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## PRACTICE NOTE

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**PN 30/90**

**Date:**

### **Section 9 Income Tax**

**Practice Note 30/90 - 8th October 1990 - THIS PRACTICE NOTE REPLACES PN NO 1/85 DATED 18/11/85, BUT IS AMENDED BY PN 32/91 DATED 5/8/91**

### **General**

Section 9 Income Tax, etc. (Amendment) Act, 1985 introduced a new section, Section 111A, into the 1970 Income Tax Act. Under the terms of this legislation an interest charge is imposed on tax which is not paid within 31 days of the date on which the tax becomes due and payable. Section 14 Income Tax (Amendment) Act 1986 inserts Section 111B into the Income Tax Act 1970 to impose an interest charge on omitted income or income returned late. See Practice Note 7/86 dated 29 August 1986.

A rate of interest of 12% per annum will apply for the period 1st January 1986 until 31st December 1989. From the 1st January 1990 the rate was increased to 15% (see Government Circular No. 411/89). An important concession is contained in Section 111A(S) whereby the Assessor has the authority to remit any amount of interest payable under this Section. This will be applied in cases of hardship and administrative error.

### **De-Minimis Level**

No action will be taken to collect an interest charge where the total interest does not exceed £50.00 in respect of that year of assessment. Prior to the 1st February 1990 the level was £30.00.

Tax on which Interest is Charged

The interest charge arises on the late payment of the following:-

- Income Tax including Non-Resident Tax
- Class IV National Insurance Contributions
- Company Registration Tax
- Employers payment of ITIP - payments which are certified as being due from an employer - e.g. failure to operate ITIP Regulations.

Due and Payable Date

Interest starts to accrue from the 31st day after the date on which the tax becomes due and payable until the tax is paid. The due and payable date for Income Tax (including Class IV NIC) will normally be on the 1st January in the year of assessment for which the tax is due or the seventh day after the assessment is made, whichever is the later of the two. The date on which tax is paid will be the date the payment is received by the Income Tax Division.

## Special Cases

Special rules apply to Default Assessments as follows:

### **DEFAULT ASSESSMENT (Issued on or before 31st August 1989)**

The due and payable date will be the date on which the assessment becomes final and conclusive, this date being either:-

(i) where no extension application has been made and the time for making such an application has expired, the due and payable date will be the 30th day after the date of issue of the notice of assessment; or

(ii) where an extension of time has been granted but the extension date has expired and the relevant Return has not been submitted the due and payable date will be the day after the extension date.

### **DEFAULT ASSESSMENT (Issued on or after 1st September 1989)**

The due and payable date will be the 1st January in the year of assessment for which the tax is due or the seventh day after the assessment was made, whichever is the later of the two. It is important to remember that interest on late payment will be calculated from the thirty first day after the due and payable date created by the DEFAULT ASSESSMENT regardless of whether an application for extension of time has been made and accepted. If the revised assessment shows a tax liability greater than the amount paid on the default assessment interest on late payment will be calculated from the thirty-first day after the due and payable date created by the default assessment and not the revised assessment. If the revised assessment shows a tax liability less than the amount paid on the default assessment a repayment will be made after taking into account any interest charge or arrears.

## **Installment Payments**

The normal rules will apply albeit the interest charge will be more complex.

### Notification of an Interest Charge

Demand notices will not contain details of the accrued interest charge. This is because interest arises on a day to day basis and can only be finally determined at the time the overdue tax is paid. If a person has reason to believe that they have incurred an interest charge in excess of the de minimis limit they should obtain an interest notice from the Income Tax Office confirming the interest to be paid. Where payment of the tax is made without an interest notice being obtained, one will be sent to the taxpayer and normal collection procedures followed until the interest is paid. Payment should be made at the

same time the tax is paid. An interest charge is not a preferential debt, nor does it qualify for tax relief.

