

2 Key messages from the CIOT about Making Tax Digital

- 2.1 Whilst MTD will bring benefits to HMRC, the likely impact on most businesses and taxpayers will be an increased workload and / or increased costs. It is not at all clear that there will be commercial benefits to offset such costs, particularly for smaller businesses.
- 2.2 The timetable for mandation of MTD is far too optimistic and must be pushed back. The proposed deferral of MTD for certain small businesses over the proposed exemption threshold is insufficient. Effective software is not yet available and fully tested, so the substantial number of businesses that currently do not use software will inevitably have difficulties both selecting the appropriate software and getting to grips with its functionality. Businesses that currently do use software will be prejudiced if their provider cannot keep up with the demanding timescales.
- 2.3 Deferral of MTD will allow a smoother and more effective transition. The continued widespread use of spreadsheets, and an upload facility onto an HMRC portal, will assist businesses get used to updating HMRC more regularly, in a more digitised fashion, whilst ensuring that transition time and costs can be better managed.
- 2.4 The thresholds for mandation need to be increased. The £10,000 threshold for exemption is far too low. It could place the obligation on non-taxpayers and landlords with a single buy-to-let residential property.
- 2.5 That said, the case for mandating larger businesses into MTD has not been made out. These businesses are already likely to have comprehensive record-keeping systems, already in a digital format, and many corporates will be subject to independent external audit. Mandation of a particular method of digital record keeping, and quarterly reporting, will create significant administrative costs and burdens. The figures being submitted quarterly would still need to be adjusted at the end of the year for tax purposes, and the submission of unadjusted figures will be of little or no benefit to HMRC or to the business.
- 2.6 Real simplification of the tax system, particularly for small businesses, will help MTD work. For example, a simple income-minus-business expenses model would be easier for taxpayers to understand and report. The simplification proposed is inadequate and potentially detrimental to taxpayers. In any event, simplification should take place BEFORE introducing mandatory digital record keeping and reporting.
- 2.7 Agents will be an integral part of MTD, yet the consultations are worrying devoid of much mention of agents, and seemingly imply that businesses will wish to 'do it themselves'. Agent access and functionality needs to keep progress with taxpayer access, and consideration needs to be given to the different types of agent and the various functions that they carry out.
- 2.8 In any event, communication of MTD, direct to businesses and individuals, is vital. There is much work to be done to educate and inform the public about these very significant proposals, and how they change the interaction they will have with HMRC. In our view, HMRC will need to step-up its promotion of MTD. Digital communications such as YouTube and Twitter will not reach businesses that currently do not use digital tools. Traditional mechanisms such as television, radio and newsprint should be considered.

MTD - Bringing business tax into the digital age

3 Executive summary

- 3.1 We are concerned that free software will be a poor relation to paid software. HMRC will need to work closely with the software companies to ensure that free software has sufficient functionality, as well as comprehensive prompts and nudges, for it to be a viable choice for small businesses.
- 3.2 Evidence to date indicates, for example, that free apps do not cater for even the simplest sole trade. One recently released app cannot cope with both cash and bank payments, let alone by credit card, invoicing or disallowable expenses as it ignores basic double entry bookkeeping principles.
- 3.3 HMRC should provide clear guidance and / or an online tool to help businesses (and their agents) choose the right software for their circumstances. This is not a responsibility that HMRC can shun.
- 3.4 Our survey indicates that members believe digital record keeping will not reduce errors by their clients, with around 40% of respondents believing that errors will, in fact, increase.
- 3.5 The continued use of spreadsheets by businesses, particularly in the areas of VAT and partnerships, is vital (at least until a viable alternative is developed and tested). HMRC need to incorporate spreadsheets into their MTD plans.
- 3.6 HMRC need to be given more control over what is published on GOV.UK. Businesses will need prompts and nudges taking them to guidance, but HMRC appears to have insufficient influence over what is published on GOV.UK, when, and in what format.
- 3.7 Whilst MTD has the potential to benefit simple partnerships, it will create complexities and misleading information for others. We note that further consultation on partnerships will take place early next year, but we would caution against early introduction of MTD for partnerships until these complexities have been fully identified and resolved.
- 3.8 We are concerned that the proposed implementation date for VAT is too ambitious for the following additional reasons. First, it is likely to coincide with the UK's exit from the EU, which could involve significant changes to the UK VAT system, particularly for international transactions. Secondly, only 12% of businesses currently use software to file their VAT returns. This is because of the myriad of adjustments which might be needed to the underlying data, which software companies have yet to accommodate, and the case for automating these adjustments has not been made.
- 3.9 We would not recommend introducing additional VAT related information into the VAT return / quarterly update process until firstly MTD has been given time to bed in, and secondly until the cost *versus* benefits of providing that information has been considered.
- 3.10 Businesses should transition in to MTD on the first day after their first accounting date that follows the date of mandation (Option 1). This is by far the simplest means of identifying the start date, which will be the easiest for businesses to understand, and the least costly. In fact, this could be an ideal opportunity to change the tax year so that it runs 1 April to 31 March, eliminating once and for all the complexity of a mid-month tax year end.

