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Timely Payments in Income Tax Self Assessment

Response by the Chartered Institute of Taxation

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1. Executive Summary

1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.

1.2. The Timely Payments in Income Tax Self Assessment (ITSA) Consultation makes two distinct proposals: paying ITSA through PAYE where certain criteria are met, and paying ITSA on a more frequent basis directly. The key difference from the current system (which, to an extent, already allows for ITSA through PAYE and more regular ITSA payments) is the plan to bring forward tax payment dates closer to the time the taxable income is earned.

1.3. The CIOT supports the objective of helping individuals better manage their tax liabilities and avoid tax debt. We agree that one way of achieving this is more frequent payments and reducing the long gap between receipt of income and payment of tax. However, we are not convinced that collecting ITSA through PAYE is the right mechanism.

1.4. We highlight the numerous complexities arising from using PAYE to collect ITSA and explain why such a system is ultimately likely to fail in its aims. Crucially, the need for regular adjustments and exceptions where PAYE and ITSA income fluctuates, starts, stops or overlaps would be difficult to understand, impractical to implement and prone to errors.

1.5. We believe that facilitating more frequent direct payments for all taxpayers, regardless of PAYE, is a more achievable goal. Flexibility would be needed to support a variety of circumstances, in particular those cases where income is taxable before it is received. Overall, we recommend that HMRC should not proceed with mandatory collection of ITSA payments through PAYE at this stage. A more appropriate route would be to develop flexible direct payment options for all ITSA taxpayers, supported by improved forecasting tools, clear statements of account, agent access and [voluntary] testing before any payment dates are brought forward.

1.6. Our recommendation is for a phased approach, initially encouraging taxpayers to voluntarily make more frequent payments through the use of improved forecasting, budgeting and payment tools before moving to earlier payment dates. Priority should be given to investing in HMRC's systems and enhanced digital tools, and testing reforms thoroughly, before any mandatory implementation.

1.7. A review of debit and credit interest rates should also be carried out ahead of any timely payment reform. Encouraging taxpayers to regularly update their income and tax estimates but applying today's penal late payment interest rates would be unfair and disproportionate.

CIOT responses to the consultation questions

2. Question 1: What are the benefits of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

2.1. The proposed approach to collect ITSA liabilities through PAYE could make it easier for many taxpayers to budget, mainly where they have regular and fairly static levels of PAYE income and other income, and where the amount to be collected is unlikely to change through the tax year.

2.2. By shortening the period between the taxable activity and the payment of tax, the proposal minimises the risk of 100% of profits/income being reinvested into businesses or distributed/spent before tax is considered.

2.3. Making employers and payroll providers responsible for collecting ITSA payments could increase reliability of the payments, since their processes are already set up and no further action is required on the part of the employee.

2.4. Some taxpayers may also prefer paying via PAYE over actively making a payment by other means; psychologically it can be more difficult to pay money out of an account than not to receive it in the first place. However, we question whether the benefits of the proposed approach outweigh its complexity.

2.5. As an alternative, budget payment plans or ordinary direct debits could achieve payment just as quickly, though with little incentive to pay earlier if the requirement is not made mandatory.

2.6. If the policy intention is for more timely payments, we suggest that a general requirement for more regular payments on account (without prescribing exactly how those payments are made) is explored as a simpler alternative, removing some of the complexities that interaction with the PAYE system would create. The government should only proceed where it can demonstrate that the expected reduction in tax debt and bill shock justifies the additional complexity, compliance cost and operational risk for taxpayers, agents, employers and HMRC. This should include published evidence on which taxpayer groups generate the debt the policy is intended to address, and whether PAYE collection or more frequent direct payment would be the more proportionate response for those groups.

3. Question 2: What are the challenges of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

<u>Increased complexity</u>

3.1. Our main concern with the proposed approach is the level of complexity it could introduce to the tax system. The consultation recognises that "some taxpayers may have complex and fluctuating PAYE and ITSA income". But complex does not mean uncommon. Any of the estimated 2.1 million taxpayers in scope who, for example, change jobs, start receiving benefits-in-kind or see an increase/decrease in their other income may well face challenges.

3.2. The proposal envisages an additional system of tax collection alongside the existing payment on account regime, which taxpayers would move in and out of as their circumstances change. However, our members tell us that PAYE code adjustments, the concept of payments on account (POAs), and HMRC statements are all areas that already cause confusion for their clients. Moving taxpayers in and out of different systems mid-year could make it difficult for taxpayers to keep track of how and when they are paying their income tax. The interaction with existing POA rules needs to be clear; taxpayers will need to understand whether PAYE-collected ITSA amounts reduce statutory POAs, replace them, sit alongside them, or are reconciled only after the return is filed. The design should avoid taxpayers appearing compliant under one system while inadvertently underpaying under another.

3.3. We acknowledge the ongoing work to improve PAYE coding notices, but it should be recognised that the way PAYE works and its impact on take-home pay is impenetrable to many without dedicating time to finding guidance and checking payslips on a regular basis.

3.4. The consultation notes that taxpayers will be able to update their forecast, if different from their last filed tax return. Taxpayers may well feel daunted by the need to calculate their own current year profits and tax liabilities to adjust their default payments in real time. This is unlikely to be helped by a system that one month says their tax will be taken care of through PAYE but the next suggests more tax will be needed the following January, and so on as PAYE and other income levels fluctuate.

