Starfish Accounting

My Virtual Financial Controller

Financial Wizardry for the Self Employed

Payments on account

"On a mission to help women in business"

Accounting, tax & bookkeeping services
for women in business & microbusiness

Jargon busters

Payments on account

Income tax for the tax year ended 5 April 2014 is due by 31 January 2015. You may have an unpleasant surprise - **in addition to owing tax for the year ended 5 April 2014, you could also owe "payments on account"**.

So what are "payments on account" (POA), and **how do they work**?

POA are a payment towards your tax liability **for the next tax year**, so for the tax year ending 5 April 2015. If you are asked to make payments on account, they will fall due on 31 January, and on 31 July. By the time you get to the next payment deadline of 31 January 2016, you will in theory already have paid a significant portion of the tax due.

How do they work?

The POA are based on the current year tax liability - so the assumption is that you will have to pay the same tax next year as this year. They are then spread over the two payment dates, so **50% is due on 31 January**, and the remaining **50% is due on 31 July**.

For example: Jane has filed her first self-assessment tax return for the tax year ended 5 April 2014. Her tax liability for the 2013-2014 tax year was £3,000. Her POA towards her 2014-2015 tax liability will be two payments, each of 50% - or £1,500.

Tax due on 31 January 2015:
£3,000 (2013-2014 tax liability)
<u>£1,500</u> (2014-2015 first POA)
£4,500

Tax due on 31 July 2015
£1,500 (2014-2015 second POA)

She then files her 2014-2015 self-assessment tax return, and has a tax liability of £3,500. She has already paid a total of £3,000 through the POA, so will only owe the balance of £500 on 31 January 2016. In addition she will also have to pay POA for 2015-2016 of 50% of £3,500 = £1,750.

The **threshold for POA is £1,000** - so if your tax liability for 2013-2014 is £999 you won't have to make POA for 2014-2015, but if your tax liability for 2013-2014 is £1,000 then your total payment due on 31 January jumps up to £1,500.

What to do if your POA are too high?

If your taxable income is going down, and therefore you expect that your tax liability will be lower than the year before, you can **apply to have your POA reduced**. Be careful though - if you reduce your POA below your eventual tax liability, you would get **charged interest on any underpayment**.

Reducing your POA is an easy thing to do. You can either complete a form, or apply to reduce your payments on account when you are logged in to the self-assessment online services.