### **EXAMPLES Due and Payable Dates**

1. Assessment issued for 1989/90 on 8/8/89. Due and payable date will be 1st January 1990.

2. Assessment issued for 1989/90 on 6/2/90. Due and payable date will be 13th February 1990. **Revised Assessments (assuming no tax has been paid)**

3. Original assessment for 1989/90 issued on 10/9/89 showing tax payable of £1,600. Following a claim for relief under Section 3 (3) Income Tax Act 1970 the assessment is subsequently revised on 6/5/90 showing tax payable of £1,400 which is then paid on 21/5/90. Interest will be due on £1,400 tax from 1/2/90 to 20/5/90.

4. Details as for example 3 but £800 had been paid on the original assessment on 24/1/90. Interest will be due on the £600 tax still remaining to be paid i.e. from 1/2/90 to 20/5/90 subject to the £50 de minimis limit.

5. Provisional assessment issued for 1989/90 on 4/11/89 showing tax payable of £1,500. When the Return is received a revised assessment is issued on 10/3/90 showing tax payable of £1,800. No tax was paid until 1/5/90. (i) Original assessment - Due and payable 1/1/90. Interest on £1,500 from 1/2/90 to 30/4/90. (ii) Revised assessment - Due and payable 17/3/90. Interest on £300 from 17/4/90 to 30/4/90.

6. Provisional assessment issued for 1989/90 on 28/10/89 showing tax payable of £1,800. Payment of this amount was made on 14/5/90. The 1990/91 Return was received and a revised assessment was issued on 20/8/90 for £2,040. ITIP of £200 was deducted during the 1989/90 year. The overall balance of £40 was paid on 28/10/90. (i) Original assessment - Due and payable 1/1/90. Interest on £1,800 from 1/2/90 to 13/5/90. (ii) Revised assessment Due and payable 27/8/90. Interest on £40 from 27/9/90 to 27/10/90.

### **Default Assessments (Issued on or before 31st August 1989)**

7. Default assessment issued for 1988/89 on 4/11/88 showing tax payable of £4,000. Extension application agreed to 28/2/89 but Return not received until 12/3/89. Assessment concessionally revised on 14/6/89 showing £3,200 tax payable which is paid on 12/8/89. Due and payable date will be 1/3/89 and interest will be charged from 1/4/89 to 11/8/89 on the tax of £3,200.

### **Default Assessments (Issued on or after 1st September 1989)**

8. Default assessment issued for 1989/90 on 30/10/89 showing tax payable of £1,000. Extension application agreed to 12/3/90. The Return was received on the 1/3/90 and a revised assessment was issued on the 2/4/90 for £1,500 which was paid on 21/5/90. Due and payable date will be the 1/1/90 and interest will be charged on £1,500 from 1/2/90 to 20/5/90.

### **Interest Calculation**

9. Assessment for 1989/90 issued on 30/9/89 showing £2,000 tax payable. It is a non-I.T.I.P. case. If the tax were to be paid on:- a) 16/1/90 : no interest charge because the 31 days from the due and payable date (1/1/90) has not expired. b) 28/3/90 : reckonable period 1/2/90 to 27/3/90 = 55 days. Interest charge :-

$$55/365 \times 15\% \times £2000 = £45.20$$

Interest waived because it does not exceed the £50 de minimis limit.

c) 2/4/90 : reckonable period 1/2/90 to 1/4/90 = 60 days Interest charge :-

$$67/365 \times 15\% \times £2000 = £55.07$$

Interest of £55.07 is payable.

10. Details as for Example 5 - non I.T.I.P. case. Reckonable periods:-

a)	1/2/90 to 30/4/90	= 89 days
	Tax overdue	= £1500
	Interest Charge	= $89/365 \times 15\% \times £1500 = £54.86$
b)	17/4/90 to 30/4/90	= 15 days
	Tax overdue	= £300
	Interest Charge	= $15/365 \times 15\% \times £300 = £1.72$
		= £56.58

Total interest charge for that year of assessment exceeds £50 therefore interest of £56.58 will be payable in addition to the Income Tax of £1,800.