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Timely payment

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 19,000 members, and extensive volunteer network, in providing our response.

1.2 We remain unconvinced of the overall benefits to taxpayers of more timely payments (that is to say payments of tax that are both more frequent in nature and are more closely in line with the point in time at which the income, profits or gains to which they relate arise). Whilst some of the benefits of timely payments cited in the call for evidence could arise for some taxpayers in particular circumstances, the challenges that have been identified could adversely impact a great many taxpayers. It is not clear where the balance will lie between the potential benefits and the potential negative impacts for taxpayers in different circumstances; and it is not clear which type of taxpayer would be most advantaged overall by the introduction of timely payments.

1.3 We do not agree that a more frequent tax payment regime should be based on current year liability. It is our strong view, that a move to tax liabilities based on in-year calculations could only work if the tax system was fundamentally reformed first. At the moment calculations based on an up-to-date view of the in-year tax position seem highly aspirational. This is because the UK's tax system does not work in real time, it works in arrears. Tax is calculated on total annual income, profits or gains, which in most cases can only be worked out after the tax year has ended. In our view, if payment of tax is to be based more in real time, then there needs to be a fundamentally different basis of determining tax liabilities in real time.

1.4 We do not have any objections to a regime of more frequent payments based on a taxpayer's tax liability for a previous year that is known, effectively accelerating or spreading the current payments on account that are made under Income Tax Self-Assessment (ITSA). More payments on account based on a previous year's liabilities seems to be the most straightforward way of increasing the frequency of tax payments and present the fewest complications.

1.5 In any event, we welcome the statement around timing in the call for evidence and the confirmation that there is no intention to make any significant changes to the timing of income tax or corporation tax payments within the present Parliament. There are many significant changes to the tax system that are already due to occur (for example Making Tax Digital (MTD) for income tax self-assessment), or are being considered (for example basis period reform and, potentially, changing the date of the end of the tax year), that could change the balance of the benefits and challenges around timely payments. We are strongly of the view that any decisions about timely payment should only take place after these changes to the tax system have been implemented and given time to settle down. In fact, change should only occur after many of the more general issues raised in the call for evidence looking at reform of the tax administration framework (that was also published in March 2021 as part of the government's 10 year tax administration strategy) have been addressed and resolved.

1.6 In the meantime, further work should be undertaken to understand the policy aims of timely payments and, in particular, the drivers of tax debt and the taxpayers that are most affected by it. Alternatives to timely payment should be explored to address some of the challenges that taxpayers are facing with regard to meeting their tax liabilities. Pursuing voluntary options would be preferable to the mandation of more timely payments for all taxpayers. In particular, greater education of taxpayers of their liabilities and greater promotion, for example, of the benefits of the Budget Payment Plan could address many of the concerns or problems that the call for evidence indicates that more timely payments are seeking to address.

1.7 Clearly any significant change to the timing of payments of tax, will have an impact on HMRC's IT systems, in addition to taxpayers requiring software and/or digital solutions to deal with these new obligations. It will be important to ensure that the pace of reform in this area does not run ahead of the ability to develop the systems to implement it, and that there is sufficient resource, to make the changes to the IT systems that are required by the changes to tax law.

1.8 If there are to be more frequent payments of tax, the mechanism and processes around repayments will be of the utmost importance. More timely payments are likely to lead to more adjustments at the year end, and to the extent that repayments are required it is important that these are timely and easily obtained. In addition, if tax payments are based on in-year calculations, in-year repayments would also be essential.

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 Timing, understanding the policy aims, underlying problems and alternative solutions

3.1 The *Timely Payment: Call for evidence* was published in March 2021 as part of the government's 10 year tax administration strategy. The timely payment document was published alongside another call for evidence looking at reform of the tax administration framework - *The tax administration framework: Supporting a 21st century tax system* (the Tax Administration Framework Review). Our comments below on timely payment should be read in conjunction with the CIOT's response to the Tax Administration Framework Review. Our response can be found at: https://www.tax.org.uk/ref772.

3.2 The objectives for the tax administration framework (as set out in Box 2.2 on page 12 of the Tax Administration Framework Review) are very similar to the CIOT's five objectives for the tax system which are:

- 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.

Each of these objectives are also very important to the discussion around timely payments.

3.3 The call for evidence seeks early engagement and views on the benefits and challenges of the current tax payment timings and of moving to more frequent calculation and payment based on current year information. We support the intention that if any changes are decided upon, these will be 'reforming and not revolutionary: gradual, structured over the longer term' and, also, the confirmation that these will be carried out with further close collaboration with stakeholders.

3.4 Responding to this call for evidence has been challenging. This is because, as noted above, there are several significant changes to the tax system due to commence within the next two years (for example MTD for ITSA in April 2023 and a new penalty points regime which commences for VAT in April 2022), as well as other changes under consideration for the short to medium term (for example changes to the basis period for assessment of income tax and the tax administration framework review (which itself includes a consideration of the wider tax payment landscape)) and additionally the prospect that there might be changes to the date of end of the tax year. Each of these could have a significant impact on the benefits and challenges around timely payments. In addition, as a result of the COVID pandemic, we are not in 'normal times'. We suggest, therefore, that work on timely payments should be done very cautiously because what seems sensible or pertinent now, may look quite different when some of questions about these other aspects of the UK's tax system have been resolved.

3.5 We would like to better understand the key policy aim or aims. More work should be undertaken to identify the problems and consider whether alternative ways to tackle them could be beneficial, at least initially and also while the changes to the tax system are taking place and bedding in. We understand that the proposal is for more 'timely payments' in the sense of payments of tax that are both more frequent in nature and are brought more closely into line with the point in time at which the income, profits or gains to which they relate arise (rather than merely being about encouraging tax to be paid on time). The call for evidence says that this would bring tax payments closer in line with increasingly real time nature of tax reporting and other services. More timely payments of income tax and corporation tax would also have an impact on Exchequer receipts, potentially accelerating the date on which tax on the relevant income, profits or gains are received. So far as we understand it, the focus of this call for evidence is on the impact for taxpayers, and the aim is not to accelerate payments of tax, save to the extent that this is a result of the aims mentioned above of bringing payment more closely in line with the relevant income, profits or gains.

3.6 The call for evidence also discusses tax debt and the difficulties that some taxpayers face in meeting their tax liabilities. We would like to understand more about this issue to be in a better position to consider whether or not more timely payments would help solve any of the problems around tax debt and/or the challenges faced by those taxpayers that generally struggle to engage with the tax system, or understand it. This is discussed more broadly in response to questions 1 and 2 below regarding the principles underpinning these proposals. It would be useful to know, for example, for which type of taxpayer, and in respect of which type of income, tax debt most commonly arises. What type of taxpayer most commonly uses time to pay (TTP) arrangements? What is the average amount of tax debt? That is to say, is it most common at lower income levels? Does it most commonly arise due to a lack of awareness of the liability? For example, is tax debt most common for unrepresented taxpayers? We would envisage that if a taxpayer had engaged an accountant or agent, that adviser would inform them about their likely tax liabilities and the timing of payment of these. We would also be interested to know what proportion of start-ups, which will be those new to ITSA contribute to the tax debt – the time lag is specifically cited as an issue in the call for evidence, but does it translate into non-payment of tax?

3.7 As we discuss below, these proposals would involve a significant additional compliance burden for taxpayers. We suggest that avenues other than more timely payments should be explored to address some of the challenges that taxpayers are facing with regard to meeting their tax liabilities.