Inaccuracy of data

3.5. The policy goal outlined in the consultation is "ensuring that paying tax is straightforward for taxpayers and is paid closer to real time". However, the proposed design of the reform results in tax being paid on income figures from the last submitted tax return, which will be at least two years out of date.

3.6. As an example, a self-employed electrician with a part-time employment submits their tax return for the year to 5 April 2031 to report their trading profits. They submit their tax return by 31 January 2032. This prompts HMRC to update their PAYE code for 2032/33, so that by the end of March 2033 they have paid tax through PAYE on the same level of profits as two years prior. However, in 2031/32 they start specialising in air-conditioning units and by 2032/33 they have taken on more staff and business is booming. The figures they are being taxed on in 2032/33 via their PAYE code no longer bear any resemblance to their actual profits.

3.7. Possible solutions around regularly updating income estimates are explored further on, but these rely on a high level of taxpayer engagement, understanding and ability, which cannot be relied upon. Suppose a digitally-excluded pensioner with rental income in 2030/31 completes their paper tax return after 5 April 2031, showing a liability of £3,000. Without reform, they would have the liability collected via PAYE in 2032/33 and nothing further would be needed, as the correct amount of tax has been established and paid. The proposal would see them paying £3,000 tax via PAYE in 2032/33 but now the tax is an estimate for 2032/33 itself. In the event, their tenant leaves before the end of the tax year and substantial repairs are needed, generating a loss despite tax already have being paid on profits.

3.8. Tax returns that are submitted late, or that are later amended by the taxpayer or HMRC, would presumably need taking into account in revised PAYE codes or balancing payments/refunds, adding a further layer of complexity.

Limitations of the PAYE system

3.9. The PAYE system is already under strain: coding notices are often incorrect and since dynamic coding that problem has grown. Our members list numerous examples of issues, including full personal allowances despite real-time information (RTI) showing earnings in excess of the personal allowance threshold and benefit-in-kind adjustments many years out of date.

3.10. PAYE deductions work best when the adjustments to the tax code (for example, for unpaid tax from previous years, or estimated tax due on untaxed income in the current year) remain unchanged throughout the tax year. While PAYE can easily adapt to reductions in restrictions to the personal allowance (for example, where estimates of coded out tax due are reduced) it is not a good system for increases in restrictions (for example, where the estimated tax due increases). The cumulative nature of the PAYE tax system often results in under collections of tax where code numbers are reduced part way through the tax year. A system whereby POAs may increase or decrease through the year depending on estimated income/outgoings is unlikely to work in harmony with the PAYE system.

3.11. The PAYE system also has restrictions on the amount that can be collected through PAYE. For example, where the PAYE source is insufficient to collect the tax due, where the tax deductions would be more than 50% of the PAYE income, where the 'extra' tax deductions arising from restricting the tax code for a tax debt would be more than twice as much tax as would be paid without those deductions. These restrictions are likely to cause some taxpayers to underpay PAYE-based payments on account. At best it will lead to confusion. At worst, taxpayers that thought they had 'fully' paid via PAYE will face unexpected tax bills.

3.12. Case Study 3 in the consultation document provides an example of what happens when profit estimates change and the PAYE becomes insufficient to collect the payments on account, albeit the example is incomplete and inaccurate. If, as the example suggests, estimated profits increase and the PAYE deductions would exceed the 50% limit with the result that the taxpayer is removed from PAYE payments on account, does this mean that all the previous months of PAYE payments on account will be refunded? Additionally, what if the PAYE earnings fluctuate and one month the 50% limit is exceeded, so limiting the PAYE deduction, will HMRC automatically remove the taxpayer from PAYE payments on account? But what if pay next month is higher allowing for the previous under-collected tax to be paid in that later month without breaching the 50% limit? How would HMRC restore a taxpayer to PAYE payments on account having removed them previously? What happens when profit forecasts fluctuate through the tax year and the PAYE source can deduct the payments on account one month but not the next. Where a forecast reduces the payments on account this leads to a tax refund (or reduced tax deduction) but there's no system to 'catch-up' where the forecast increases the payments on account (unless the change is small) as the tax code then defaults to Week 1/Month 1 to limit the under-collection in the remainder of the tax year (or you have to 'adjust' the tax code to collect extra amounts to offset the previous under-deduction, which can be very difficult for taxpayers to follow).

<u>Administrative burden and HMRC customer service levels</u>

3.13. With complexity comes more time and cost to administer the system. This affects individuals, employers/payroll providers, agents and HMRC itself.

3.14. HMRC should recognise that there is a burden and cost to employers of processing changes to tax codes (as well as to HMRC), particularly for small employers. Furthermore, many employees' first port of call following a change in tax deductions is to ask their employer rather than check their tax code and ask HMRC.

3.15. HMRC's internal resources would need to cope with continuously updated PAYE codes, as individuals update their forecasts, encouraged by Making Tax Digital (MTD). While much of this would be automated, the sheer volume involved increases the likelihood of errors and missing codes.

3.16. While we welcome published statistics showing an improvement in HMRC's customer service levels, there remains much for HMRC to do. Many taxpayers and agents have trouble engaging with HMRC, some over prolonged periods. In addition, HMRC are under pressure to implement efficiency and demand reduction measures, to reduce cost. Our concern is the additional demand and pressure that such a project could place on HMRC while they are working to improve digital functionality to increase digital adoption. It is vital that HMRC ensure individual and employer queries can be answered quickly and repayments can be issued in a timely manner consistently.