- 3.11 We do not agree that the deadline for the End of Year (EOY) declaration should be nine months after the end of the accounting period. This is because many business owners will not have finalised their other income and expenditure for the tax year in which those profits would be taxed. We suggest that the deadline for the EOY declaration for MTD data should be after the end of the tax year in which the profits of the accounting period will be taxed, such as 30 November or the existing 31 January deadline.
- 3.12 We think the deadline of 31 January after the tax year, for submission of the SA return or its online replacement through the digital account should be retained. For complex clients, in particular those with income from abroad based on a calendar year, it tends to be impossible to get even an estimate of figures before that.
- 3.13 When considering exemptions from MTD, regard should be given to the reasons for mandating digital record keeping and quarterly reporting ie reducing the tax gap. If organisations are non-taxpaying (eg because they are charities or local authorities etc) then they should not be mandated into the regime.
- 3.14 If MTD is not unilaterally deferred, we agree that the smallest unincorporated businesses should have an extra year before being mandated. On balance, we believe that this deferral should apply for all unincorporated businesses and landlords with annual income below the VAT registration threshold (currently £83,000).

Simplifying tax for unincorporated businesses

3 Executive summary

- 3.1 The CIOT supports measures aimed at simplifying the tax system. The UK's tax system is one of the most complex in the world and efforts to improve it through simplification are to be encouraged.
- 3.2 The imminent introduction of MTD has prompted the government to look at ways of simplifying tax for small businesses, and has led to the proposals contained in this consultation document. In our view, small business taxation should be simplified *BEFORE* MTD is introduced, and we could encourage HMRC to revisit the MTD timetable to allow simplification to take place first.
- 3.3 The government's approach means that the substantial changes to the tax administration system (record keeping and quarterly updates) being introduced by MTD will be happening at the same time as these proposals to simplify computations, if they are adopted. This means that taxpayers, advisers and HMRC will face considerable change simultaneously. Any simplifications, together with MTD, need to be widely publicised, in a manner which will reach the small businesses which are intended to benefit.
- 3.4 We believe that the government should consider proposals for radical changes to the tax system for small businesses. For example, consideration should be given to a single basis of taxation for (say) businesses below the VAT registration threshold, who could adopt a simple, combined income-minus-business expenditure approach to taxation – without separating trading income and property rental. We recognise that the government may wish to retain certain exceptions (for instance, on interest deduction for residential buy-to-let properties), but removing other inconsistencies between the regimes (basis periods,

deductibility of expenses etc) would represent real simplification. We would be happy to work with HMRC, HMT and The Office of Tax Simplification in order to discuss and develop such proposals. A small rate change to ensure this is revenue neutral may assist.