3.8 Much of the call for evidence makes assumptions about taxpayer behaviour (for example the case studies in chapter 5 of the call for evidence, which are discussed below) based on a nervous taxpayer that has little or no understanding of the tax system, or capabilities around budgeting or running a business. Whilst no doubt these taxpayers do exist and it is right to focus on the most vulnerable and those most in need of assistance, it is not clear that this should be done to the detriment of other groups of taxpayers, including potentially vulnerable ones whose issues work differently. We are not in any case clear that timely payments would make life easier for taxpayers who are disposed to struggle with their tax affairs. In particular, timely payments involving calculations based on in-year information do not seem to us to be particularly simple and the proposals are likely to require considerable engagement by the taxpayer – albeit, possibly with an App rather than directly with HMRC – at more times per year than is currently the case. We accept that in the simplest circumstances it may be possible to construct a digital solution that ensures a direct debit payment of very close to the right amount of tax on, say, a monthly basis. This approach may ensure that a particular group of taxpayers who would not otherwise retain any income with which to pay their tax at a later date do meet their tax liability, avoiding tax debt. However, such a system is likely to be inordinately complicated for a much larger number of taxpayers some of whom who are, in fact, able to manage their cash flow and meet their tax liabilities under the existing system.

3.9 The call for evidence references previous engagement around this topic through the consultation on *Voluntary pay as you go* in 2016[1]. In our response to this consultation we said that while 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, we did not believe that *Voluntary pay as you go* should be introduced in the manner that it was proposed. The reasons for this were broadly very similar to the reasons that we are urging caution in relation these proposals for more timely payment. In particular we noted that there were imminent substantial changes to the tax system (as a result of MTD) which would impact on the proposals and, as a result of these, there should not be a rush to introduce new payment regimes. We also noted that a facility to make voluntary payments already existed – the Budget Payment Plan.

3.10 In our response in 2016 to the *Voluntary pay as you go* consultation, we recommended that the Budget Payment Plan 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 payment system around a new MTD platform. Paragraphs 1.9 to 1.16 of the call for evidence discuss the Budget Payment Plan and we are disappointed to note that this plan is still not easy to find, set up or manage, even though HMRC customer insight shows that there is a demand for this type of payment. We understand that HMRC has some resource allocated to this and will try to make better use of that facility. This is welcome. We remain of the view that greater promotion of the benefits of the Budget Payment Plan will increase awareness amongst taxpayers which could lead to an uptake in its use which would, in our view, address many of the concerns or problems that the call for evidence indicates that more timely payments are also seeking to address.

3.11 The call for evidence acknowledges that information about the Budget Payment Plan is hard to find and we agree. It is currently behind the government gateway, putting in place a barrier of requiring the individual to register for that first. It is also not consistently referenced or labelled as the Budget Payment Plan. We suggest that instead information about the plan could be made available as part of the process of registering as self-employed and/or linked to from the GOV.UK pages about, for example, letting property and landlords' tax liabilities.

3.12 Pursuing voluntary options would be a better way of meeting the policy objectives and assisting those taxpayers that need help to meet their tax liabilities than a move to mandation of more timely payments for all taxpayers. We fear that the latter could present more taxpayers with problems as a result of the challenges identified as be of benefit to others, particularly if there is a change to requiring payment of tax by reference to in-year calculations.

3.13 We recognise that timely payment may help some taxpayers, including small businesses, keep up to date with their tax payments, and that it does require a certain level of organisation and discipline to put funds aside every month in order to pay tax bills that are due some time down the line. For some individuals and smaller companies, a monthly, or quarterly bill may make it easier to budget. However, our perspective is that represented taxpayers are usually well advised about their tax liabilities and the need to budget accordingly, but unrepresented ones are more at risk of the financial 'shocks' brought about by their tax bills. It seems that more should be done to educate taxpayers around the need to put money aside etc. and help those taxpayers identified in paragraphs 2.9 to 2.11 of the call for evidence that research shows might benefit from more timely payments; increasing awareness of the availability of the Budget Payment Plan could form part

[1] https://www.tax.org.uk/ref193

of this. A first step would be better enabling taxpayers (particularly the unrepresented) to understand the current system and when tax liabilities will arise. As we say below, currently the way that payments on account work, and, indeed, the possibility of legitimately reducing these, are mysterious to some taxpayers (although unless the way tax liabilities are calculated is fundamentally changed, there is no alternative to something like the current system if tax payments are to be accelerated without unreasonable compliance cost).

3.14 More generally, for a taxpayer that is already managing their payments under the existing system, it is difficult to envisage why anyone would voluntarily pay their tax earlier. Advisers would generally advise budgeting for tax bills, but it is difficult to see under the current rules why the best advice would not be to put the money aside in a separate bank account, rather than pay it to HMRC. The flexibility and process around repayments may be a large part of the reason for this (repayments are discussed further below). However, if the government wished to encourage a greater take up of earlier voluntary payments, paying a small amount of interest on a 'credit' balance held by HMRC could be considered. An approach involving some 'carrot' as well as 'stick' could be considered. Alternatively to interest, the system could recognise taxpayers that paid early and these taxpayers could build up a track record which, for example, mitigated against penalties in the future if, for some reason, circumstances changed which meant that they did not meet a tax liability on time. We suggest, though, that a voluntary system would only work well if trust in the UK tax system and HMRC more generally is improved.

3.15 We would also be interested to hear more from HMRC about 'managed payment plans' which were introduced by Finance Act 2009, but have not been implemented. The statutory basis for these plans is still in Taxes Management Act 1970 sections 59G and 59H. Under managed payment plans, taxpayers agree to pay income tax, capital gains tax or corporation tax due by instalments balanced equally before and after the normal due dates. While in the plan, taxpayers are protected from the interest and penalty consequences on payments made after the normal due date Thus, for example, a taxpayer could file their return for the tax year 2020-21 early in, say, September 2021. At this point in time they would know their tax liability of, say, £800, which is due on 31 January 2022. The taxpayer could then agree with HMRC to pay the £800 tax liability in eight instalments of £100, with four of them being before the due date (Oct-Jan) and the other 4 after the due date (Feb-May), but no interest or penalties would be due in respect of these 'late' payments. This plan seems to us to encapsulate many of the potential benefits the call for evidence suggests would arise from more timely payments with regards to budgeting and more regular instalment payments – and, indeed, results in more timely payments for the taxpayer. We suggest that an implementation of these voluntary plans, together with an effort to educate taxpayers as to their availability and potential benefits, should be undertaken before any mandatory changes to the rules relating to payment of tax.

3.16 Similarly, the alternative method of paying tax by using certificates of tax deposit is being phased out, with the scheme closed with effect from 23 November 2017. New certificates can no longer be purchased but existing certificates can still be used until 23 November 2023. We would be interested to know the reasons for closing this scheme which offered taxpayers an alternative way to budget for tax liabilities.

4 Chapter 2: Principles

4.1 ***Q1. Do you have any comments on the benefits and challenges of timely payment outlined above?***

4.2 Whilst we, broadly, agree that most of the benefits cited could arise as benefits for some taxpayers in particular circumstances, we also think that the challenges of timely payment that have been identified in the call for evidence could adversely impact a great many taxpayers (particularly if these are based on calculations of tax due by reference to in-year information). It is not clear where the balance will lie between the potential benefits and the negative impacts for taxpayers in different circumstances. It is not clear which type of taxpayer would be most advantaged overall by the introduction of timely payments.

4.3 The call for evidence (at paragraph 1.8) envisages that timely payments may be part of a 'modern tax administration system …. that …. fits with how they live their lives and go about their business.' The aim of timely payment is to a large extent aimed at aligning payment of tax with income received. Similarly paragraph 2.15 of the call for evidence envisages that a more regular calculation and payment system would enable people and businesses to pay the 'right tax' in real time. Broadly, it seems to us that the vision as to how taxpayers are 'living their lives', which may make such close alignment of income received and tax payable possible, and would inevitably involve a significant degree of digitalisation, is only true for individuals with simple tax affairs with, say, only one income source, and a business that does not involve capital investment; for example, those 'working' in the gig economy.

