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Requiring payment of VAT and PAYE return liabilities by Direct Debit

Response by the Chartered Institute of Taxation

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. We are responding to the consultation on ways timelier PAYE and VAT payments can be achieved through greater use of direct debit. It is already possible to pay both PAYE and VAT by direct debit. The consultation proposes requiring businesses to pay through this method rather than it being one of several options to pay tax due.

1.3. We are concerned that, given the significance of the proposals, the document lacks detail and the consultation period is both short and over a holiday period. This does not provide adequate time for bodies such as us to prepare thorough responses, especially when it sits alongside several other important consultations with similarly short timescales.

1.4. We are supportive of measures to improve timely tax payment compliance, reducing late payments, avoiding misallocated payments and simplifying compliance, but for the reasons we have set out in this submission we are not convinced that mandating payment by direct debit is the answer.

1.5. While direct debits can often be a convenient and efficient payment method for many businesses and employers, mandating direct debit payment is not a proportionate response to address compliance concerns relating to a few when most businesses and employers pay on time.

1.6. We would therefore recommend that HMRC does not mandate direct debit payment at this time and that the method of payment remains businesses and employers' choice. Payment by direct debit could be more widely publicised and encouraged, while limiting any mandation to clearly evidenced risk groups.

1.7. Mandating direct debits transfers control over the collection/payment date from the business or employer to HMRC. This represents a significant shift in control without any compelling evidence that the benefits to HMRC outweigh the risks to the business and employer. It reduces flexibility for those with potentially the least administrative capacity and the greatest cash-flow pressures, while creating new compliance risks for taxpayers who currently pay accurately and on time using other methods. Additionally, businesses and employers should not be penalised for paying on time via other methods.

1.8. In our experience, late payment is primarily caused by oversight and more could be done to remind businesses and employers when payments are due. While cash-flow difficulties can be a cause of late payment, mandatory direct debit collection/payment is unlikely to resolve this since the direct debit will simply fail. We think it is more likely the number of cash-flow related late payments will increase if mandatory direct debit is introduced since businesses and employers are less likely to be thinking about the upcoming payment and therefore will not contact HMRC to agree, for example, an instalment plan until after the direct debit has failed.

1.9. The consultation does not reference any research that has been conducted to understand why the majority of businesses and employers are not adopting direct debits and the reasons for this. We would therefore recommend further research, beyond this consultation, into why the overwhelming majority of businesses and employers are not currently using direct debit. Understanding those reasons should be a prerequisite to considering a mandatory approach.

1.10. If the option to mandate direct debits is taken forward – and we would strongly recommend it is not at this time – there should be further consultation on the scope of exceptions to mandation that are required so that it remains a voluntary option for some groups, particularly small and micro businesses, voluntary VAT registrants and individual employers. Alternative payment methods will also be needed for very large businesses and employers because of the £20 million direct debit limit and strict financial governance controls.

1.11. In relation to PAYE, we believe that upgrades to HMRC's PAYE Real Time Information (RTI) system and related Debt Management system are needed before even considering the mandation of direct debit collection. PAYE reconciliation issues, delays in resolving disputes and the misallocation of PAYE payments are all common complaints we hear from members. HMRC's IT infrastructure needs investment and modernising to address these issues if advisers and employers are to have any trust in HMRC collecting the correct amounts through direct debit.

1.12. In relation to VAT, HMRC's infrastructure must be upgraded to allow businesses and their agents, as well as HMRC staff, to have transparency and the ability to reconcile the online business tax account, especially when misallocations arise. Our members have fed back how time-consuming it can be to rectify payment misallocations, and any direct debit mandation may compound the problems.

2. About us

2.1. 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.

2.2. 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.

2.3. 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.

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

3. Direct Debit for VAT

3.1. Question 10: Prior to this consultation, were you aware that you could make VAT payments by Direct Debit?

3.2. Our members are aware of the different methods their clients can use to pay VAT, including by direct debit, bank transfers, debit cards, standing orders and cheques. We also believe that awareness of direct debit amongst VAT-registered businesses is relatively high.

