

## **One of the questions I am most asked is 'Why do I have to pay tax in advance'?**

This is a much discussed topic and I believe that the way it is publicised and explained on the HMRC website, sends many people into confusion, and also a degree of anger that as an individual you have to pay tax on money that you haven't yet earned.

What many don't realise is, these payments on account are not actually in advance or upfront – you've already earned the money they are asking for the tax for. They are simply being paid 'in advance' of submitting your tax return.

This should, in theory, make the sting of paying your tax bill at the end of the year, a little less painful.

Let me give you an example using the 15/16 and 16/17 tax years – bearing in mind that the tax year runs from 6th April – 5th April each year.

**If you file your tax return for the 15/16 tax year and you are given a total tax bill of £4000. HMRC will assume that for the next tax year, your tax bill will be the same. So along with your tax payment for 15/16, they also ask you for payments on account for 16/17.**

**The first payment on account will be 50% of the estimated tax bill and the second payment on account, the other 50%.**

**The first payment on account will be due along with your payment for your tax for 15/16, in the January following the end of the tax year – so in this case, January 2017.**

**It is important at this point to make note of the date at which you are asked to make the payments on account.**

**Your total liability (amount owed to HMRC) on 31st January 2017 is £6000 (£4000 tax for 15/16 and £2000 payment on account for 16/17).**

**You will then make your second payment on account for £2000 in July 2017.**

**The reason I tell you to take note of the date, is that January 2017, your first payment date, is nearly 10 months into the 16/17 tax year. So in theory, if you've been saving for your tax bill, as you should, you will already have this tax put away.**

**By the time the second payment on account is due (July 2017), you're into the next tax year (17/18) so again, this is not tax in advance, just the tax you owe.**

Moving forward, when you file your tax return for 16/17, if your tax bill is the same as the year before, you'll have already paid it and only have to make payments on account for the next tax year. If your tax bill is less than you've paid on account, you'll get a refund. If your tax bill is more than last year, you'll pay any outstanding payments along with your payment on account for the next year.

If you are likely to earn less in subsequent tax years, we can apply a reduction to payments on account, but you would need to be able to prove the claims. If you were to then earn more than you have suggested, HMRC would charge interest on your liability for that tax year.