**HMRC Payments on Account Explained**

One of the most surprising tax bills for the self-employed, especially when filing you’re first tax return for the first time.

Here’s everything you need to know about tax bills for the self-employed, how they work and how to budget for them.

**1. What are Payments on Account?**

In a nutshell, HMRC requires you to make 2 advance payments towards your income tax and Class 4 National Insurance due for the next tax year. These two payments are due each year by:

* 31 January
* 31 July

The amount you pay is based on your latest self-assessment tax year bill.  Then when you file your next tax return, you’ll need to make a balancing payment if necessary.

Payments on account were introduced to help taxpayers stay on top of what they owe and to stop them spending their tax money.

**2. An Example of Payments on Account**

Here’s an example of HMRC payments on account to demonstrate how it works. Let’s roll things back to when you first became self-employed and needed to submit your very first tax return**.**

**It’s 31 January 2025**

You file your tax return on 31 January 2025 for the 2023/2024 tax year and your total tax bill comes to £5,000. Under the rules of payments on account you’ll need to make a contribution to your next tax bill due on 31 January 2026 of £2,500 (50% x £5,000). So, you need to make a total payment of £7,500.

**It’s 31 July 2025**

A second HMRC payment on account is due.  Again, that is £2,500 which is another 50% of your 2023/2024 tax bill. That means you’ll have paid **£5,000** towards your 2025/2026 tax bill.

**It’s 31 January 2026**

You’re filing your next self-assessment tax return for 2024/2025 and your total tax bill comes to £5,500. You’ve already paid £5,000 towards this tax bill in 2025, so need to pay the remaining £500. On top of this, you need to pay another payment on account towards your next tax bill, which is £2,750 (that’s 50% of your latest tax bill of £5,500). That means by the 31 January 2026 you need to pay a total of £3,250 to HMRC.

**3. Payments on Account for the Newly Self-Employed**

In the payments on account example above, you paid a total to HMRC of £7,500 in January 2025 but £3,250 on 31 January 2026. That’s because you basically had to pay two years’ worth of tax upfront in your first year of becoming self-employed.

Becoming self-employed is a great thing, but your first tax bill is a hard hitter and it’s so important for everyone to be aware of HMRC payments on account.  And remember that once you are through this first year, things will settle.

**4. Who needs to make HMRC payments on account**

Self-employed individuals need to make payments on account if:

* Their self-assessment tax is over £1,000.
* They pay less than 80% of the tax they owe through the payroll system, in other words, they are employed, and self-employed.

**5. How to Calculate Your Payment on Account**

Your payment on account will be 50% of your current year tax bill.

**6. How to Reduce Your Payments on Account**

In this example, everything settled out because the tax due was a similar level across the two tax years. However, what if you can see that your earnings have suddenly decreased and know that your upcoming HMRC payment on account is too much?

HMRC can be reasonable, you can **apply to reduce your payment on account** and you can do this by:

* Logging into your self-assessment online account and clicking on ‘Reduce Payments on Account’.
* Submitting an SA303 form to reduce your payments on account by post.

Be warned if you reduce your payment on account too much HMRC can charge you [interest and penalties](https://goselfemployed.co/self-assessment-tax-return-penalties/) on what you should have paid. Therefore, it’s always a good plan to seek advice before doing this.

**7. SA303 Form**

You can complete the SA303 online and then print it off to send it to HMRC. Before you start, you’ll need your UTR number, national insurance number or employers reference number to complete the form so have those ready.