- 3.5 We agree that the proposals on the capital v revenue divide within the cash basis should simplify matters for businesses. Allowing deduction unless it is specifically excluded is better than a system that specifies what it is included.
- 3.6 We are concerned though that the remainder of these proposals will impact negatively on unrepresented taxpayers, who will make decisions around accounting bases and periods without being aware that they will have a significant impact on their tax position. Such impacts include the loss of their personal allowance, and accelerating a substantial tax liability. We were surprised that HMRC did not echo our concerns during our meeting on 13 October 2016 to discuss these proposals. Safeguards will need to be in place to ensure that taxpayers are adequately prompted or advised of the consequences, before selecting or changing accounting bases or periods. We would not wish a 'two tier' tax system develop, with unrepresented taxpayers paying more or earlier tax than represented ones.
- 3.7 Our members were divided on whether the threshold for the cash basis should be increased and (if so) by how much. Even at double the current threshold, only a relatively modest number of additional businesses would be eligible. If an increased threshold leads to more complex legislation (such as anti-avoidance rules) we would recommend retaining a lower threshold.
- 3.8 What is not known at present is how software and apps being developed for MTD will support the different bases of accounts preparation, or a shift between them. With the proposals to increase the entry threshold for the cash basis, extend the cash basis to property businesses, as well as introduce further choice in reporting requirements and retain normal GAAP accounting, our concern is that software and apps will need to have sufficient functionality to enable taxpayers to move between different bases if they choose to do so. Similarly, the software may also need to accommodate cash accounting for VAT, but not for direct tax. If not, this will reduce flexibility and increase costs for small businesses.
- 3.9 It is stated that the 'the complexity and inflexibility of the basis period system is outdated'.¹ However, the condoc does not explain why partnerships, who are subject to the same basis period system, are excluded from the proposals. If the proposals remain limited to sole traders, the tax system as a whole will become increasingly complex, with different basis period rules for sole traders, partnerships, and companies.
- 3.10 While the proposed reforms to the basis periods will bring some simplification for the simplest of businesses, our members' experience indicates that many of the smallest sole traders tend to opt for a tax year basis period for simplicity, so the issue around basis periods is often academic.
- 3.11 We therefore recommend that basis periods are left unchanged until MTD has bedded in, and further research can be undertaken on the number of businesses likely to be affected, and (for simplicity and consistency) to consider extending the proposals to all unincorporated businesses.

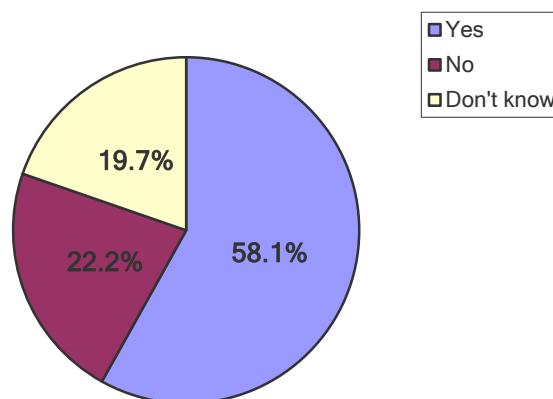
¹ Paragraph 3.2 of the condoc.

- 3.12 We are not persuaded that the four 'simplified reporting' measures offer any real level of simplification, but in fact just introduce a third basis of accounting ('GAAP lite'). We do not support these measures, which in certain circumstances actually accelerate the tax payable.
- 3.13 We fully endorse the comments made by our Low Incomes Tax Reform Group (LITRG) in their response to this consultation document. Their focus is on unrepresented taxpayers many of who are on low incomes and may be claiming Universal Credit.

Simplified cash basis for unincorporated property businesses

3 Executive summary

- 3.1 We agree that an optional cash basis should be extended to landlords. Many landlords are probably preparing accounts on a cash basis anyway, so permitting them to use the cash basis in legislation will regularise this.
- 3.2 The introduction of MTD will be a significant change for landlords who will have to start keeping their records digitally and sending quarterly updates of their income and expenses to HMRC. Simplified reporting using an easily understandable property cash basis would seem to be essential in helping landlords adapt to the additional burdens of MTD.
- 3.3 We believe that consideration should be given to aligning the cash basis rules for property with the cash basis rules for trading income. If simplification is really being sought, one set of rules is far simpler than two.
- 3.4 We conducted a member survey on MTD during September 2016. In the survey we included a question on extending the cash basis to landlords.
- 3.5 'HMRC are consulting on extending the cash basis to property businesses, but are not proposing a turnover threshold. Do you agree that the cash basis should be extended in this way?'