3.3. Non-use of direct debit is often driven by valid commercial and governance factors rather than lack of awareness. For example, many businesses deliberately control payment release through banking platforms to manage cash flow and approval processes.

3.4. It is not clear from the consultation that any research has been undertaken to help understand why businesses have not already adopted direct debit, and whether HMRC has explored these barriers.

3.5. It is also unclear whether HMRC officers or HMRC's standard letters, when dealing with businesses who have had problems with payment oversights or interest/penalty reviews, routinely highlight that having a direct debit would avoid the issue in the future. We recommend that this is reviewed, as it would target the businesses contributing to the tax gap rather than the majority of compliant businesses.

3.6. Question 11: If you currently pay by Direct Debit or previously have done, what benefits or drawbacks, if any, have you experienced?

3.7. No comment.

3.8. Question 12: If you were aware of the facility to pay by Direct Debit but have chosen not to use this payment method, could you explain why?

3.9. No comment.

3.10. Question 13: The government expects that making payment of VAT by Direct Debit mandatory could deliver benefits for businesses, including greater automation and reduced administrative burden. What benefits, if any, do you expect this change could bring to your accounting processes or wider business operations?

3.11. While we would not expect this change to bring meaningful benefits to most businesses, some potential benefits to businesses include reduced risk of missed payment deadlines, reduced payment allocation errors, potential reduction in penalty disputes and a more automated VAT compliance journey. Such benefits will vary considerably between businesses depending on their size, systems and governance. Larger businesses already have strong controls and low rates of payment error so, for the majority of businesses, the mandation of a direct debit to pay VAT (and PAYE) would not be bringing benefits.

3.12. Question 14: What barriers or impacts, if any, might making payment of VAT mandatory by Direct Debit have on your accounting processes or wider business operations?

3.13. While we have no principled objection to payment by direct debit, mandatory payment by direct debit will be very impactful for businesses (and employers). There are fundamental issues to fix within HMRC's own software systems before considering whether mandation of direct debit for VAT (and PAYE) – one of a number of reasons that our overall view is that direct debit mandation for all VAT (and PAYE) taxpayers is not appropriate at this time. Where we provide feedback in this submission that is aimed at being constructive in shaping the proposal should it go ahead, our underlying position remains that this is not yet an appropriate proposal.

3.14. For example, currently businesses and certain HMRC teams cannot access a clear reconciliation of tax payments and debits in the BTA/PTA. We receive regular feedback from members of tax payments with correct identity details, paid on the correct date, being misallocated within HMRC's systems. In such circumstances, the issue is only discovered weeks later when a postal notification or a notification of a penalty or interest charge is received. The business does not have a clear audit trail in the BTA/PTA and HMRC helplines generally do not have access to the right information either. Some businesses go on to receive long printouts of historical payments and debits on their tax account to reconcile for themselves and work out the issue, which places demand on resource and is a slow journey for both HMRC and the business to fix.

3.15. If there was a misallocation on file, what would happen if there were a systems error leading to incorrect payments being taken? Will there be prior notification of the direct debit amount to the business and a simple method to contact HMRC and dispute the amount if the business believes HMRC is wrong (and a speedy resolution to prevent the wrong amount being taken)? Whilst the BTA/PTA reconciliation functionality does not provide a transparent transaction history, we anticipate that mandated direct debits would exacerbate difficulties caused by misallocation, which are currently happening too frequently and affecting businesses of all sizes.

3.16. Key concerns for businesses include cash-flow management, governance and authorisation, group structures where payments and returns may come from different entities, overseas entities with no or limited access to UK bank accounts, insolvent or otherwise cash-strapped businesses and difficulties correcting liabilities after submission of the VAT return/a corrected return.