3.17. HMRC may also struggle to set out clear and concise guidance that accounts for every possible scenario. For example, someone flexibly drawing down their pension for the first time may be provided with a new PAYE code on that pension which collects tax on their rental profits. However, if they take no further pension income for the remainder of the tax year, they need to know to make their ordinary POAs in January and July, or a larger balancing payment the following January, despite what their PAYE code says.

3.18. Any system of more regular payments runs the risk of creating more administration than the current infrequent payment schedule. However, removing the link to PAYE income would avoid unnecessary complexity, particularly for those with irregular PAYE income and/or multiple PAYE sources. It also prevents manipulation by those with control over the frequency/timing of PAYE income like company directors and pensioners in drawdown.

3.19. Businesses that arrange tax payments on behalf of more than one person will find more regular payments to be more administratively burdensome. Those using composite payments would also experience an increased workload for themselves and HMRC. For example, partnerships that currently arrange tax payments for all partners twice a year, with adjustments made through their drawings accounts, or companies that pay on behalf of their directors in respect of dividend income with adjustments to the directors' loan accounts. However, having a mix of partners/directors moving in and out of payments on account due to changing PAYE codes is likely to exacerbate this additional work.

Cashflow impact

3.20. Another major issue that is recognised in the consultation document is the cashflow impact for those with irregular income or income that is recognised for tax purposes before it is received. We go into further detail on this point in response to question 11 below.

Differing payment deadlines

3.21. In addition to added complexity and cashflow implications, an alternative payment regime for those with sufficient PAYE income may be perceived as unfair. Clearly there is already a significant difference in the timing and frequency of tax payments between employed and self-employed individuals, which this consultation seeks to address. However, introducing a new system that still leaves two taxpayers with the same overall taxable income paying tax at different times appears to fall short of an adequate solution.

Blurring of different income sources

3.22. Removing the link to PAYE income may be preferred by individuals wanting to keep their business separate from their employment/pension. They may find it easier to settle tax on profits from their business account to better understand their net profits and/or to better gauge the tax due on each income source.

3.23. Keeping tax on other income/profits separate from employment tax will also be important for those needing or preferring to maintain privacy. This can be especially important in family businesses or smaller companies where lack of confidentiality about large code adjustments could have serious implications. Taxpayers should have the option to avoid their employer having sight of a frequently changing PAYE code indicating how much income they have from other sources.

3.24. As a minimum, taxpayers should have the option of opting out of collection through PAYE (as now) and opting into direct payments on account.

4. Question 3: Should the government use, or give the option to use, anything else (for example, MTD quarterly updates and in the future, reputable third-party data) to inform the forecasting approach for this change?

4.1. One of the key policy objectives of MTD is to encourage more timely, digital record-keeping and the primary purpose of MTD quarterly submissions is to evidence this digital record keeping, not to report complete and accurate reports of tax-adjusted profit each quarter. Annual adjustments will inevitably be required that will affect the annual tax calculation. Suppose, for example, that a sole trader submits MTD data that includes full deductions for a new shed, workshop renovations and a new car but then later determines that the tax treatment should be different. There may be a significant underpayment of tax if the forecast is updated for these items before they are corrected following a full tax analysis at the end of the year.

4.2. Any suggestion that MTD quarterly submissions should be accurate for tax purposes would represent a fundamental shift in policy. Given that MTD has not been rolled out on the premise that the quarterly submissions are accurate mini tax returns, we do not support HMRC updating PAYE codes based on MTD submissions on an automated basis.

4.3. Nevertheless, one benefit of keeping up-to-date tax records is that for some taxpayers with steady income, using MTD submissions to update their tax forecast in year could be useful. They should therefore be given the option to use this information if preferred.

4.4. The longstanding risk with trying to estimate profits/tax liabilities and reduce payments on account is the interest charges if estimates are too low. We note that the consultation is silent about how the proposed changes would interact with the current late payment interest and penalty regime, but these are major considerations if the objective is to encourage taxpayers who are genuinely trying to estimate their tax liabilities, as opposed to failing to pay on time. We expand on this point in response to question 12.

4.5. HMRC are currently looking to increase and improve the use of other third-party data to pre-populate taxpayer records, which should therefore also be used to help taxpayers estimate and update their tax liability forecast if preferred. Accuracy is a concern, and therefore it is important that this is an option, not mandatory. It needs to be clear to taxpayers where the third-party data has come from, a detailed breakdown provided and the ability to challenge/change the data if incorrect. This should include whether figures come from a tax return, MTD quarterly update, third-party data, taxpayer amendment, HMRC correction or PAYE real-time information. Without this transparency, taxpayers will struggle to identify errors or understand why payments have changed. There will be some types of data that cannot easily be supplied directly, such as partnership profit shares and foreign business or investment income. The quality of tax-reporting data from letting agents also varies widely.

4.6. Many of those under PAYE, especially those with multiple sources, already believe HMRC are wholly responsible for getting their codes right. Any provision of data by HMRC systems would therefore need to be accompanied by a warning that taxpayers remain responsible for the accuracy of the figures regardless of their source and must check them against their own records.