Answer Options	Response Percent	Response Count
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Yes	58.1%	618
No	22.2%	236
Don't know	19.7%	210
answered question		1064

- 3.6 While the majority of our members consider that having no turnover threshold would be preferable, we recognise that such an approach might lead to increased complexity within the cash basis (such as the treatment of lease premiums, deposits etc), and could create scope for issues such as accelerated tax payments or possibly avoidance / manipulation, particularly between connected parties. However, any impact of these issues is likely to be predominantly a one-off issue in year one. It will therefore be necessary to balance these elements carefully in order to ensure that a simplification measure is not peppered with restrictions and exceptions – especially in a sector that already has complexities around (for example) interest deduction.
- 3.7 It is proposed that landlords whose annual rental income is below £10,000 will not be required to keep digital records or provide quarterly updates to HMRC. In our opinion, this threshold is far too low. In some parts of the country, one buy to let property will generate gross income above £10,000 on its own. It seems disproportionate that a landlord with only one rental property should have to comply with the MTD obligations.
- 3.8 It would be helpful if taxpayers had the option to align quarterly reporting periods under MTD for different sources of reportable income. A taxpayer may have income from a sole trade and a let property, both of which need to be reported quarterly under MTD. Since rental income is taxed on a tax year (6 April to 5 April) basis it is likely that the quarters will not be aligned. This means that 8 quarterly reports would have to be sent to HMRC on 8 separate occasions throughout the year, together with (quite possibly) 2 end of year declarations. Allowing the taxpayer to align the reporting of their rental income with the income from their sole trade would be extremely useful. However we note in paragraph 2.11 of the consultation document that it is proposed that the cash basis for unincorporated property businesses would operate by reference to the tax year. We think this should be reconsidered.
- 3.9 As we explain in more detail in the consultation response ‘Simplifying tax for unincorporated businesses’, the cash basis provides both simplification, and a choice of bases of taxation. These elements are not always complementary, because the tax rules underlying each basis are different. For example, under the cash basis for trading income, there is a £500 limit for deductibility of interest, meaning it is not generally suitable for businesses with interest bearing borrowings.
- 3.10 With this in mind, the timing of making a property cash basis election (either to enter or to leave) needs to be carefully considered. We assume that this will be done on the property pages of the SATR when it is first introduced in April 2017, but once quarterly updates and End of Year declarations are introduced, at what point will the taxpayer have to commit to using the property cash basis?

- 3.11 Whilst a once and for all decision at the start of the accounting period will provide simplicity, it could result in taxpayers making inappropriate choices, and being significantly out of pocket as a result.
- 3.12 In our view, the final decision must therefore be left to the End of Year declaration because it may not be until then when the contrasting rules can be compared and (perhaps with the benefit of professional advice) an informed decision made.
- 3.13 Either way, HMRC must provide clear and comprehensive guidance for landlords so they are able to make informed decisions about whether to use the cash basis or not for their unincorporated property businesses.
- 3.14 What is not known at present is how software and apps being developed for MTD will support the different bases of accounts preparation. With the proposals both to extend the cash basis to property businesses and retain normal GAAP accounting, our concern is that software and apps will need to have sufficient functionality to enable taxpayers to choose and even move between different bases if they choose to do so. If not, this will reduce flexibility and increase costs for taxpayers and risk errors in any period of transition.
- 3.15 Software and apps that support MTD will need to contain appropriate nudges and prompts to assist taxpayers in understanding the implications of using different bases of accounting.
- 3.16 We would be very interested in seeing the responses to HMRC's property questionnaire (paragraph 5.1 of the consultation document), and would ask that they are included within HMRC's Summary of Responses.
- 3.17 The proposal includes submission of a summary within a month of the quarter end. Where there are property loans, then taxpayers may need to obtain from the lender a split of payments between mortgage interest and capital repayment (or payment to a linked savings account for offset loans). Where the taxpayer has access to an online mortgage account, this might be possible within the month time limit. However, in other cases this may prove impossible. Consideration should be given to the report being merely an estimate in-year, with the actual figures provided in the End of Year submission.
- 3.18 Similarly, where a rental agent collects the rent and organises certain expenses including repairs, it may not be possible to obtain the breakdown of information from the agent in time for the submission, especially if the reporting periods are not co-terminous. Again, the ability to provide estimates should be considered.