4.4 For many other categories and types of taxpayer, the concept of calculating tax due throughout the tax year based on in-year information will present significant challenges as a result of the complexities of the UK's tax system. The UK's tax system does not work in 'real time', it works in arrears. Tax is calculated on annual income, profits or gains, which in most cases can only be worked out after the tax year has ended. The impact of a huge variety of 'one-off' events or happenings through the tax year that can significantly affect the overall tax liability for any particular year (for example, capital investment and the availability of capital allowances and the annual investment allowance, pension contributions, set off of losses from other income (or gains) sources, gift aid payments, etc.), mean that it will simply not be possible to calculate the 'right tax' throughout the year. This is also true for very seasonal businesses or businesses where, for one reason or another, generally the receipt of income is not aligned timing wise with expenses and outgoings.

4.5 In our view, the biggest challenge of these proposals would be around calculation of payments in-year and how to ensure that any tax payments calculated utilising in-year information are reasonably accurate instalments of the ultimate tax liability for the year. Substantially overpaying in advance due to inaccurate in-year calculations would exacerbate the cash flow difficulties, which is why we suggest that an increased frequency of tax payments based on a prior year's liability would be preferable.

4.6 Cash flow is recognised as a significant challenge in the call for evidence. Timely payment of tax throughout the year would have a detrimental impact on many businesses, as is recognised, particularly, for example, on seasonal businesses, where there may be a large discrepancy between the timing of the income and the expenses of the business. The call for evidence envisages that a potential benefit of timely payments is that these would help taxpayers to budget. However, taxpayers and businesses would still have to budget for other expenses and ensure sufficient cash is retained to meet expenses that arise at a different time to their income. For many businesses the requirement to manage or budget their cash flow would not be alleviated by these proposals, only the timing changes. In addition, their tax affairs would be considerably more complicated than is currently the case if the rules required a calculation of tax due based on in-year information.

4.7 In addition, as is recognised, an increased frequency of payments of tax will give rise to an increased administration burden for businesses and HMRC. For those with tax advisers, these are likely to face an increase in fees if more work is required to calculate/amend the timely payments. This will particularly be the case if the tax is required to be calculated on in-year information. Similarly, unrepresented taxpayers may feel the need to engage an adviser to deal with the reporting requirements and payment calculations if they find the system difficult to navigate, which will be an additional expense. We would strongly advocate a direct debit facility if the frequency of payments is increased as, otherwise businesses may find it difficult to keep up with the frequency of timely payment. In our view, the call for evidence underestimates the complexity of in-year calculations of tax and we cannot see how these would be a sensible use of business' time and money. This additional compliance burden would be time which the business could otherwise be spending on running the business and generating more profits (on which tax is payable). Large companies in the quarterly instalment (QIP) regime already find it time consuming to do the 'in-year' calculations estimating tax liabilities.

4.8 The challenges, particularly, around cash flow and the calculations of payments in-year are recognised in the call for evidence are discussed in more detail below.

4.9 Paragraph 2.16 of the call for evidence considers whether new technology and the introduction of MTD means that ITSA should be more closely aligned to Pay As You Earn (PAYE). Our view is that there are many reasons why PAYE is treated differently to other obligations in relation to income tax, and that it can continue to be justified in being so. For example, the employer's secondary and employee's primary Class 1 NIC liability is based on the tax period to which the payment of salary or wages relate: the calculation of Class 1 is isolated (except for directors) to that period and is unaffected by payments of wages before or after (or by other income or wages from other employments (except connected employments) in the same period). This is not the same for trading income and expenses, where the liability is based on the profits of the tax year rather than a particular month or quarter.

4.10 Furthermore, the cash received subject to PAYE as a wage or salary is to a large extent fixed as to the date it is received and regular in amount. Thus it is easier to justify a 'pay as you earn' deduction and payments system. In fact, PAYE works best when a taxpayer has a single employment, no other income, and regular fixed payments of wages or salary. Where PAYE falls down is when a taxpayer has multiple sources of PAYE income (more than one employment or pension or mixture of earnings and pension) or other income that is being collected by way of a PAYE code adjustment (with said adjustment often based on the previous year's income): in such cases PAYE often results in the 'wrong' amount of tax being deducted leaving the taxpayer to file an ITSA return or claim a tax refund or wait for a P800 post tax year end.

4.11 While it is generally possible to fairly accurately calculate the tax liability from employment, and therefore, collect tax through monthly PAYE payments, the same cannot be said for other sources of income that are currently assessed and paid under ITSA. This is because the vast majority of employees only have one employment and one source of income. Plus, because you know at the start of the year that they are, generally, being paid in equal instalments across the year by way of a salary, the PAYE system can accurately assess instalments of tax to be paid. In addition, there are generally less outgoings made by employees in relation to their employment and generally less investment inputs required by them, so that the full amount of the earnings received is, usually, taxable. To the extent that circumstances do change, or, for example, bonuses are paid, the employer, acting as collecting agent for HMRC, is able to make adjustments and change the amount of tax collected in subsequent months (albeit this has cash-flow implications for the taxpayer) – thus there is also a mechanism to deal with over or underpayments in the year, supported by the (usually) greater cash resource of the employer.

4.12 As noted above, while the PAYE system works well in straightforward circumstances, it also demonstrates many of the difficulties that would be faced by timely payments as soon as complexities arise. In addition to the difficulties identified above that arise with multiple PAYE sources and coding out estimates of other income, another problem with the PAYE system is 'one-off' events – for example if large pension contributions are made at the end of the tax year, a large repayment will arise (which in some cases a small employer may have to self-fund and then recover from HMRC by way of a refund of previously paid PAYE taxes).

4.13 Considering PAYE as a whole, and when it works less well, in fact offers an insight that we suggest discourages the introduction of more timely payments for those under ITSA, when tax affairs are generally more complicated for one reason or another, even for taxpayers who are not high earners.

4.14 For the many taxpayers who can manage their cash flow and do meet their tax liabilities on time, we are not clear how having more regular payments would help them. Paragraph 2.17 of the call for evidence notes that as a result of MTD reporting, taxpayers could see more current estimates of emerging tax liability in-year, while their tax payments are based on how their business was performing in recent years and payments are made only in January and July, without stating why this is a problem.

4.15 Some taxpayers may find it helpful to see estimates like this as it may help them with budgeting for their eventual tax liability. However, others may find it confusing so we suggest that there should be the option to 'switch off' this function in MTD software.

4.16 It is difficult to envisage how some of the other benefits cited in the call for evidence would arise in practice. Paragraph 2.18 says making 'budgeting easier' could lead to reductions in tax debt – it is not clear how having more timely payments would make budgeting easier, overall, for the taxpayer. We accept that because the government has its money – taken more closely and directly from income – timely payments may reduce tax debt, and, therefore, reduce costs for HMRC. But although it reduces a taxpayer's tax debt, it may not reduce their debt overall: if they have paid money to HMRC under timely payments, they may have to borrow to fund other unexpected expenses, so it is far from clear that overall the impact on the individual would be favourable. Thus, the cash flow impact may lead to other problems for the taxpayer.

4.17 Paragraph 2.19 of the call for evidence suggests that 'Timely payments would also enable taxpayers to feel the impact of any changes to tax rates, reliefs, allowances, or other reforms more immediately….'. It is difficult to see how this would be possible without adding significant complexity for taxpayers and, assumes that calculations of payments of tax due will be based on in-year information, which we are sceptical about the practicalities of. Would software be updated with sufficient regularity? This would require more regular and significant engagement with the tax system by taxpayers to calculate and then re-calculate tax payments due. Reliefs and allowances operate across the relevant tax year, so it is not clear how would they be taken into account 'more immediately'.