3.17. Mandating direct debits will require businesses to ensure that funds for tax bills are in the right account, on the right day, every single time. For some it would be one of the biggest administrative changes in recent years, and it warrants more scrutiny than the consultation timetable currently allows. The biggest risk for businesses of mandating direct debits will be that there are insufficient funds in their bank account at the right time to pay HMRC, and the consequences that flow from that. We would anticipate that the issue could be more complex for corporate or VAT groups, or divisional registrations that have numerous members and bank accounts.

3.18. It is not unusual, for example, for businesses to experience cash-flow issues. How easy will it be to stop a direct debit and contact HMRC to agree a payment plan, particularly in the short period allowed between submission and payment? Good quality information will be needed on Time To Pay arrangements, application processes and timelines. This information will need to be easy to find and suitable for both advisers and unrepresented taxpayers.

3.19. Failed direct debit payments can be costly, not least in terms of bank charges and credit scores. If all businesses with UK bank accounts were mandated to use direct debit, would HMRC still allow the ability to make an electronic payment by other means so that part payments of tax balances could be made to HMRC on time, thereby reducing potential penalties and interest to only the outstanding amount?

3.20. As a minimum we would expect HMRC to have to provide advance notification of the amount of the direct debit and the date it will be taken, alongside a suitable facility to challenge the amount. For example, if HMRC has already collected payment from a business and the amount is disputed there must be a straightforward and responsive process for correcting errors, amending liabilities, addressing overpayment disputes and reclaiming funds. Delays in resolving these issues could create financial difficulties for businesses. Will HMRC be rapid enough to prevent serious hardship where a business experiences an unexpected cash flow shortfall?

3.21. Our members working as tax agents typically work on more complex cases and are accordingly more likely to experience delays with HMRC's customer service levels. The consultation does not indicate any planned increase in resourcing the inevitable issues that would arise with mandated direct debits.

3.22. Question 15: If you do have chosen to use methods of electronic payment other than Direct Debit, are there particular benefits in your chosen method of payment that informed a decision to use these instead of Direct Debit?

3.23. Payments initiated by the business (rather than HMRC) ensure that the business has control over their own funds. It is not a matter of not paying but a matter of planning and forecasting cash-flow, transferring funds from deposit to current account etc, to ensure payment is made on time, and reducing the risk of unexpected deductions from their bank accounts. This can be more complicated for VAT groups and divisional registrations.

3.24. It also allows businesses to determine if they cannot pay on time and contact HMRC before the payment due date to agree instalments rather than after a failed direct debit.

3.25. The alternative payment methods allow businesses to manage complex situations and situations where there are errors in the amount HMRC believes is due. While direct debit has protections, it is not clear what happens if there is a dispute between HMRC and the business over the amount due.

3.26. Cash-flow concerns are an everyday occurrence for many businesses, especially small and micro-businesses. Businesses may have tight margins, fluctuating income and expenses, and fluctuating tax bills. Dealing with tax can be a secondary concern behind keeping a business afloat. Having the option to pay early or as near to the payment deadline as possible – and, even, having the option to speak to HMRC about a late payment schedule – has real value for businesses. Freedom to manage payments is incredibly important to businesses.

3.27. Providing flexibility on payment to businesses is not about businesses avoiding or failing to pay tax, it is about managing funds to remain compliant. Having access to short term Time To Pay (TTP) arrangements with HMRC, which is currently fairly straightforward to access, can be incredibly important. It is not apparent that this type of flexibility would be retained under a mandatory direct debit regime. For example, what happens if the business knows they cannot pay on time? Will they understand they cannot simply cancel the direct debit, will they be assured that a TTP arrangement overwrites/suspends the direct debit, will a failed direct debit affect compliance and TTP discussions, etc?

3.28. Additionally, the existing alternative payment methods assist where multiple authorisations are required to meet the business's governance requirements.