Tax administration

3 Executive summary

- 3.1 MTD involves large scale change for taxpayers, advisers and HMRC. We have concerns that there may not be adequate time for appropriate coordination and reflection on consultation responses let alone further discussion, before decisions are made and draft legislation is prepared. Making changes in haste runs many risks – not least that many compliant taxpayers may become non-compliant despite trying to do what is required.
- 3.2 **Transitional period** – We consider 12 months is insufficient to allow customers to become familiar with the 3 year MTD programme before the new penalty regime comes into effect.

We strongly recommend that the same 3 year period be applied, as was applied to the Real Time Information regime.

- 3.3 **Communication** - Making taxpayers aware of their changing obligations will be essential to a successful roll-out. Providing clear, concise and timely HMRC guidance will be vital. We are concerned about reports of widespread lack of awareness of MTD amongst taxpayers and suggest this needs to be addressed as a matter of urgency, once decisions to proceed have been taken.
- 3.4 **Education** – Educating taxpayers, advisers and HMRC staff will, we believe, be crucial in preventing non-compliance and error. We hope that comments in para 3.35 are not intended to dismiss the importance of educating taxpayers (and agents) more generally.
- 3.5 **Additional safeguards** - There may also need to be additional safeguards to cover privacy and security in light of the transfer of digital information and access to software. We endorse comments made by the CIOT's Low Incomes Tax Reform Group (LITRG) in their response to this consultation in relation to the need for additional taxpayer safeguards, fraudulent activity and consumer protection.
- 3.6 **Enquiry windows** - We remain unclear about the enquiry window proposal. We understand that it is not HMRC's intention to have multiple enquiry windows open but fail to understand how this can be avoided under the current proposal. We are of the view that there should be one end of year declaration for the tax year, covering both MTD and non-MTD reporting.
- 3.7 **Expiration of penalty points** - We agree that a sustained period of compliance should result in penalty points being nullified but we favour penalty points having an expiry date (like a driving licence). The proposal of 24 months is, in our view, an unrealistically high expectation for taxpayers with multiple obligations. As an alternative, we suggest a rolling 12 month time limit similar to the VAT default surcharge. After a clear 12 months of compliance the points would be cancelled. This would provide a real incentive to comply, not a stick to beat the non-compliant.
- 3.8 **Right to appeal** - Penalties and penalty points must always be subject to a right of appeal. We acknowledge that a formal appeal against the imposition of a point may be premature when a point might never lead to a penalty, but there needs to be a mechanism in place giving taxpayers the right to object at the time a penalty point is issued in case enough points accrue to incur a financial penalty.
- 3.9 **Single points total** - The concept of a single, simple points system is an attractive prospect but as the complexities of the different taxes and multiple obligations are considered further there is a real concern about whether this would be workable, fair and proportionate. We are of the view that four penalty points leading to a penalty is too few, given the frequency with which penalties could arise under this model.
- 3.10 **Late payment sanctions** – It seems reasonable to have a combination of late payment interest and tax geared penalties (Proposal B model 1), which aim to both penalise and deter the late payment of tax and act as reminders that the tax is still outstanding. This would give taxpayers a graduated and fairer period of default, enabling issues to be addressed and compliance improved yet still penalising those who continue to default.

- 3.11 **‘Time to pay’** – Reasonable time needs to be given to allow taxpayers to enter into ‘time to pay’ arrangements before the imposition of penalties. We do not believe 14 days is sufficient and suggest 30 days is more reasonable.