4.18 Our view is that, overall, other than for a relatively small population of taxpayers with very simple tax affairs, the potential benefits are unlikely to outweigh the challenges. This is particularly the case for 'real time' calculations. If there is a move to more frequent payments, we think that basing them on previous years – albeit with the ability to amend the amount of the payments if they are not representative of current trading – is preferable to basing payments on real time data, with a sweep up payment (or refund) due around the time that their annual tax return is made. We think there are many problems with moving to a more real time basis of taxation, and whilst looking back is often not perfect, it is easier to do and normally based on complete information.

4.19 ***Q2. Please provide a narrative, with examples if possible, of any other benefits, challenges or impacts which you consider should be of central concern when looking at this proposal.***

4.20 The potential administrative burdens are considered to be a challenge in the call for evidence and we agree with this. Businesses, even established ones, face uncertainty and profits rarely arise equally each month. Key customers or suppliers could be lost or gained at any time, thus affecting businesses' profits. Seasonal businesses with busy periods at one or other end of their accounting period will struggle to know their profits with any certainty and may not have the cash flow to pay HMRC on a real time basis. One-off transactions (particularly those not expected) may materially throw off results – particularly ones that generate losses. Businesses undertake year end calculations (for example accruals, stock take write offs etc) which are not done more frequently and can have a significant effect on the results. Thus making more frequent tax payments based on real time calculations would cause many issues and result in wasted time for businesses performing some or all of these calculations more often that is currently the case.

4.21 In addition, as we say above, timely payments, particularly if these involve calculations based on in-year information, would require considerable engagement by the taxpayer – albeit, possibly with an App rather than directly with HMRC – possibly for the first time and at more times per year than is currently the case. Whilst this may be something that should be encouraged at a more general level – that is to say individual understanding of their financial affairs, including their tax affairs, the impact of this should not be underestimated and may, in itself, be very stressful. This is another reason why a voluntary system may be preferable at the outset as this would allow time for 'road testing' of the approach by HMRC and response from taxpayers, and allow the benefits of the system to spread by word of mouth throughout the taxpayer population, rather than being imposed by the government.

4.22 The mechanism and processes around repayments will be of the utmost importance. More timely payments are likely to lead to more adjustments at the year end, and to the extent that repayments are required it is important that these are timely and easily obtained. As we comment in our response to the Tax Administration Framework Review, when repayments are made on a timely basis by HMRC this helps build trust in the system. However, where there are delays in making repayments, and particularly where there is no explanation for the delays, this undermines trust if taxpayers come to the view that HMRC are quicker at taking payment than giving repayments. This is discussed further in response to question 30 below.

4.23 In our view if tax payments are based on in-year calculations, in-year repayments would also be essential. If the person initially makes monthly payments then something happens which would result in a large loss for the year, then that taxpayer needs to be able to stop making payments and clawback the payments made already (that is to say offset the loss) so as to relieve pressure on the business' cash flow. This is a typical issue already for corporates in QIPs when something goes wrong (for example a big economic shock, pandemic or something else that affects their own business unexpectedly). We fully understand that there are constraints, including, appropriately, concerns about fraud that prevent HMRC from operating what individuals and businesses would perceive as a fluid service, but the fact remains that currently there is insufficient fluidity in repayments to enable a more timely system of payment to operate without imposing disproportionate cash flow costs.

4.24 Clearly any significant change to the timing of payments of tax, and, indeed, how tax liabilities are calculated if calculations based on in-year information are required, will have an impact on HMRC's IT systems, in addition to taxpayers requiring software and/or digital solutions to deal with these new obligations. We refer to our comments in our response to the Tax Administration Framework Review around the administrative costs and burdens that arise when there is inadequate consideration to how a policy is implemented digitally. As we say in that response it is important to ensure that the pace of new legislation does not run ahead of the ability to develop the systems to implement it, and that there is sufficient resource, to implement the changes to the IT systems that are required by the changes to tax law. This should be taken into account when recommendations are made by HMRC to the Ministers who make the ultimate decisions on new legislation.

4.25 We reiterate here our support for a single customer account, which is needed to bring together all data held by HMRC about a taxpayer across the different taxes and data sources associated with that taxpayer. This new single account should replace the current Personal Tax Account and Business Tax Account, which are not joined up and have limited functionality. The single customer account should clearly reflect what the taxpayer needs to pay and when, and reflect agreements reached via TTP arrangements. It should also be joined up with other HMRC powers, such as the ability to freeze bank accounts and take tax direct from bank accounts. We suggest that if HMRC use that power (for example due to major arrears of one tax) then they need to accept that will stop the taxpayer making in-year payments temporarily with regard to other taxes. We suggest that a facility along these lines should be a prerequisite to any move to more timely payments. Clearly other measures will also be required to assist taxpayers who are digitally excluded or need extra support.

4.26 ***Q3. What are the relative merits and disadvantages of tax payment regimes in other countries compared to the UK's?***

4.27 We do not have the expertise to comment on the tax payment regimes in other countries, but note that, as per paragraph 2.37 of the call for evidence, the default option for calculating these instalments is to base them on the previous year's tax bill, with the option to assess a lower bill, in other words, similar to the current UK system.

4.28 ***Q4. Are there examples of tax payment timings from other states or territories which the UK should consider?***

4.29 We do not have any examples of tax payment timings from other states which the UK should consider.

4.30 ***Q5. Where people have experience or data of timing changes in other countries (eg recently in France), what have been the impacts and what should have happened differently?***

4.31 We do not have experience or data of timing changes in other countries.

5 Chapter 3: Overview of Current Regimes

5.1 ***Q6. What are the advantages of the current payment timings? Are there any groups who rely more heavily on these than others?***

5.2 The main advantage of the current payment timings is that these reflect the basis on which the tax liabilities are calculated, that is to say on an annual basis, and, for businesses, often using accruals accounting.

5.3 The current system is also advantageous from a cash flow perspective. Under the current system, taxpayers within self-assessment can prepare their tax return and calculate their liability for the year, and then have a reasonably lengthy time period with certainty about the amount of their liability and when this liability is due, during which they have freedom to manage their cash and finances. Thus the time lag is perceived as an advantage by some taxpayers.

5.4 The current system also smooths out income and expenses mismatches for seasonal businesses because tax is assessed over the whole year. Payments on account are based on the previous year's liability and taxpayers can change these if the current year results are expected to be worse than the previous year. The current system also allows annual claims, elections and reliefs (including capital allowances and loss relief) to be factored in.

5.5 ***Q7. What are the challenges with the current payment timings? Are there any groups who are challenged or disadvantaged more than others?***

5.6 The current system can present challenges for those less able (or willing) to manage their affairs and finances by, for example, putting aside funds every so often in order to pay their tax bill in due course. It is not uncommon for individuals who are sole traders, or running smaller businesses to only engage with their tax liabilities very late in the day and only provide their tax advisers with their tax return information in December/January, and then have a shock when their tax liability is calculated, which is due a couple of weeks later. Taxpayers could mitigate this to some extent by using Budget Payment Plans, but unfortunately, as discussed, above, awareness of these plans is low.

5.7 The current system of payments on account is well understood by advisers, who generally find it straightforward and intuitive; well advised clients either do the same or are in as good as the same position if they trust their adviser and get advised of future liabilities. However, we are aware that the current system of payments on account can seem complicated and unfathomable to some taxpayers if they have not been able (or willing) to deploy the financial, time and intellectual resources required to understand it. This group of taxpayers may be, to a large extent, correlated to the unrepresented and we refer also to our response to question 9 below about low income or vulnerable taxpayers.

5.8 However, as we emphasise throughout this response, making a new more real time system of payments is likely to require even more financial, time and intellectual resource on the part of taxpayers (and HMRC) to achieve a good level of understanding because of the complexity of making something like normal annual adjustments on a more real time basis. We do not think that the answer for unrepresented taxpayers and those struggling with the current system is a new system. Instead, in our view, it would be preferable for HMRC to increase their efforts to explain the current system. We suggest that there should generally be reluctance to change anything when understanding is a key issue, as change of itself brings at least short-term confusion.