3.29. Question 16: Are you currently excepted from submitting VAT returns electronically?

3.30. No comment.

3.31. Question 17: What barriers or impacts might you face by making VAT payments by Direct Debit?

3.32. No comment.

3.33. Question 18: If you have set up a Direct Debit using VATC9 form or on your online VAT account and currently pay VAT by Direct Debit

- ***comment on benefits of this method, if any, you have experienced***
- ***comment on drawbacks, if any, you have experienced***

3.34. No comment.

3.35. Question 19: Are there any particular customer groups (such as disabled people, people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion or people with or without dependents) likely to be disproportionally affected? If so, please explain how.

3.36. We would refer you to the response by the Low Incomes Tax Reform Group (LITRG) which identifies potential impacts on particular groups, such as small and micro-businesses and voluntary VAT-registrants that may be unrepresented and/or not have designated business bank accounts.

3.37. A full assessment of the impact on small and medium-sized enterprises, VAT registered micro businesses, users of VAT flat rate schemes, charities and businesses with complex governance structures would be recommended before progressing this proposal.

3.38. In addition to those without suitable UK bank accounts, exceptions will also be needed for some charities and voluntary bodies who may also be unable to pay by direct debit for governance reasons.

3.39. Question 20: What, if any, barriers might you face or impacts might you experience on your accounting processes/business if POA instalments were collected by Direct Debit?

3.40. While mandatory direct debit for payments on account could simplify administration it increases risks for businesses that are seasonal or subject to volatile trading fluctuations. We would therefore recommend retaining existing mechanisms for varying payment on account amounts and correcting overpayments promptly. There is also the question of whether there could be an option for only the instalment payments to be on direct debit and the balancing payment by electronic means, particularly for cases close to the £20million payment threshold, as this could also create payment failure issues if the £20million threshold is breached and an existing direct debit cannot be used for the balancing payment.

3.41. Question 21: What benefits, if any, do you foresee if POA instalments and the balancing payments were collected by Direct Debit?

3.42. None.

3.43. Question 22: If your VAT liability fluctuates above and below £20million within a tax year please explain the typical range, frequency of fluctuation under and over £20million and why this varies?

3.44. If the measure goes ahead, we recommend maintaining an exemption or alternative arrangements for large businesses that experience the £20million fluctuation. Corporate banking controls frequently prevent use of standard direct debit arrangements and existing governance frameworks may be incompatible with automated payments/collection.

4. Direct Debit for PAYE

4.1. Question 23: Prior to this consultation, were you aware that payments of PAYE could be made automatically by Direct Debit, following an RTI return?

4.2. Our response to Question 10 is also relevant here.

4.3. Our members are aware of the different methods their clients can pay PAYE, including by direct debit, although we think awareness may be lower than that for VAT. Employers often prefer BACS or Faster Payments because payroll approval and payment processes are closely integrated.

4.4. This said, there can be a disconnect between those to whom our members give advice, those who process the payroll and those who approve payments (and often the controls and governance structures require a true sign-off of the payment, which as we have noted elsewhere may not interact well with mandatory direct debits). Due to this, some organisations will either not be aware that direct debit payment is an option or not all people in an organisation are aware, and/or payment by direct debit may not well align to the organisation's internal governance processes.

4.5. Question 24: How do you currently make payments of PAYE to HMRC?

4.6. No comment.

4.7. Question 25: If you have previously not paid on time, or paid with an incorrect reference, can you explain why this happened and would Direct Debit have help prevent this?

4.8. Our response to Question 14 is also relevant here.

4.9. We believe that there are fundamental issues to fix within HMRC's PAYE Real Time Information (RTI) systems before considering whether mandation of direct debit for PAYE would be a positive step.

4.10. Our members report persistent issues with PAYE reconciliations, delays in resolving disputed payments and regular misallocations of payments by HMRC. We are also aware that the PAYE payments and liabilities viewer available to employers and agents can hold different information to that which can be seen by HMRC's Employer's Helpline and CCMs, and that these can both differ from the view seen by HMRC's Debt Management staff.