5. Question 4: What other safeguards should the government consider?

5.1. We would recommend the 50% PAYE regulatory limit remains in place as a default. The limit is an important safeguard for those who rely on their PAYE income.

5.2. However, should the proposal go ahead, we would support an optional raising of the threshold for those who fully understand the implications (which may need some basic checks) and actively choose to allow more to be collected.

5.3. The non-statutory 'double liability limit' (which prevents a restriction for tax debt being included in a tax code that would double the tax that would otherwise be deducted) should also become statutory but subject to a taxpayer override where the taxpayer is fully aware of the impact on their take-home pay and agrees to the additional tax deductions.

5.4. Another safeguard could be automated warnings where HMRC identify that income/tax is lower than expected in any particular month (for example because a PAYE source ceases or an employer is using the wrong code), highlighting to taxpayers that they may need to check their position. This would allow issues to be identified and resolved early and avoid large under/overpayments to build up.

5.5. In terms of frequent payments, there should be a clear requirement to opt-in to/authorise revised direct debits, or PAYE adjustments if that proposal goes ahead. Taxpayers should not be caught off guard by changes to their payments being automated due to updated third-party or MTD data (even if they have submitted it themselves).

6. Question 5: Which groups of taxpayers would find a different threshold helpful?

6.1. It would be more convenient for certain taxpayers to have a higher threshold if it takes them out of the January/July POA regime entirely for their other income. This could be the case for those with multiple small sources of PAYE income (common for those in receipt of pensions), where a non-PAYE source is their main source of income. There would need to be an easy mechanism to opt-out of the increase if circumstances changed.

6.2. Conversely, a lower threshold may be more appropriate for lower income households that rely on regular PAYE income. This ties into the question of how to support those that would face cashflow challenges due to irregular/seasonal business profits.

7. Question 6: Do employers and other payroll operators need additional safeguards for these changes?

7.1. We would suggest encouraging the use of digital solutions to reduce the administrative burden of manual PAYE code updates.

7.2. For employers that pay quarterly (because they usually pay less than £1,500 per month), increases in PAYE tax deductions from adding ITSA POAs to the PAYE deductions may mean they no longer qualify for the quarterly payment regime: see Case Study 1 in the consultation document. HMRC should consider increasing the £1,500 threshold.

7.3. Where PAYE tax codes are adjusted (for example, because POAs are reduced) and result in a PAYE tax refund to an employee, an employer can ask HMRC for financial help if the refund is more than the cumulative total of PAYE deductions for other employees (if any). While most refunds are made within 7 to 10 days, they can take up to 3 weeks. HMRC should improve this service so that no employer has to wait more than a week to fund the employee's tax refund.

8. Question 7: What support or guidance might employers benefit from?

8.1. Employers would benefit from being able to signpost employees to clear guidance on any changes to payments on account.

9. Question 8: Are there other impacts for payroll operators that the government should consider?

9.1. The government should recognise that payroll operators will have only just completed their transition to mandatory payrolling of benefits-in-kind by April 2029 (which is being phased in over two tax years from April 2027). Payrolling of benefits-in-kind is an additional administrative burden, requiring in effect 12 (or 13) mini-P11Ds each year, slightly offset by the reduced number of PAYE code changes emanating from HMRC. Payments on account via PAYE could lead to many tax code changes as estimates are updated. This will add administrative costs and burdens in processing these changes to payroll operators, employers and HMRC.

10. Question 9: What options should the government consider to support taxpayers who might move in and out of paying their ITSA liabilities via PAYE?

10.1. As noted above, we believe that moving taxpayers in and out of paying ITSA liabilities via PAYE adds too much complexity to the tax system, and other options should be more thoroughly explored first.

10.2. Should the proposal go ahead, it may be helpful to direct taxpayers moving in and out of ITSA through PAYE to the Budget Payment Plan option through their online account instead, allowing them to retain the benefit of small, regular payments if they prefer.

10.3. If an individual's circumstances change and they are moved out of paying their ITSA liabilities via PAYE, consideration should be given to moving them onto direct payments instead for the remainder of the tax year, to avoid the confusion and potential over/underpayments arising from moving in and out and the need to keep updating HMRC.

10.4. Well-designed statements and intuitive online forecasting tools will be important to help taxpayers understand the impact of moving in and out of ITSA liabilities. The SA statements of account must include the POAs deducted via PAYE.

10.5. We recommend strengthening SA so that it overrides HMRC's P800 and Simple Assessment tax calculations, allowing unsolicited returns without the need to manually reopen the Self-Assessment record.

11. Question 10: What potential approach, including frequency of payments, would be most appropriate to achieve the policy objective, taking account of different taxpayer circumstances?

11.1. Increasing the frequency of payments to monthly would align most closely with the majority of those who pay tax through PAYE, creating a degree of simplicity and consistency.

11.2. Monthly direct payments would also provide more of the benefit of smaller, more manageable payments compared to quarterly.

11.3. On the other hand, other ITSA income is far less likely than PAYE income to be steady throughout the year. Quarterly payments could therefore offer a better balance of increasing the frequency of payments while supporting those with variable income.

11.4. While multiple options could increase complexity, providing a choice of payment date and frequency (weekly, 4-weekly, monthly and quarterly) may allow the policy to support a wider range of taxpayer circumstances.