5.9 The way that liabilities are presented in the personal tax account can be very confusing (as with the PAYE equivalents). For example, the taxpayer is often given a headline figure of the amount that they 'owe' which is, in fact, the total that is estimated to be going to fall due on the next three July/January payment dates. This can be a shock if the actual due dates for payment are not understood. As a general point this seems to arise from the way that GOV.UK uses expressions like 'you owe'; these can be ambiguous and we are not sure they are used either consistently or in the most naturally understood way.

5.10 ***Q8. Do you have any comments on the specific challenges faced by non-business ITSA taxpayers (ie those in ITSA other than the self-employed, landlords, or large partnerships)?***

5.11 We have not been able to identify any significant challenges faced by non-business ITSA taxpayers. In our view, the current ITSA system works reasonably well for these sorts of taxpayers because they can prepare their returns (with or without an adviser's help) and factor in income from all sources, including non-business income such as dividends and interest. Many taxpayers know to put some money aside to budget for the pending tax liability arising from non-business income.

5.12 However, whilst the system works reasonably well for non-business ITSA taxpayers, they can still face challenges as a result of not having the information they need in time to meet the filing deadline (for example because of delays by third parties in providing the information to them). This means that they have to use estimates or provisional figures, meaning that their tax liabilities are estimated or provisional, until accurate figures can be supplied and the tax liability accurately calculated. This sort of problem is only likely to worsen if there were a move to a more real time basis of payment.

5.13 For taxpayers that are also within PAYE, mistakes in relation to their PAYE code can mean they unexpectedly get a bill to pay, particularly where they change jobs or if the code is adjusted to collect other taxes owed. The other issue is that HMRC's current personal tax account system is not updated sufficiently quickly – balances are not updated instantaneously following submission of returns and the lack of interaction with people's PAYE records is very unhelpful.

5.14 ***Q9. Do you have any comments on specific challenges faced by low income or vulnerable taxpayers?***

5.15 There is a general lack of understanding of the payments system among many who are on a low income and/or vulnerable. We disagree with the comment at paragraph 4.14 of the call for evidence that payments on account is a well understood system for this group of taxpayers – particularly for those who are on the borderline and who find themselves having to make payments on account for one tax year, but then not for the next.

5.16 There are also challenges for low income and/or vulnerable taxpayers when it comes to obtaining a refund and being aware of expenses and reliefs they can claim, or if they do know about them, knowing how to claim them. In our view, HMRC should do more to help taxpayers claim refunds, expenses and reliefs, and also make the claims process easier.

5.17 ***Q10. Do you have any comments on the specific challenges faced by new ITSA taxpayers?***

5.18 We recognise the specific potential challenge faced by new ITSA taxpayers as a result of the relatively lengthy time period there can be between starting a business and the first due date of payment of tax (and, indeed the return on which that tax liability is based). Following on from the first year's assessment under ITSA, understanding how payments on account work and budgeting for them can also be challenging, and the tax position is often further complicated by the current rules on basis periods.

5.19 The consultation on reforming the basis period rules announced on 20 July 2021 proposes changes to the current rules which should alleviate some of the problems faced by taxpayers new to the ITSA regime, as it should make it easier to understand which profits are taxable in which tax year, and gets rid of 'overlap' (where profits can be taxed twice in the opening years of a business due to the way the current basis period rules work).

5.20 We suggest that the challenges faced by new ITSA taxpayers could be addressed by ensuring that there is much greater awareness of the tax system and timing of tax liabilities at the point of entry/receipt of first income. Thus the issue should be raised in all registration and other information on GOV.UK, coupled with a drive to ensure greater awareness of the Budget Payment Plans to encourage those new to ITSA to think about budgeting for their tax liabilities.

5.21 Of course, as we mention above, some start-up businesses may be very aware of the time lag and may value it: it gives them a cash flow boost in their first year or so of trading.

5.22 ***Q11. What are the benefits of the existing payment timings for CT? Are there any types of company, sectors, or other distinctions which rely more heavily on the long payment window than others?***

5.23 Broadly, the benefits for smaller companies paying corporation tax are the same as for individuals, the relatively long time period between the end of an accounting period and the due date for payment of corporation tax gives taxpayers freedom to manage their cash and finances generally, and is advantageous from a cash flow perspective. Companies can choose to prepare their tax return and calculate their liability soon after the end of the accounting period, and then have a reasonably lengthy time period of certainty about their liability before the tax is due.

5.24 ***Q12. What are the challenges with the current payment timings? Are there any types of company, sectors, or other distinctions which make the current payment timings challenging or disadvantageous?***

5.25 Again, similarly to individuals, a start-up company may be challenged as a result of lack of awareness around the timings of its tax liabilities, with the initial tax liability coming as a shock. However, this could also be addressed by ensuring that there is much greater awareness of the tax system and timing of tax liabilities at the point of entry/receipt of first income. Thus, the issue should be raised in all incorporation documentation and other information on GOV.UK. Again we would note that many start-up companies may be very aware of the time lag and may value the cash flow boost it gives them in their first year or so of trading.

5.26 There are also currently challenges faced by larger companies which are within the current rules for QIPs. The requirement to pay in-year instalment payments can present considerable challenges for some businesses, for example, seasonal businesses, those transitioning into QIPs, as a result of one off/unexpected transactions or for property businesses who cannot often control the timing of sales. Some larger companies get frustrated as they are conscientiously trying to comply with the rules, but have fluctuating profits, and, regardless of their efforts, they get their QIPs wrong and are charged interest. This can lead to an impression that the tax system is unfair and stacked against them.

6 Chapter 4: Handling More Regular Payment

6.1 As noted above, we welcome the statement around timing in the call for evidence and the confirmation that there is no intention to make any significant changes to the timing of income tax or corporation tax payments within the present Parliament. This is sensible for a number of reasons:

- It will allow time for the government to first address some of the key underlying problems with the UK tax system, such as removing the differences in taxation of income from employment and self-employment to eliminate the tax incentives to move from employment to self-employment (see our comments in our response to the Tax Administration Framework Review). Significant issues such as these should be addressed before any changes are considered to the timing of tax payments.
- Significant changes to the tax system are already planned or currently under consideration which could change the balance of the benefits and challenges around timely payments.
- Any new timely payments system will be heavily dependent on reliable and well-functioning IT systems, which will, presumably, have to be designed and built from scratch and will need to be fully integrated with other HMRC systems. Current HMRC systems will need to be improved so they are better integrated and so work efficiently with any new system.

6.2 The call for evidence recognises the tension between complexity and accuracy; we agree with this. We also remain unconvinced of the overall benefits to taxpayers of more timely payments and unclear where the balance between the benefits and challenges lies. We, therefore, suggest that work on the impact assessments should be undertaken at each stage of considering any changes or a move to more timely payments.

6.3 We are surprised to read in paragraph 4.9 of the call for evidence about initial feedback from stakeholders giving a ‘strong’ opinion favouring calculations of tax liabilities based on in-year information. This was not our initial feedback to HMRC. It is our strong view, for the reasons set out in this response, that a move to tax liabilities based on in-year calculations could only work if the tax system was fundamentally reformed first, and at the moment calculations based on an up-to-date view of the in-year tax position seem highly aspirational. Similarly we do not agree with the first sentence of paragraph 4.12 of the call for evidence, that suggests that ‘understanding and paying current-year liability offers a benefit to the taxpayer’. In our view for the majority of taxpayers this would only be possible after significant reform of the tax system – as paying current-year liabilities would only be of benefit to the taxpayer if it was possible to know what the current year liability was at that point in time, so that payment made could be accurate. We strongly suspect that many people view the calculation of tax liabilities as extremely mysterious in the first place – a ‘black box’ which they prefer not to enter - so do not give sufficient weight to the incremental difficulties that trying to calculate anything resembling the current system ‘in real time’ will pose.