4.11. Additionally, there is complexity with employer payment references. For example, each tax month has a different reference (this can be especially difficult to manage for weekly/bi-weekly payrolls), and these are totally different from P11D(b) (Class 1A NIC) payments and PAYE Settlement Agreement (PSA) payments of tax and Class 1B NICs. Some banks will remove or amend the references as they do not work with their systems. The PAYE online portal is also poor with HMRC reallocating payments to other things despite the correct reference being used (for example, where a penalty or interest has been levied, or where the employer has, for example, paid their PSA liability early) and, often, it is not clear what has been allocated to what.

4.12. The are also a number of forthcoming changes already to be managed by businesses and employers, not least the mandatory payrolling of benefits-in-kind, so further changes may create an unreasonable administrative burden at this time.

4.13. A prerequisite to a mandatory direct debit system must be to fix long-standing issues with PAYE account reconciliation discrepancies, a quicker response by HMRC to resolving disputed liabilities and payments, and improved systems to prevent the misallocation of employer PAYE payments. While we recognise that HMRC has made improvements to RTI and digital employer accounts, these issues continue to feature regularly in member-reported frustrations with HMRC's systems.

4.14. We do not consider that mandatory direct debit collection/payment should be introduced until HMRC can demonstrate that employers, agents and relevant HMRC teams have a consistent and appropriately up-to-date view of the employer's PAYE liabilities, payments and credits. Requiring employers to permit automatic collection while different HMRC systems may display different balances risks transferring the consequences of HMRC systems and reconciliation issues to employers.

4.15. Question 26: If you were aware of the option to use Direct Debit but haven't done so, please could you explain why?

4.16. No comment.

4.17. Question 27: If you have used Direct Debit to make payments of PAYE to HMRC could you:

- ***comment on any benefits of this method***
- ***comment on any drawbacks of this method***
- ***indicate whether this remains your chosen payment method and, if not, what prompted this change.***

4.18. No comment.

4.19. Question 28: If you currently pay PAYE by Direct Debit, to what extent does the later payment date influence your decision to use this method, compared to other factors?

4.20. No comment.

4.21. Question 29: If it is made mandatory to make payment of PAYE by Direct Debit, what impact, if any, might this have on your business?

4.22. Our response to Question 17 is also relevant to this question.

4.23. Mandatory PAYE direct debit creates particular issues because the amount reported through a PAYE Real Time Information (RTI) Full Payment Submission (FPS) does not necessarily represent the employer's final amount payable to HMRC for the relevant tax month. The amount payable may subsequently be affected by information reported through an Employer Payment Summary (EPS), corrections to earlier RTI submissions and other adjustments to the employer's PAYE account. There appears to be an assumption that PAYE payments are driven by a single monthly PAYE RTI FPS but, often, this is simply not the case.

4.24. It is therefore essential that HMRC explains precisely how the amount to be collected by direct debit will be calculated, when that amount will become fixed and how the timing of subsequent submissions, corrections and adjustments will interact with direct debit processing. Employers need to know the point at which an FPS or EPS will cease to affect a forthcoming direct debit and what happens where a correction or adjustment is made after that point. It is unclear whether this would amend a pending collection, result in a further automatic collection or require the employer to make a separate payment.

4.25. Similarly, where a correction reduces the amount due after a direct debit has been collected, it is unclear whether the excess would be repaid automatically or remain as a credit on the employer's PAYE account. HMRC should also explain how any resulting underpayment or overpayment would be dealt with. An employer should not have an incorrect amount collected simply because HMRC's systems have not processed an adjustment before the direct debit amount is determined.

4.26. Working with current HMRC systems, we would expect increased contact by advisers and employers with HMRC to resolve errors in amounts collected by direct debit. Our members regularly report issues with discrepancies in RTI processing, such as duplicated records, and the misallocation of payments, such as Class 1A/1B NICs payments for the previous year allocated against the current year's PAYE payments and payments remaining unallocated past due dates.