11.5. In either case, payment needs to be made as simple as possible, for example through the use of direct debits, to avoid simply adding more frequent administrative tasks.

11.6. An appropriate approach would also need to ensure repayments can be managed much more efficiently than they are now, similarly to how cumulative PAYE codes can automatically repay overpayments on the next pay date.

11.7. We suggest consideration of service level commitments to ensure that any requested adjustments to payments are dealt with by HMRC within a specific timeframe.

12. Question 11: What could the impact of more frequent payments be on taxpayers?

12.1. Many of those with trade or property businesses will be familiar with monthly running costs. Adding income tax liabilities could help taxpayers perceive them as a regular cost of doing business, ranking equally with their utility bills, insurance, etc., rather than something to only think about in January.

12.2. More frequent payments would also reduce the impact of 'bill shock' as explained in the consultation, helping taxpayers to improve cash management.

12.3. However, taxpayers operating in seasonal industries may find more frequent payments impact on cashflow and therefore their ability to grow their business or even meet day-to-day costs.

12.4. Many company director/shareholders pay themselves dividends just once a year, based on the company's annual results. If dividends are usually declared at the very end of the tax year, monthly tax payments will result in almost (or entirely) the full liability needing to have been paid before the income is taxable, let alone received. Similar issues can arise for those with investments that pay out annually, for example on fixed-term deposits.

12.5. The disconnect between the timing of tax payable and income receipts has the potential to be amplified for those using the accruals (rather than the cash) basis. This is particularly noticeable in the manufacturing, construction and professional service industries where cash may not be received until many months after the income has been recognised in the accounts.

12.6. Farming businesses could also face added complexity due to the difficulty of forecasting accurate profits for the tax year (due to seasonal income, large one-off expenses, stock adjustments, etc.) combined with farmers' averaging calculations.

12.7. The impact of over-reduced or unpaid (for whatever reason) payments on account would be exacerbated by a more frequent payment schedule. We suggest possible solutions in response to question 12 below.

13. Question 12: If these changes were introduced, what additional measures could the government consider to support taxpayers when their Self Assessment income changes during the year?

13.1. As noted in the consultation, the current system allows taxpayers to reduce their payments on account where it no longer reflects their liability. However, since the first payment on account is only two months from the end of the tax year, and the second is after the tax year, taxpayers have a reasonable chance of establishing their likely liability.

13.2. If changes were introduced so that the first payment on account is due at the very start of the tax year, estimating its accuracy will be significantly more challenging. This needs to be recognised in the level of interest that is charged for taxpayers who attempt to reflect their estimated liability in reduced payments on account.

13.3. The policy rationale for the current high rate of interest is to "ensure fairness for those who pay on time.[1]" It is designed to affect only those who "fail to pay their liabilities", suggesting its target is those who know their liability and deliberately pay it late. This type of taxpayer behaviour needs to be distinguished from those who cannot reasonably estimate their liability, who genuinely believe their profits will be lower in the current year, and who through no fault of their own are left with a significant underpayment.

13.4. Government policy already recognises the inherent unfairness of charging full interest rates on broad estimates through the reduced rate applied to corporation tax quarterly instalment payments. Companies within the instalment payment regime also receive credit interest if they overpay. This is the case even though most companies pay half of their tax instalments *after* the end of their accounting period.

13.5. We believe that debit and credit interest for individual taxpayers must be reviewed before any final decisions are made on the timely payment proposals. The current late payment interest rates are highly penal and were not designed for estimated tax liabilities based on figures from two years prior and with a complex collection method. People should be encouraged to regularly review estimated profits and tax calculations as the ideal way to avoid over/underpaying tax, but they should not be penalised for not doing so.

13.6. We also suggest that more can be done to improve the design of PAYE codes to help taxpayers better understand their allowances and notice potential errors. With advances in payroll software and automated systems, format changes are easier and there is less need for abbreviated numbers and cryptic letter signifiers that then need a further page of explanations.

13.7. HMRC need to be careful not to overly burden taxpayers and agents. HMRC are currently changing how taxpayers submit their tax information (via MTD), how they communicate with HMRC (via HMRC's Digitising Post programme) and with this project, how taxpayers pay their tax. That is changes to submissions, payment and communication with HMRC in one short period of time.

14. Question 13: How else might the government support taxpayers to manage more regular payments?

[1] Changing late payment interest rates on unpaid tax liabilities - GOV.UK

14.1. Support for more regular payments should focus on easy to use, flexible payment options that work for the broadest range of taxpayer circumstances. These could be similar to modern banking apps that allow you to, for example, change direct debit dates to coincide with pay day, pay weekly/4-weekly/monthly or quarterly, overpay as and when preferred, or take a payment holiday when circumstances require it, with instant visibility of the changes through the online account.

14.2. HMRC already encourages the use of the personal tax account, which is a good starting point but needs more development (we note the site is still showing as in Beta). Likewise, the HMRC app is underdeveloped, with too many aspects redirecting taxpayers back to web pages. More investment into these tools will help taxpayers gain a clearer picture of their tax position, and how and when they can pay their liabilities.

14.3. We would also recommend that HMRC's systems help signpost individuals to helpful internal and external debt management resources (e.g. MoneyHelper) and further guidance on how the timely payment regime works (e.g. the Low Incomes Tax Reform Group (LITRG)).