6.4 ***Q13. Do you agree that if there is to be a more frequent tax payment regime, it should generally be based on current year liability?***

6.5 We do not agree that a more frequent tax payment regime should be based on current year liability. This is because the UK’s tax system does not work in real time, it works in arrears. For example, how would the personal allowance be allocated across different incomes on a month by month basis – it is currently structured as part of an annual calculation. All sorts of things make it difficult to report in-year, let alone pay by reference to calculations based on in-year information, including capital allowances, high income child benefit charge, deciding whether or not to elect for the remittance basis, loss relief, marriage allowance transfer, whether the taxpayer is a Scottish taxpayer or not (which it is not always possible to ascertain until after the end of the year. Similarly, what would be the result of a move to Wales part way through the tax year? These proposals would cover the whole of the UK, as there is one administration – but with different rates. The system does not currently have split tax years for residents within different nations of the UK. Would there be penalties because tax is underpaid as a result of being based on a different, say, Scottish income tax rate? For those coming into the UK from abroad who become UK tax resident part way through the year, split years are possible which would also generate complications. In our view, if payment of tax is to be based more in real time, then there needs to be a fundamentally different basis of determining tax liabilities in real time. We set out in the Appendix the sort of system that would be required to be capable of real time operation (that is to say one which is determining tax liabilities more directly on the basis of transactions as they occur), and some of the policy issues and decisions that would arise in moving from the system we currently have.

6.6 We discuss the examples in Annexe A further below, but at this point note that we are concerned by the suggestion that penalties could be levied if taxpayers underestimate their final bill by a specific percentage. Taxpayers’ income, profits or gains rarely arise evenly over a year so this suggestion could operate unfairly. This would be compounded by the effect of year end adjustments: these can be large and even if the burden were imposed of calculating many of these with greater frequency it is not always the case that a (say) quarter end adjustment necessarily foreshadows the scale and direction of the equivalent adjustment in a subsequent quarter. In our view it would hugely undermine trust in the tax system and the perceptions of fairness.

6.7 Instead, we cannot see any objections to a regime based on the taxpayer’s liability in a previous year, as described in paragraph 4.13 of the call for evidence: effectively an accelerated (or spreading of payments) version of the current ITSA payments on account regime, with a similar estimation and payments on account regime for small companies in Corporation Tax Self Assessment (CTSA). We agree that increasing the frequency of tax payments could produce an earlier warning if people are in financial difficulty, which may in turn lead to tax debt, thus providing an ability to help the taxpayer at an earlier stage and ameliorate the tax debt problems. More payments on account based on a previous year’s liabilities seems to be the most straightforward way of increasing the frequency of tax payments and present the fewest incremental complications.

6.8 We are not convinced that using real time information would provide a better customer experience. Whilst there may be a case for using more real time data and information to help build a picture of a taxpayer's overall tax position, we do not think that it is easily possible to use the real time data to estimate tax liability at any particular moment in time within a tax year. This is because, as we say above, the tax system works in arrears. Under the UK's tax system it is only possible to know accurately the tax liability after the end of an accounting period/tax year. Any calculations made during the year would only be estimates, the accuracy of which could be challenged by any number of factors. This could have the opposite effect to the policy aims, and instead result in many people being lulled into a false sense of security by making regular payments, only to get a nasty shock of a large tax bill when their final liability after the end of the tax year is calculated.

6.9 There would be a huge administrative burden for taxpayers of calculations of in-year tax estimates. Currently, it is intended that MTD quarterly updates will be a straightforward case of clicking 'submit' in respect of readily available information to taxpayers, and it is intended that from these HMRC will 'play back' an estimate of the tax liability. But, if the tax liability calculation is expected to be more accurate, with payment obligations flowing from it (and potentially interest and penalties if it is 'wrong'), the cost of doing quarterly updates will increase, as the quarterly submission will need to be checked and possibly tax-adjusted.

6.10 For companies it is easier to envisage that the system of QIPs could be extended to smaller companies, which is based on in-year estimates of tax liabilities for the accounting period. However, we would caution against this for smaller companies. There is clearly a cash flow impact from QIPS, that larger businesses are probably in a better position to absorb, although, as noted above, many still struggle with it. In addition, large businesses more commonly produce cash flow forecasts and their business models incorporate management accounts and other tools that enable reasonably accurate estimates of tax liabilities to be made. Other external considerations, such as smoothing cash flow and dividend payments mean that large investments, which will impact on their tax position are budgeted for in advance, assisting with the accuracy of estimates of the tax that will be payable. In addition, an important factor of the QIP regime is that interest is payable or receivable in respect of inaccurate estimates (and this interest is taxable or deductible). Thus, to an extent, there is an in-built reconciliation mechanism. Lastly, smaller companies do not generally have the resources (in house or an agent) that a large company has so introducing more frequent tax payments could lead to increased costs and administrative burdens for them.

6.11 We recognise that a system of payments based on the previous year's liability does not address the challenges that can face taxpayers newly coming within ITSA or start-up companies (that is to say around the time lag between commencing trading/the business and the first due date for payment of tax). As mentioned above, we would be interested to know what proportion of this group of taxpayers contribute to the tax debt. We suggest that much of the challenge could be addressed by education and ensuring that the information around timings of payments is readily available to them at an early stage. We also reiterate that many of these taxpayers will value the time lag and the cash flow boost it gives them in the first year or so of their trade or business.

6.12 ***Q14. Do you have any initial comments on the benefits and challenges of different calculation options to meet diverse taxpayer needs versus one process for all taxpayers in scope?***

6.13 The more one considers how timely payments based on in-year information could be calculated, the more complicated and difficult it becomes, other than for taxpayers with the simplest, steadiest income and expenses profile, and no other income or changing circumstances. It is difficult to see how rules to meet the diverse taxpayer needs would be anything other than very complicated. Having different calculation options would present taxpayers with a new set of questions around how to determine which options may be available to them and which are not.

6.14 There would have to be different calculation options to deal with taxpayers that have different types of income – say self-employed income and income from properties. Is it envisaged that there would be two different payments in respect of each source of income to be calculated separately but paid at the same time? The consideration being given to basis periods more generally (consultation published on 20 July) will be of relevance here.

6.15 There would also have to be flexibility in the calculations for seasonal businesses and other businesses where the income flow does not easily correlate with the main expense outgoings (for example, the letting of a seasonal holiday home). The rules should also reflect the impact of cash v accruals accounting: on an accruals basis, the business may have made a profit, but not yet been paid.

6.16 Specific bases for calculation may also be required for those whose sole income are dividends from a limited company, possibly together with an annual director's salary. For these taxpayers, the current system of fewer payments actually correlates better to their income flows. More generally, for those whose income is derived only from dividends or interest a system of more timely payments, coupled with more times at which tax liabilities must be estimated seems to be a disproportionate additional compliance burden.

6.17 More frequent calculations of estimated tax liabilities during a tax year may also be challenging for those taxpayers who rely on information from third parties – for example, trustees. Often the information is only received after the end of the tax year.

6.18 These examples of the different calculations needed for different types of income and businesses of themselves do not address the additional complexity that under the UK tax system, tax is paid on the total net amount of income, profits and gains in any tax year. Thus to work effectively, the in-year calculation rules would have to accommodate the bringing together of all the income or gains sources (as well as the reliefs and allowances relating to the taxpayer) in order to give an accurate estimate. Also, there is a progressive tax system rather than a single rate, and it is the overall net total that determines the marginal rate applying to incremental income. The enormous complexities around doing this are why we advocate retaining the existing system of adding all income, profits and gains together and then calculating the tax liability due on that total after the end of the tax year in one process that applies to all taxpayers. Payments of tax should then be based on the annual calculation of tax liability. This process of calculating and paying tax liabilities (which, whatever its complexities, is much simpler now than it would be if attempted in anything resembling 'real time') should be backed up with increased education for all taxpayers and support for the vulnerable and digitally excluded, including through the availability of Budget Payment Plans, managed payment plans or similar voluntary facilities.

