



PAYMENTS ON ACCOUNT

What are they and why do I need to pay them?

It's always hard parting ways with your money at the end of the tax year, but when you first start out with your own business, it can be a little trickier to come to terms with the processes, rules and regulations.

We all know that tax returns are due to be paid by 31st January each year for the previous tax year, but did you know that if you are paying more than £1000 in tax, you will automatically be required to make **payments on account**.

So, what are these payments?

As soon as you start paying over £1000 in tax you will need to start making payments in advance for the following year. This is a measure that HMRC put in place to ensure that you are able to pay your tax each year.

It's a hard pill to swallow the first year that it happens, but you will eventually get used to the way it works. You just need to be aware of this at the outset, so that you can budget accordingly.

So, say for example, your self assessment tax calculation for 2022/23 was £800, you would have simply paid that by January 2024. Then, say your tax calculation for 2023/24 was £2000. That would mean that this January (2025) you are due to pay that amount *plus* 50% of that in advance for your 2024/25 tax year. Therefore, you are technically paying 18 months' worth upfront. By 31st July 2025 you will be required to pay the other 50% of the next year's tax return. So once that is paid, you are effectively always 6 months ahead of your payments. If there is anything outstanding, that needs to be paid by 31st January.

Now, we know that it might not seem that straightforward if your income fluctuates each year due to the nature of your business. If you have a steady income year on year, you will always have a rough idea of what you will make, and what you will pay in tax. But it's not so easy for all businesses. HMRC will always base the *payments on account* on the current tax year, so one year you may overpay, one year you may underpay. But, what you do know is that you are always ahead of the game.

With regards to forecasting for next years' revenue and taxation, you need to be aware that if you reduce your *payment on account* and it's incorrect then HMRC will charge you interest on what you should have paid... even though it's a year in advance. So, it's always best to stick to the payment that they have requested. Harsh, but true.

If you want to read more about Payments on Account

*Head to the [Gov.uk](https://www.gov.uk) website or contact Vikki on
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