15. Question 14: Which groups of taxpayers might require additional support to access or use payment management tools?

15.1. Digitally-excluded taxpayers will need clear accessible information in the form of easy-to-read paper statements and dedicated access to telephone helplines. HMRC should take into account that these taxpayers may also need more time to set up changes.

15.2. We would encourage HMRC to work with other government agencies and charitable organisations to improve the reach of any messages about upcoming changes.

15.3. Additional support will also be needed for low-income or vulnerable taxpayers, and those who are unable to access professional support.

16. Question 15: How might the government best support taxpayers to manage the transitional period?

16.1. Providing taxpayers with sufficient notice of the changes will be vital to reduce undue hardship arising from unexpected payments. We would recommend both a targeted approach, informing those expected to be within scope, as well as a general campaign to advertise the changes more widely.

16.2. We support LITRG's call for a delayed implementation to allow sufficient voluntary testing of the proposal before it becomes mandatory. Given the noted benefits outlined at the beginning of this consultation response, we would expect to see sufficient take-up of an optional payment schedule, allowing greater insight into possible issues and taxpayer behaviour. Care would need to be taken to avoid volunteers being put at a disadvantage in terms of late payment interest, either through adjusted calculations using the original due dates or a pause in interest altogether (subject to criteria such as all payments already being up to date to avoid possible abuse).

17. Question 16: Would the option to make voluntary pre-payments, ahead of implementation, be helpful?

17.1. As noted above, we agree that voluntary pre-payments could be helpful ahead of implementation, allowing taxpayers more time to establish the impact on cashflow and bring to light any possible issues.

17.2. However, we would point out that voluntary payments are already possible, since taxpayers can make advance payments through their Government Gateway account. Taxpayers can also make use of Budget Payment Plans. Rather than another official system, we would like to see HMRC encouraging the use of existing advance payment options.

17.3. We recommend guidance and tools that raise awareness of and improve ease of access to voluntary pre-payments. Part of this should take into account the need for clearer statements on account, as we highlight earlier in our response. We suggest supporting more traditional statements with visual timelines, similar to the case studies in the consultation, to aid understanding.

18. Question 17: If changes were made, what transition period would be most appropriate?

18.1. A move to more frequent tax payments for the current year while still owing tax for the previous year will be a significant challenge for many. Spreading the previous year's liability over a longer time frame could be the difference between managing cash needs on a day-to-day basis and financial hardship.

18.2. Spreading tax liabilities comes with its own challenges. A tax year that spans two calendar years with a balancing payment date in the third calendar year can easily lead to different time periods and deadlines becoming muddled. Adding in a temporary change to the usual payments on account regime, which is already poorly understood in the general population, on top of a requirement for say monthly tax payments for the current year based on income/profits from two years ago, and the level of complexity quickly becomes unreasonable.

18.3. We conclude that there should be no spreading of the previous year's liability as a default. Existing support and options for voluntary pre-payments would need to be widely advertised and easily accessible to support those who need it well in advance of implementation.

19. Question 18: What other support would help ITSA taxpayers during the transition period?

19.1. Good quality information from HMRC and wide dissemination of that information will be crucial sources of support during the transition period.

19.2. HMRC should work with stakeholders to design clear guidance that can be shared ahead of time, for example via employers, tax agents, debt support services, media outlets, etc. Guidance should not be an afterthought, published at the last minute as rules come into effect, as this risks increasing misunderstanding and mistrust in the tax system.

19.3. Guidance should also be tailored to different audiences, including those needing extra support, the digitally-excluded and those more likely to consume news through social media channels.

20. Question 19: How might the government best support new or returning taxpayers to make timely payments, when they start earning ITSA income?

20.1. Without previous tax liabilities on which to base payments on account of any frequency, it is difficult to see how default timely payments could be mandated. It is unsurprising that self-employed individuals starting out in new businesses can find it hard to estimate likely profits; they may simply guess at a loss due to awareness that this is common, out of excessive caution, or from inexperience with budgeting and/or cashflow pressures.

20.2. Nevertheless, resources should be directed towards supporting new or returning taxpayers with ITSA income as for existing taxpayers (i.e. targeted guidance where possible and work to raise awareness of the changes more generally) so that they have the opportunity to familiarise themselves with frequent payments before they are required.

20.3. An employee starting to receive self-employment income in April 2030 may face significant bill shock without early guidance. As is the case now, they would have no tax to pay for almost two years. Then within the space of six months, they would have a tax payment due of 150% of their 2030/31 liability on 31 January 2032, estimated ITSA via PAYE due for 2032/33 from April 2032 onwards and a further 50% of their 2030/31 liability due by July 2032. We suggest the automated Self Assessment registration letter includes advice on how to avoid being caught out by bill shock, for example directing people on where to find budgeting tools and different payment methods.

20.4. Aiding understanding of the tax system, providing forewarning of the need for more regular payments and offering support to manage payments for those who need it should all be considered part of HMRC's remit in supporting taxpayers to pay tax on time.

20.5. We also believe new businesses in particular would benefit from a downloadable introductory guide to their wider tax compliance, tax reporting and administrative obligations, as proposed by the Office of Tax Simplification and referenced in our response to the Reporting Company Payments to Participators consultation[2]. A simple suggestion could be aiming to transfer, say, 20% of weekly/monthly cash balances to a dedicated tax account/pot for sole traders using the cash basis, or withholding 10% of any dividends in a separate company account before paying them out.