4.27. The systemic issues with the PAYE RTI systems, including related Debt Management and Banking systems, should be resolved first. Mandating direct debit before these underlying issues are resolved risks automating the collection of amounts arising from incorrect account balances rather than eliminating payment errors.

4.28. Under the existing voluntary PAYE direct debit process, HMRC notifies employers of the amount and collection date no later than three working days before collection. Under a mandatory regime, this will provide an effective safeguard only if employers and agents can readily verify the amount and obtain resolution before collection where they believe it is incorrect. Given the difficulties and delays that can currently arise in resolving PAYE account discrepancies, three working days may not provide sufficient time to prevent an incorrect amount from being collected.

4.29. Furthermore, it is unclear how a mandatory direct debit regime would work with certain payrolls such as an Appendix 8 or a payroll with notional income or a payroll with any other genuine 'late reason' for RTI reporting. For example, for an Appendix 8 annual payroll both the submission and payment deadlines fall on the same day (31 May following the end of the tax year). It is not clear how this would be dealt with and it would be unfair if a penalty were levied because HMRC had the information by the deadline but could not make collection on time as they could not process that data. Similarly, if you have a genuine 'late reason' the deadline for submission of the FPS is the 19th of the month following the end of the relevant tax month with payment then due 3 days later, potentially earlier if a weekend, which would not leave much time for HMRC to process, notify and collect.

4.30. We believe employers must retain the ability to review and authorise significant PAYE liabilities before collection, particularly where, for example, payroll adjustments, year-end reconciliations, share plans, internationally mobile employees or payroll corrections are involved. Employers need flexibility to manage payroll cash requirements. And group/international payroll arrangements create practical difficulties with reconciliations needed before payment.

4.31. We also note that some banks may levy fees for failed direct debit payments, which would likely exacerbate issues for those organisations with cash-flow issues (particularly if collection is attempted more than once).

4.32. We would recommend further research into the use and limitations of direct debit for PAYE before considering mandating PAYE direct debit collection and should a mandatory direct debit regime be introduced in the future this must include safeguards allowing employers to pause, amend or challenge collections before funds are taken.

4.33. Question 30: Are you currently excepted from submitting electronic returns for PAYE?

4.34. No comment.

4.35. Question 31: Please explain any barriers or challenges, if any, that you may face in making PAYE payments by Direct Debit?

4.36. Our response to Question 20 is also relevant to this question.

4.37. It is likely that similar exemptions to VAT would be required for PAYE. It should also be recognised that small employers, family businesses and non-trading individual employers may face greater compliance costs and practical difficulties than larger employers with established payroll functions.

4.38. The role of agents and payroll providers also requires consideration. In many cases an agent prepares the payroll and submits the FPS and EPS through the PAYE RTI system but has no authority over the employer's bank account. Employers and their authorised agents should have appropriate visibility of the amount HMRC proposes to collect and how that amount has been calculated, while control over the direct debit mandate should remain appropriately restricted. HMRC should also consider whether and how an authorised agent could raise a query about the amount before collection.

4.39. Question 32: Are there any impacts on particular groups of taxpayers (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) that need to be addressed? How do you suggest we can overcome these?

4.40. We would refer you to the response by the Low Incomes Tax Reform Group (LITRG) that addresses the impacts on particular groups such as non-trading individual employers. Non-trading individual employers are not running a business and do not have the same payroll support as a trading business. Their administrative capacity and understanding of payroll obligations may be more limited.

4.41. We would also suggest that large employers should generally remain outside any mandatory direct debit regime. As with VAT, governance controls and banking mandates may make direct debits impractical.

4.42. Question 33: Have you ever made a payment of PAYE over £20million?

4.43. No comment.

4.44. Question 34: If yes to 33, if you fluctuate above and below £20million please explain the typical range, frequency of fluctuation under and over £20million and why this varies?

