficient money to pay tax bills. We are always happy to give clients an estimate of how much they should be saving each month, tailored to their own personal circumstances.

It can also help to have a “flexible” or “offset” mortgage whereby you effectively receive the same rate of interest on your tax savings as you are paying on your mortgage, and you are allowed to draw down on the savings/mortgage each January and July.

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If any readers who have not yet paid their January tax bill are having difficulties then they should contact their specialist dental accountant straightaway.

About the author

Nick Ledingham is a partner in specialist dental accountants Morris and Co and Chairman of the National Association of Specialist Dental Accountants.