20.6. A low rate of credit interest (below commercial savings rates) on overpaid tax payments would also support taxpayers to avoid tax debt, by incentivising them to pay early and more frequently.

21. Question 20: How might estimating appropriate liability for new or returning ITSA taxpayers be achieved?

21.1. As above, we recommend encouraging new or returning ITSA taxpayers to estimate their liabilities (through incentives and support) but not requiring them to do so.

21.2. Introducing a system of estimated liabilities for new or returning ITSA taxpayers separate to that for existing taxpayers adds unnecessary complexity to the tax system. And bringing them into the same system, presumably with late payment interest charges and possible debt enforcement action, is unreasonable and likely unworkable in practice (since an expectation of profits/losses is difficult to prove).

22. Question 21: What could be the impact of reducing the POA threshold, or are there alternative ways to support taxpayers below the current threshold to achieve the timely payment objectives?

22.1. We would caution against a reduction of the payment on account threshold of £1,000.

22.2. Administratively, the collection of smaller amounts due on a frequent basis is likely to impact time and costs for both HMRC and taxpayers.

22.3. It would be helpful to understand what proportion of tax debt relates to those with ITSA payments of below £1,000 and therefore how much need there is to bring these taxpayers within scope of the timely payment objectives.

22.4. We suggest that, with the security of the £1,000 POA threshold in place, consideration could be given to removing the 80% threshold. The justification for this threshold, which applies where at least 80% of the tax liability is collected at source, is weakened by the policy objective of achieving more timely payments for most taxpayers.

23. Question 22: In what circumstances could the government consider offering taxpayers with PAYE and ITSA income the choice between making ITSA payments through PAYE, or direct ITSA POAs, such as via Direct Debit?

23.1. Firstly, it should be noted that taxpayers with PAYE sources already have the option to code out small ITSA payments in later years, where they submit their tax return by 30 December or make use of simple assessment. This process works well for those who routinely have a small amount of additional tax to pay on, say, their investment income.

23.2. As we state earlier in our response, we believe that bringing in compulsory ITSA payments through PAYE creates too much complexity due to difficulties with incorrect tax codes where PAYE sources start/stop or overlap and the potential for confusion when moving in and out of the regime.

[2] Reporting company payments to participators - CIOT response.pdf

23.3. We suggest that the better starting point is a system of more frequent tax payments for all taxpayers. Our preference would be for HMRC to enable those already within the POA regime to more easily switch to ongoing direct debits, ahead of bringing forward the payment due dates.

23.4. Once a system for earlier frequent payments has become established, after sufficient attention to system development, guidance and volunteer testing, alternative payment methods could be reviewed as options. ITSA payments through PAYE can be beneficial and in some cases are preferred by taxpayers where the amounts year-on-year are predictable and stable but currently the alternative POA regime is too far removed to easily move between the two, and work is still needed to better integrate HMRC's systems.

24. Question 23: What would agents find useful to enable them to carry out their role effectively under the announced changes or possible reforms?

24.1. Agents need to be able to see and do everything that their clients can through digital systems. This will allow them to more effectively adjust profit/tax estimates, tax payments, and PAYE codes, and support clients with understanding their tax affairs, and providing updates and reminders.

24.2. This will include access to information on previous and in year changes to income across both SA and PAYE. Pain points and gaps already exist in the PAYE information currently available to agents. This problem will be compounded as agents will need full sight of PAYE information for the previous filing period and in-year PAYE income changes to determine what payments have been made and whether current deductions are appropriate. Will agents be able to see all the information that is available within the taxpayer's personal tax account? Are there plans to include the income record viewer within a single SA authorisation? Will HMRC make more APIs (application programming interfaces) available to help agents extract information from the income record viewer so they can manage their clients more effectively? Currently, an agent has to log in individually to extract data which is very time consuming. Even for self-assessment, HMRC should not assume that agents have access to all client bank feeds and accounting systems. Furthermore, it is not mandatory for taxpayers to have software under MTD and some continue to use MTD compatible spreadsheets to keep their digital records.

24.3. Currently agents do not have a digital service to update client's PAYE codes, resorting to having to contact HMRC via telephone or webchat, which is costly and inefficient for HMRC, agents and taxpayers (if the agent is able to charge the client for this). We welcome the commitment in HMRC's Transformation Roadmap to launch a new service to enable agents to digitally submit information which may impact a client's tax code. If this project goes ahead, the system design will need to enable agents to update tax forecasts that affect ITSA deductions through PAYE. We have also welcomed confidential engagement with HMRC on the progress of this project. We would emphasise the importance of having this agent functionality in place before these changes, to help agents help taxpayers get this right efficiently and effectively.

24.4. We recognise and appreciate that when increasing access to taxpayer PAYE information and functionality to change PAYE codes, HMRC need to consider and tackle the risk of 'bad actors' in the market who may abuse this increased functionality. HMRC have been progressing with modernising which agents are acting for clients (with modernising and mandating tax adviser registration) and changing the security processes around how agents access their accounts. We would welcome discussion with HMRC on how to improve agent functionality, while maintaining high levels of security and protection for taxpayers and HMRC.