4.45. No comment.

4.46. Question 35: If yes to 33, what is the lowest regular payment you have made in the past 3 years?

4.47. No comment.

5. Incentives to encourage uptake and sanctions for non-compliance

5.1. Question 36: What are your views on the use of penalties where VAT or PAYE is not paid by Direct Debit, including whether any penalty should apply on each occasion a payment is not made by Direct Debit, or if penalties should operate on a cumulative basis?

5.2. Businesses and employers should have the choice how to pay their taxes on time. So long as payment is made on time no penalties, interest or other sanctions should apply.

5.3. We are strongly of the view that no new penalties are introduced solely for using another payment method where tax is paid in full and on time. Also, that any sanctions should target late payment rather than payment method.

5.4. If such a regime is introduced an education then warning approach should precede any penalties.

5.5. Question 37: What challenges. If any, might arise from having different VAT or PAYE payment dates depending on the payment method used?

5.6. Different deadlines create complexity and increase confusion, and could undermine simplification objectives. A single payment date is preferable. In particular, we do not consider that an employer paying electronically by an alternative payment method should have an earlier payment deadline solely because it does not pay by direct debit. This would effectively operate as a sanction for the choice of payment method despite the employer otherwise paying its liability in full and on time.

5.7. Question 38: What other incentives or sanctions could be considered to encourage people to pay VAT and PAYE by Direct Debit.

5.8. Potential incentives (which would be preferable over penalties) could include additional payment days for direct debit users (although as stated above, we think this would add complexity and increase confusion), faster repayment processing, reduced compliance interventions, improved online account functionality, better payment reminders and nudges and interest for early payment.

5.9. We note that for a customs duty deferment account, the payment is only taken on the 15th day of the month following import, and a similar timing for payers of VAT via direct debit could be offered as an incentive, though we would still recommend that the direct debit uptake was on a voluntary basis. However, as noted in our response to Question 37, different payment deadlines depending on payment method add complexity. Our preference would therefore remain for a common payment deadline, with voluntary direct debit encouraged through non-monetary measures such as improved reminders and greater awareness of the facility.

6. Assessment of impacts

6.1. What research has been conducted to understand and assess the impact on the estimated 2.4 million that would be affected by mandating payment by direct debit?

6.2. We would expect there to be an impact on cash-flow if direct debits are taken earlier than the business or employer would otherwise have made payment. As noted above, failed direct debits may also result in bank charges and other financial and administrative consequences.

6.3. How much advance notice will be given to businesses and employers of the amount of the direct debit and the day it will be taken? This is, for example, normal for many credit card companies. Has HMRC assessed the cost of notifying taxpayers of the amount and date?

6.4. What assessment has been conducted on the risks that businesses and employers may avoid filing PAYE and VAT returns in order to prevent triggering automatic collection by direct debit? If a business or employer is experiencing cash-flow difficulties and is fearful of triggering automatic direct debit collection they may view non-submission of returns as their only recourse. This is a potential behavioural change that should be avoided. Mandation should not inadvertently incentivise taxpayers experiencing financial difficulties to delay submission in order to prevent automatic collection, thereby worsening filing compliance without addressing the underlying payment difficulty.

6.5. For PAYE, the impact assessment should also consider the consequences of an incorrect amount being collected because of RTI processing errors or PAYE account reconciliation issues, including the administrative cost to employers and HMRC of identifying and correcting the error and the cash-flow impact on the employer while the issue is resolved.

6.6. We recommend undertaking a rigorous assessment of potential behavioural, financial and operational impacts that mandation of direct debit collection/payment may have across the whole population of businesses and employers.

7. Acknowledgement of submission

7.1. We would be grateful if you could acknowledge safe receipt of this submission, and ensure that the Chartered Institute of Taxation is included in the List of Respondents when any outcome of the consultation is published.

The Chartered Institute of Taxation

13 August 2026