

## *Summer holidays and tax don't mix!*

Many people (especially self-employed) have to pay some tax by 31 July 2007. If you miss that date then August is the month to sort it out. Even if you would prefer to spend your money on holiday.

If there is tax to be paid then you should have received a demand from the tax office in early July – called a Statement of Account. Of course you may have been off on your holidays when it arrived – so dig through that pile of brown envelopes! Included on the Statement is a payslip and envelope, which should both be used when sending off your cheque – for whatever amount.

The tax due in July 2007 is the second payment on account for 2006/07. It is initially worked out as being half of the tax bill for 2005/06. The First Payment was part of what you paid in January 2007.

If your tax bill for 2006/07 is bigger than the previous year then the extra tax will become payable in January 2008. So nothing can increase your July 2007 Payment above the same amount as you paid as the first Payment on Account in January 2007. If your profits doubled in 2006/07 the tax will catch you in January, not now.

There is only one major reason why you might NOT pay the full amount of tax the Revenue is asking for. This is where your income for 2006/07 was lower and the tax due will be less than the previous year. You may know this because your 2006/07 Tax Return has been done, or simply because you know income is down.

In terms of decreasing your July payment, that is a bit more complicated. The best situation is where your Tax Return has been prepared and submitted to the Revenue, and processed by them. This will mean the figures are all adjusted for you. Unfortunately even if your form has been submitted to the tax office it may not have been processed by them yet. The best scenario of all is where you have an accountant who files electronically – where things are processed inside 72 hours.

If your Tax Return has been prepared by your accountant then they should have told you how much was due in July 2007. Pay what they told you if this is less than the tax office are looking for, as the tax office information may be out-of-date.

If you prepared your own Tax Return and think your tax bill should be less then you have two choices. Firstly you can pay the full July payment as demanded – and get any refund due when your form is processed. Or secondly you can estimate how much lower your tax bill should be compared with 2005/06. If you estimate the bill will be £300 less then take £300 off the amount the tax office is looking for and pay the lower amount. (Strictly you are taking off £150 from the January Payment and £150 for the July Payment – but that's one for the trainspotters like me.)

You need to be aware that if you pay too little you will be charged interest.

If you simply cannot afford to pay the amount due then tell the Revenue now – not when they start getting agitated. They will help you more if you contact them early.

#### **Huston's Hint**

Only ask to pay less in July if you are sure your income for the tax year just ended was well below that in the previous tax year (on which July is based).