Transforming the tax system through the better use of information

3 Executive summary

- 3.1 The CIOT agrees that HMRC should make better use of third party data. As we move towards increased digitalisation of the tax system and the economy in general, a taxpayer should not have to give HMRC information that HMRC already have in their possession if they have received that data from elsewhere.
- 3.2 Our main concern surrounds the accuracy of the data that HMRC will be given by third party providers, how HMRC will use this to pre-populate a taxpayer’s Digital Tax Account (DTA), and how the taxpayer will be able to challenge discrepancies.
- 3.3 We do not agree with the proposal in the condoc that a taxpayer will not be able to override incorrect data in their DTA and will be forced to contact the third party data provider to sort out the discrepancy. This will be extremely burdensome for the taxpayer and could cause a great deal of stress and worry, particularly if the discrepancy is large, until the dispute is resolved. It will in fact be more burdensome than the current regime where the taxpayer’s obligation is to enter the correct figure themselves onto their tax return. The impact on third parties is also likely to be significant – a statutory obligation may need to be placed on those third parties to require them to resolve queries within a specific timescale and subject to specific rights of appeal.
- 3.4 A taxpayer should be able to easily to correct inaccurate data in their DTA themselves. To minimise taxpayer error, the taxpayer could be asked whether they agree with the data, and if they disagree with it be required to provide an explanation for why they are overriding the third party data and warning prompts and nudges could be utilised to warn the taxpayer of the consequences of submitting incorrect information.
- 3.5 The role of agents is barely mentioned in this condoc, yet represented taxpayers will be as affected by these changes as much as unrepresented taxpayers. Under ‘Your Charter’² HMRC must accept that someone else can represent a taxpayer in their dealings with HMRC. In order that an agent can represent their clients effectively and efficiently, agent access to the information in their clients’ DTAs must be provided as soon as possible. We have already raised this with HMRC at the highest level.
- 3.6 Represented taxpayers will expect their agents to sort out discrepancies with third party data and at the moment the agent is handicapped by not having access to the information in their clients’ DTA. If, contrary to our views, the need to resolve issues around incorrect third party information directly with those third parties is retained, an agent’s authorisation from their client to represent them with HMRC will also need to hold good against the third party, who will otherwise likely refuse to liaise with the agent on data protection or similar grounds. This might in turn require changes to the form in which the client/taxpayer gives their authorisation.

² <https://www.gov.uk/government/publications/your-charter/your-charter#A5>

- 3.7 Over the coming months, it is critical that HMRC carry out a widespread and sustained programme of publicity and education about the transition to DTAs, together with the provision of appropriate support and assistance to help taxpayers understand what they need to do to comply with their tax obligations. These changes are coming in very quickly and taxpayers (and their agents) have a lot to familiarise themselves with in a very short space of time. We know that so far 5 million taxpayers³ have accessed their DTA at least once, but there is still a long way to go to achieve a position where taxpayers are regularly responding to HMRC messages and checking their DTAs for accuracy.
- 3.8 Non-digital options must be made available for those taxpayers who fall into the category of 'digitally excluded'. We fully endorse the comments made by our Low Incomes Tax Reform Group (LITRG) in their response to this consultation document. Their focus is on unrepresented low income taxpayers, many of who are digitally excluded due to age or disability.
- 3.9 It is not certain when the transition will begin from the current self-assessment tax return (SATR) system to full reporting inside the DTAs. There are various references throughout the condoc to taxpayers no longer being required to complete a SATR (see 'Geeta' Fig 2.5), but the examples are very unclear. This is an issue that many of our members are raising with us.
- 3.10 Tax payers may also receive other income from banks and building societies, such as 'compensation interest' and 'reward payments' on current accounts. Some of these continue to be subject to deduction of tax at source as annual payments, but some reward payments are classed as miscellaneous income and not subject to tax at source but should be included in a customer's tax returns, outside the scope of the Personal Savings Allowance (PSA). Many taxpayers will not appreciate the difference between the various payments, and in any event they might be reported as a single amount in the DTA. We suggest that the government takes the opportunity to align the tax treatment of all of these payments, and treat them all as eligible for the PSA.

