

Payment on account: what it is and how to pay - a guide for the self-employed

By Josh Hall and Jessie Day

Self Assessment and payments on account are the bane of many self-employed people's existence.

The annual rush to get your tax return in on time, only to be presented with a whopping great bill, is one of the least entertaining parts of the year.

Payment on account is one of the most commonly misunderstood elements of the Self Assessment process, especially for the newly self-employed. Although it was

devised as a way of helping self-employed people spread out their tax bill, it often results in increased financial hardship for those who are already having difficulty paying.

What is payment on account?

Payments on account are tax payments made twice a year by self-employed people to spread the cost of the year's tax. It's calculated by looking at your previous year's tax bill, and is due in two instalments.

The payment on account can be thought of as a way of paying off some of your tax bill in advance. The first instalment is due on 31 January (the same day as your 'balancing payment', which clears your tax bill for the previous tax year), and the second is due on 31 July.

It's meant to help you spread your payments out during the year – and simultaneously provides the Exchequer with a financial boost in the middle of the year.

How do payments on account work?

Each of the two instalments of the payment on account will normally be 50 per cent of your previous tax bill. So, if you paid £10,000 in the tax year for which you are filing your return, you will make the first payment on account of £5,000 on 31 January, and another payment of £5,000 on 31 July. This will include Class 4 National Insurance Contributions where applicable, but not student loan repayments or Capital Gains Tax.

There are some circumstances in which a payment on account will not be due. If your tax bill for the previous year was less than £1,000 after PAYE or other deductions at source, no payment on account is necessary. Similarly, no payment on account will be due if, in the previous tax year, 80 per cent or more of your tax was deducted at source.

How to pay with payment on account

If you complete your Self Assessment online, you will be given the opportunity to make the payment on account at the same time as your balancing payment for the previous tax year. If you file your return on paper, you will receive a paper bill along with a Bank Giro form that you can use to make a payment.

[HMRC is now committed to moving as much of the taxpaying process online as possible.](#)

As a result it's encouraging taxpayers to file and make payments online. You can do this securely on the HMRC website, or by downloading its taxpaying software.

Reducing your payment on account

Self-employed peoples' income can fluctuate from year to year. If you think that your income for the next tax year will be lower than in the previous tax year, you can apply to have your payment on account reduced.

You can reduce payment on account by logging in to your online HMRC account and clicking 'Reduce payments on account'. Or, you can send form SA303 to your tax office.

In practice, many people choose to do this if they are having trouble paying their tax bill. Some individuals reduce their payment on account, presuming that they will be in better financial shape later, and will therefore find it easier to settle the remainder of their bill.

You should think carefully before doing this. Remember that, if your income is the same or higher in the next tax year, you will still have to pay the same amount.

All you are really doing is delaying the pain, rather than eliminating it altogether. It's also important to note that underpayments will be subject to interest. If you reduce your payment on account and it subsequently turns out that you have underpaid, you will have to pay interest on the outstanding amount. This can significantly increase your tax bill.

Check your payments on account

It can be a confusing topic, so best practice is to make regular checks, well ahead of any deadlines, and contact HMRC if you're unsure.

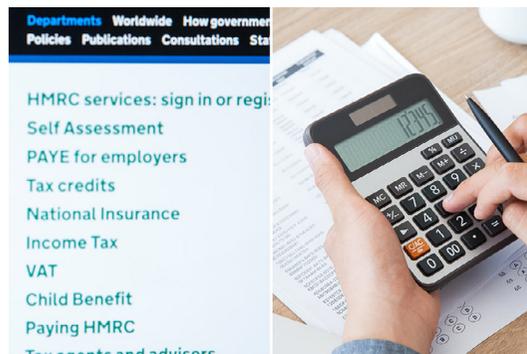
You can check your payments on account online during the year by signing into your Government Gateway account

and selecting the option to view your latest Self Assessment return. Click 'View statements' and you'll see any payments on account you've already made, alongside the payments you need to make towards your next tax bill, if applicable.

As with all tax matters, if you are confused you should contact your accountant or HMRC directly for advice.

If you are having trouble paying, it is important that you act quickly. Call the HMRC Payment Helpline on 0300 200 3822 to enquire about setting up a new payment arrangement.

Further reading



The self-employed guide to Self Assessment tax returns

We've broken down what you need to know for a stress-free Self Assessment.

[Read more](#)



Making Tax Digital: what small businesses and the self-employed need to know

Here's what you need to know about the new HMRC initiative.

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How to register as self-employed with HMRC

Read our article for a quick overview on how to register.

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