

Should I reduce my payments on account?

The deadline for filing your 2019/20 tax return is fast approaching, as is the due date for the first payment on account for 2020/21. Now is the time to think about whether you can reduce your payments on account.

Need to make payments on account

If you pay tax under self-assessment you may need to make payments on account. These are advance payment towards your tax and Class 4 National Insurance bill.

You will need to make payments on account if your last self-assessment bill was at least £1,000 unless you paid at least 80% of what you owe under deduction at source, for example, under PAYE.

Payments on account based on previous year's liability

When making payments on account, the assumption is that the current year's liability will be roughly the same as the previous year's liability. Thus each payment on account is 50% of the previous year's tax and Class 4 National Insurance liability. Class 2 National Insurance contributions are not taken into account in working out payments on account.

When are they due?

Payments on account are due on 31 January in the tax year and 31 July after the end of the tax year. Consequently, payments on account for 2020/21 are due on 31 January 2021 and 31 July 2021.

Falling profits

Payments on account for 2020/21 are based on profits for 2019/20. Thus, where a business has been adversely affected by the Covid-19 pandemic, the payments on account will not reflect this because they will be based on pre-pandemic profits.

Where pandemic has taken its toll, cashflow is likely to be tight and there is little sense in making higher payments on account than are needed. You can elect to reduce your payments on account so that they better reflect your likely taxable profits for 2020/21. However, when working out your projected profits for 2020/21, remember to take into account any SEISS grants and other taxable Government support payments that you received.

Reduce your payments on account

There are various ways in which you can tell HMRC that you want to reduce your payment on account. This can be done by signing into your online personal tax account via the Government Gateway and using the 'reduce payments on account' option or by completing form SA303 and sending it to HMRC. You can also tell HMRC that you want to reduce your payments on account in the other information box on the self-assessment tax return. You will need to specify what you want to pay and the reason for the reduction.

Beware paying too little

Where cashflow is tight, it may be tempting to reduce payments on account to reduce your outgoings in January and July. However, if you reduce your payments below the actual amount that is due (i.e. 50% of the liability for that year), you will be charged interest on the shortfall between what you should have paid and what you have paid. Remember, if you are struggling to pay tax due on 31 January 2021, you can set up a 'Time to Pay' agreement to

pay your tax in instalments. As long as you do not owe more than £30,000, this can be done online.