Voluntary pay as you go

3 Executive summary

- 3.1 We support measures that help taxpayers budget for and pay the taxes that they owe, particularly as the current payment system requires a significant payment in January, shortly after the expense of the Christmas period.
- 3.2 However, we do not believe that Voluntary pay as you go (VPAYG) should be introduced in the manner currently proposed.
- 3.3 MTD as proposed would bring with it substantial changes to the tax system, including fundamentally changing book-keeping requirements, and how information is presented to taxpayers. We recommend that MTD is given time to bed in and consideration is given to aligning the penalties legislation across the taxes before any significant changes to tax

³ <https://www.gov.uk/government/news/more-than-5-million-customers-are-using-hmrcs-personal-tax-account>

payments – even voluntary payments - are made. We do not understand the need to rush in a new regime.

- 3.4 The facility to make voluntary payments already exists. For example, unincorporated businesses (who will be the first into MTD from April 2018), can already avail themselves of the Budget Payment Plan (BPP)⁴, although this is not as flexible as many taxpayers would like. It is acknowledged that voluntary payments are not normally needed for VAT (coming into MTD from April 2019), so there is no need to rush in a new VPAYG regime in April 2018 when straight-forward but adequate facilities are already in place for those eligible businesses.
- 3.5 We would simply recommend that the BPP receives greater publicity so that the policy objective of giving businesses the opportunity to budget towards their tax bills is met, without trying to design a new VPAYG system around a new MTD platform.
- 3.6 Greater promotion of the benefits of the BPP will (if HMRC's evidence is correct) bring in revenues earlier than they fall due. Pursuing this option may be a better way of generating additional revenue in the early years (in order to make good the investment made in digitalisation from the public purse) than the over-hasty move to mandation which we fear will not achieve its objective and could be counter-productive if compliance levels actually fall. We appreciate that BPP will provide a largely timing benefit but this approach should ensure that when MTD is ultimately mandated it is fully tested, operates efficiently, and stands a greater chance of putting the benefits on a permanent basis'
- 3.7 Delaying implementation of VPAYG will give time for HMRC, taxpayers and agents to compare the estimated tax liabilities calculated following submission of the quarterly updates, with the actual tax liabilities calculated after the end of year declaration (or later), to see if a VPAYG system that encourages payments based on the quarterly estimates gives a sufficiently accurate result. We are concerned that taxpayers who make voluntary payments under VPAYG in line with the quarterly estimates will end up with significant under or overpayments, due to seasonal fluctuation, inaccuracies in the quarterly submissions and / or the timing of claims of reliefs and allowances. Taxpayers are unlikely to use the system if the estimates are unreliable.
- 3.8 Delaying the implementation of VPAYG will also give HMRC the opportunity to undertake more research to evidence the need for a new voluntary payments regime. It is currently unclear whether the number of businesses that make voluntary payments would increase significantly:
 - through greater awareness of the BPP facility;
 - only if VPAYG was introduced; or
 - neither, because the actual desire to make voluntary payments is not as significant as the condoc suggests.
- 3.9 The delay will also give time for the payments and penalties system to be adequately reviewed, consulted on and redesigned with MTD in mind. A system akin to a credit card statement was considered during the powers review, although it was dismissed at the time

⁴ <https://www.gov.uk/pay-self-assessment-tax-bill/budget-payment-plan>

as HMRC's IT systems could not cope with joined up accounts across the taxes. We think this should now be reconsidered.

3.10 In any event, we foresee real complications and unintended consequences of VPAYG. For instance:

- Unless and until the late payment interest and penalty regimes have been aligned across all taxes, taxpayers could inadvertently incur penalties due to how HMRC intend to allocate payments (see the example of Oliver in the appendix to this response). In any event, we believe that the choice of allocation should lie with the taxpayer, unless tax accounts become like credit card accounts, with matching changes to the legislation.
- Taxpayers' digital tax accounts will contain a lot of data, but could appear confusing, especially for taxpayers with more than one tax within MTD, or with MTD and non-MTD obligations.

3.11 Therefore our overriding message is not to rush into VPAYG. Let MTD bed in, allow taxpayers (and their advisers) to become familiar with the new regime, and then consider if and how the existing voluntary payment regimes should enhance the MTD system.