6.19 ***Q15. What are your views on using digital solutions to facilitate in-year calculation, and what and how could specific groups be affected negatively by this?***

6.20 We are not clear what is meant by a 'digital solution' here. We assume that is it a reference to something similar to what will flow from MTD for income tax; that is to say, the submission by the taxpayer of relevant figures, and that the 'digital solution' would 'play back' an estimate of the tax liability based on the figures that the taxpayer submits. As we say above, we do not think that MTD for income tax will produce anything close to an accurate estimate of tax liability for the relevant business in the great majority of cases. This is because there will not be any requirement to 'adjust' the figures in the MTD quarterly updates (for example, to either make accounting adjustments (accruals, prepayment, stock write offs etc) or tax adjustments). Other than for a very simple business using the cash basis of accounting the tax, estimates of tax liability based on quarterly MTD updates will not be accurate in respect of the business, never mind in respect of the taxpayer's overall tax liability. Thus, whilst we can see the attraction of a digital solution in principle, it is only a realistic possibility for those with steady income – and, we suggest, those with nominal, known or routine expenses (who do not, for example, make pension contributions or incur significant expenses), and those who do not have any changes in circumstances throughout the year (for example get married or have a child) that may affect their overall tax liability. We do not think that, for the majority of taxpayers, it would be realistically possible for a digital solution to provide a relatively accurate tax estimate. To do would require a considerable amount of continuous and timely input from taxpayers about anything relevant to their tax affairs, and an extremely sophisticated digital solution reflecting the complexity of the UK tax system.

6.21 The call for evidence cites the way that most people pay for gas or electricity by direct debit. We do not think that the payment for the supply of these services is comparable to payment of tax to the government for a number of reasons, not least the relative simplicity of there ultimately being only one factor determining amounts that are due – namely amount of usage of gas or electricity, which can be easily ascertained by meter readings, as compared to the calculation of an overall tax liability for the year, which can be very complicated. The relationship between electricity supplier and customer is much more clearly transactional – the customer is paying for something that it has received from the supplier. In relation to tax, and the relationship of the taxpayer with HMRC, the taxpayer is paying money to HMRC because it is required by law to do so on account of income, profits or gains that it has received.

6.22 In addition, the collective experience of using direct debits to pay for these services also highlights the potential dangers of using a similar system with regard to payments of tax, particularly if the amounts charged are to be based on estimates of the amount of tax due. It is the convenience of not having to think about payment that is attractive to consumers that sign up for direct debits (re-iterating that a direct debit facility should be made available if there are to be more frequent payments of tax). However, this can actually lead to a loss of engagement with the service provider and less monitoring of usage v the amount being charged. Many people who do <u>not</u> sign up to direct debit say that this is due to the <u>loss</u> of control over their money and financial affairs, and the ability to budget, which is contrary to the suggestions in the call for evidence that more timely payments would improve taxpayers experience of awareness, control and budgeting capacity. Criticisms are levelled at gas and electricity providers around ensuring that customers are on the best deal and paying an appropriate amount. Some of these criticisms have been addressed in recent years by requiring the providers to notify customers of better available deals. How would this translate into payments in respect of tax? Would HMRC be under an obligation to draw a taxpayer's attention to possible reliefs and allowances available to them? Who would be responsible for deciding on the inputs into an algorithm underpinning any digital solution? What assumptions would be made about future capital investment, the cost of revenue materials/items, bad debts etc? If the taxpayer inputted these from time to time, and then they turned out to be incorrect, would that make the tax calculations the digital solution had produced 'incorrect', resulting in penalties?

6.23 A digital solution would negatively impact those who cannot use digital systems (the digitally excluded) but also those who are not confident using them (the digitally challenged). It is important that HMRC recognise that the digitally excluded are just the tip of the iceberg of digitally challenged people. As we suggest in our response to the Tax Administration Framework Review, the government should work to reduce the inequality issues for the digitally challenged by developing a national education and hardware programme for the 'left-behind' and those due to leave school to educate them about basic tax and digital transactions with government and third parties such as banks, ensuring they have secure access to the internet, so that digital channels can develop to improve and enable access for this group. Ensuring that this happens would allow more interactions to be digitised and improve the efficiency of the tax system generally. Ignoring this significant group will widen the digital divide and make further digitalisation problematic.

6.24 Why would the same people who get 'stressed' by dealings with the tax system now, not get similarly stressed by these plans, since more frequent payments would mean that they would need to interact with the tax system more frequently than they do now.

6.25 ***Q16. Do you have any comments on how the needs of taxpayers for whom digital solutions are unavailable or challenging could be met when considering calculating tax liability in-year?***

6.26 We suggest that a de minimis exclusion should be considered. It would be sensible if this was set at the same level as for MTD for income tax, that is to say, income less than £10,000. It seems counter intuitive to us that more timely payments are being considered for all taxpayers when QIPs for corporation tax and VAT instalment payments are currently considered too onerous for smaller companies, and MTD for income tax and payments on account are considered too onerous for lower income taxpayers.

6.27 However, clearly a de minimis exclusion would not solve the issue for those who have income or gains above this level but who, for mental health or other issues would not be able to cope with more timely payments. Thus, there would need to be a 'non-digital' solution for such people (perhaps via HMRC's Needs Enhanced Support team).

6.28 The ability for HMRC to obtain the information for those who only receive pension income from various sources, including state pension, dividends and interest and then prepare a monthly/quarterly calculation automatically would help many taxpayers who are digitally excluded. The Office of Tax Simplification (OTS) has suggested that data be automatically transferred from finance companies to the tax office in a reform that could end self-assessment for these taxpayers. Under the proposals, the OTS said data from banks, investment firms and pension providers could feed directly into a digital tax portal where taxpayers could see their tax bills and claim reliefs automatically. While it is hoped that the measures would reduce errors and late payments, campaigners have warned that taxpayers' personal data will need to be safeguarded. These proposals are also covered in our response to the Tax Administration Framework Review.

6.29 ***Q17. If tax payment and calculation was more regular under ITSA, what are the key ways in which it would need to align with PAYE, Simple Assessment, and more widely to get the best result for taxpayers?***

6.30 It is not clear to us why payments under ITSA have to be aligned with PAYE or Simple Assessment as these will remain different assessment systems and processes. Indeed, it will not be possible for this to be the case other than for taxpayers who are also within PAYE. Because different employers have different salary payment dates, it will not be possible for there to be one payment date, say, each month for all taxpayers which necessarily coincides with payment dates for PAYE. Or is the intention to use the date on which employers account for tax collected under PAYE?

6.31 For taxpayers that are also within PAYE, we can see a benefit from calculating tax liabilities on a more regular basis, as doing so could detect any discrepancies in PAYE tax codes more quickly than is currently the case. This could prevent an individual suffering a large and unexpected tax bill due to being on the wrong tax code for the whole tax year. However, this would only be the case if the systems are properly integrated and that the quid pro quo for more timely payments is that HMRC timeously uses the information received to, for example, update PAYE codes.

6.32 We would support giving taxpayers the option as to whether they wish to calculate and pay tax on a monthly or quarterly basis and would reiterate our view that if payments are more frequent, these should be supported by easier ways to pay tax – including through direct debits.