25. Question 24: What support or guidance might be most effective for taxpayers with particular challenges and needs?

25.1. HMRC's Extra Support team is a valuable resource for taxpayers with particular challenges and needs. Ahead of such a significant change to the tax system, HMRC should be raising awareness of the service, including through relevant stakeholders.

25.2. Other points of contact with certain taxpayers should be considered as possible opportunities to signpost them to guidance on the timely tax payments requirement, where appropriate. For example, written or verbal guidance to personal executors about their tax reporting could include gentle reminders about tax payment due dates early on, to avoid unwelcome surprises when they may be dealing with grief.

25.3. Guidance and support should be offered at multiple stages before and during the implementation of any changes through a variety of channels. This gives those who need it more opportunities to familiarise themselves and ask questions, as they may struggle to fully understand HMRC communications at one particular point in time or through a particular format. This would also help to build trust in HMRC.

25.4. HMRC will also need to carefully consider how they support those who are digitally excluded. Taxpayers may not fully appreciate how the changes impact them based on a generic letter so we would recommend tailoring communications as far as possible, with an offer to speak to HMRC where needed.

26. Question 25: What extra support or guidance might taxpayers who qualify for financial support from the government (such as Universal Credit) need?

26.1. HMRC's Extra Support team can provide additional support to taxpayers qualifying for financial support or in financial hardship including those who are also experiencing other challenges. HMRC are more likely to be aware of taxpayers in receipt of financial support. We would therefore suggest they are identified by HMRC so that additional steps can be taken to signpost them to the Extra Support Team where needed before ordinary debt management processes are initiated.

26.2. We also suggest a government review into the administrative burden for those on Universal Credit, allowing HMRC staff to better understand the problems and possible means of support. This would consider the extent of the information and records that need to be provided to various agencies and departments, and the impact of delayed and amended income receipts.

27. Question 26: What support or guidance might be most effective for tax agents?

27.1. The increased access to taxpayer information and improved functionality discussed in question 23 will be vital to enable agents to effectively support their clients. If the new digital service to enable agents to change a PAYE code (in-year estimate changes will also need to be included within this) is not delivered before this project, then this may well put additional pressure on HMRC's agent customer services.

27.2. Agents will need to be familiar with and well prepared for the changes to better advise their clients. Professional bodies like the CIOT can support agents with this. HMRC webinars, especially those offering live questions and answers, are well received by agents, providing them with a useful overview and a clear HMRC view that they can communicate to clients.

27.3. In addition, agents can play a vital role in helping HMRC shape tax policy, reviewing and inputting on the draft legislation, the system design, the implementation roadmap and ongoing feedback to inform iterative changes once live. We encourage the government and HMRC to remain open to engagement on all of these. Having everyone around the table can help improve the rollout of this project. We would also highlight the CIOT's published minimum standards that should be applied when HMRC are developing or introducing new digital services.

28. Question 27: Are there are any additional comments you would like to make regarding the 'timely payments in ITSA' announced changes and possible reforms?

28.1. The narrative at various HMRC external forums suggests that the government are keen to get as much feedback as possible through the consultation process, noting that the proposals are still at an early stage with no firm decisions made and no changes expected until at least April 2029. With that in mind, we wish to highlight that the consultation period, restricted to 6 weeks over the summer holidays, has made it extremely challenging for gathering views and evaluating the proposals.

28.2. We also wish to highlight that these proposals come on the back of significant other tax administration changes. Regardless of the arguments for and against, MTD has undoubtedly created more work for taxpayers and agents, who are also having to adjust to HMRC's new digital-first communication system, plus changes to payrolling of benefits, e-invoicing for VAT, the Trust Registration Service and Automatic Exchange of Information.

28.3. The proposed timing of April 2029 is only one year after taxpayers with rental/self-employment income over £20,000 will fall within MTD. Those smaller taxpayers may struggle to contend with the changes in such quick succession.

28.4. In November 2025, HMRC announced their plan to digitise outbound HMRC communications, with 90% of customer interactions to be digital by 2029 to 2030. For some taxpayers who are not currently digitally active, this is a significant change to receiving information by post and the project team is currently considering how to increase digital adoption. These change how taxpayers receive communications from HMRC and pay their tax in the same timeframe. Careful consideration needs to be given to ensure some taxpayers are not left essentially 'locked out', unable to access the communications that explain the changes to their payments or PAYE income.

28.5. While we welcome the publication of HMRC's Transformation Roadmap, it is still not clear how the various projects and areas of focus tie into an overall vision for future tax administration. Our concern is that HMRC is designing (or at least externally considering and discussing) major reforms in separate workstreams rather than as a coherent full picture. For example, if the need to help calculate in-year tax payments had been a clear objective for MTD, this would have helped inform discussions around operational approach, software design and agent involvement. It would be helpful to understand HMRC's longer term plans and how each modernisation project fits together to future-proof the digital tax system.

The Chartered Institute of Taxation

The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely in order to achieve this aim; we are a non-party-political organisation.

Our stated objectives for the tax system include:

· A legislative process that translates policy intentions into statute accurately and effectively, without unintended consequences.

· Greater simplicity and clarity, so people can understand how much tax they should be paying and why.

· Greater certainty, so businesses and individuals can plan ahead with confidence.

· A fair balance between the powers of tax collectors and the rights of taxpayers (both represented and unrepresented).

· Responsive and competent tax administration, with a minimum of bureaucracy.

The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.

Our members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.