6.33 ***Q18. Do you have any initial comments specifically on the impact of basis periods on more timely payment of ITSA?***

6.34 Many individuals find basis periods and overlap profits very confusing and do not really understand them. The rules around these would add more complexity to calculating an in-year tax liability. We reiterate our comments made in response to the Tax Administration Framework Review. HMRC and the government should take the opportunity to simplify the legislation around basis periods, but also the way tax liabilities are calculated and assessed more generally where possible. For example, simplification could be achieved by reviewing the adjustments that are required to establish a tax liability, reforming basis periods and changing the UK's tax year. Many issues arise as a result of the legislation, including definitions, and case law for each type of tax being different. The over-arching review of the tax administration framework is a golden opportunity to 'think big' about modernising the UK's tax system and for the government to consult on moving the tax year from 5 April – either to 31 March or 31 December. We welcome the consultation on basis periods published on 20 July 2021 and we will be responding to this in due course.

6.35 ***Q19. Do you have any initial comments on other reforms that could support bringing tax payment closer to the point of transaction?***

6.36 It only really makes sense to bring the tax payment closer to the point of transaction if there is a specific link between the tax that is due and the transaction. The overall problem with a proposal of basing the calculation of tax payments on in-year information around receipt of income or specific transactions is that the overall tax liability for an individual or a company is based on events over the course of an entire tax year and, indeed, prior or future tax years when losses and/or other reliefs that can be carried forward or backwards are taken into account. Thus there is often very little correlation between an income receipt or a specific transaction and a tax liability.

6.37 The call for evidence (in Chapter 6 – Wider Questions) cites the example of real time payment of VAT in VAT Split Payments. However, this scheme highlights the difference between the VAT liability dealt with under the VAT Split Payments scheme, and the payment of tax on income, profits or gains. At the time the VAT is collected by the intermediary in real time, the precise amount of VAT due is known. For the many reasons discussed in this response, this would not be the case in respect of transactions falling within the scope of income tax or corporation tax.

6.38 Increasing the number of payments on account from two to, say, four (based on prior year tax liabilities) and a balancing payment would bring tax payment closer to the point of transaction. As would an increased awareness of Budget Payment Plans and the implementation of managed payment plans. We would reiterate, however, that if more regular payments are desirable, then repayments must be made much swifter and easier too.

6.39 ***Q20. Do you have any initial comments on the feasibility and benefits for MTD customers of paying in-year instalments towards their tax bill, informed by their quarterly MTD updates?***

6.40 This question is about feasibility and benefits – the benefits are that those who struggle to budget for tax would pay their tax sooner in relation to when they earn the profits. In addition, the ability to use quarterly MTD updates would reduce the administration and cost burden for smaller companies and individuals, as they would not have to prepare separate calculations in order to estimate their liability. However, it is not in our view feasible to arrive at a sensible estimate informed by quarterly MTD updates. As we explain above, the quarterly MTD updates will be a very poor basis from which to estimate tax liabilities. In our view, most taxpayers would be well advised to undertake further work in order to be able to arrive at anything close to a reasonably accurate estimate of their in-year tax liability. Using the information in quarterly MTD updates would also lead to many end of year reconciliations. There is a real danger that if taxpayers base their payments on these estimates, significant over or underpayments of tax will occur - creating administrative and cash-flow difficulties, rather than preventing them.

6.41 Instead, the MTD reporting can be used by taxpayers to inform them of any changes that they may wish to make to their payments on account (which are based on a previous year's liability). In this way, the additional MTD reporting would be informative of the tax payments that should be made to the taxpayer's best advantage when considering its budgeting and cash flow requirements. We do not agree that asking a taxpayer to understand its MTD data and reflect on this in relation to payments on account that are due based on last year's liability, is any more complex that asking a taxpayer to consider its MTD data and reflect on the rules relating to annual reliefs and their overall tax position etc in order to arrive at an estimate of what the current year's tax liability will be based on in-year information available to date.

6.42 ***Q21. Are there customers for whom MTD updates would be a particularly unreliable guide for in-year tax payments, and what alternative basis might be more reliable for them?***

6.43 We would caution against linking the estimated liabilities resulting from a quarterly MTD update with the amount of a taxpayer's payment. As we have already said, there are numerous reasons why that estimate may be incorrect, including:

- Taxpayer error in the underlying digital record keeping.
- Taxpayer error in making the submission to HMRC.
- Seasonal fluctuations in trade.
- The timing of capital expenditure.
- The effect of accruals/prepayments.
- Income/gains outside MTD, and so on.

6.44 Further, those tax estimates could fluctuate significantly for legitimate reasons. For instance, a taxpayer might make quarterly payments in quarters 1 to 3, based on the tax estimates, then buy some machinery in quarter 4 which wipes out their tax liability entirely. Or, worse case, the taxpayer is unable to buy that machinery because they have insufficient funds to do so – not appreciating that the investment would reverse their earlier tax payments, and that they could have them refunded.

6.45 Although for smaller businesses using the cash basis, quarterly MTD updates would work better than for other taxpayers, even for these smallest businesses, quarterly MTD updates would not take account of annual reliefs and allowances, nor other income or gains. As we have mentioned, for businesses using the accruals basis, additional pressures may arise, particularly for smaller businesses as they may struggle to pay their tax in advance of receiving payment for a job.

6.46 A system of payments on account, possibly increased from two to, say, four, based on prior year tax liabilities and a balancing payment would be much easier for corporates, sole traders and partnerships to operate (as for ITSA at present).

6.47 ***Q22. Do you have any initial comments on how income and expenses could be reported in-year for non-MTD customers or on a more frequent basis than required by MTD?***

6.48 We understand that there may be developed in the future, a facility for taxpayers outside the scope of MTD to report income and expenses in real time, say through a new digital single customer account (which would replace the existing Personal Tax Account and Business Tax Account). If such a facility existed, then we can see that this could be helpful in arriving at a more up-to-date in-year calculation of a person's tax position. But it would rely on the taxpayer keeping their record up-to-date which cannot be guaranteed, so at this stage while we can say that it has potential, how it would actually work in practice would need to be explored further. As we say above, we are not clear that it would be realistically possible for a digital solution to take inputs from a taxpayer and provide a relatively accurate tax estimate.

6.49 If HMRC are considering making it a requirement to report in-year for non-MTD taxpayers, this should be consulted on by the government as it would introduce a new obligation, which could be onerous.

6.50 Paragraph 4.29 of the call for evidence suggests that it may be helpful for some taxpayers within the scope of MTD to provide more frequent updates than required under MTD. We do not support mandating a more frequent basis for reporting beyond quarterly for taxpayers within the scope for MTD as increased reporting would simply increase the tax compliance burden. However, it is possible that some taxpayers may find more frequent reporting helpful so it could be offered as an option, meaning taxpayers could choose to report more frequently if it suited their individual circumstances. Even without more frequent reporting, it would be possible to still spread the payments on a monthly basis, based on the quarterly estimates.

6.51 ***Q23. Do you have any comments on potential interactions between reporting for Universal Credit and reporting for more timely payment of tax?***

6.52 Individuals on Universal Credit are by definition on low incomes and may be more likely to be vulnerable. If HMRC considers that individuals receiving Universal Credit may be affected by more timely payment rules then HMRC should ensure that it obtains data from the Department for Work and Pensions (DWP) on a real time basis so that taxpayers never find themselves in the situation of having paid too much tax or received too little credits, as they are likely to be already struggling to manage their limited funds to pay basic living costs. Ideally the thresholds and triggers for more timely tax payment should be set well above the level at which a person can claim Universal Credit.

6.53 ***Q24. Do you have any comments on the benefits and disadvantages of flat rate expenses? Q25. What examples are there that work well and would be appropriate for Income Tax expenses that would not be captured through any MTD updates? Q26. If there were flat-rate expenses, should they replace the actual expenses or only act as a proxy for in-year calculation? Q27. If flat-rate expenses were introduced, should they be restricted to smaller businesses?***

6.54 Clearly flat rate expenses are a broad-brush approach which will make some taxpayers better off and others not. We agree with the trade-off set out in paragraph 4.25 of the call for evidence. In addition it is important that in-year calculations are as accurate as possible to minimise the magnitude and occurrence of reconciliations at the end of the year, because these are inefficient for the taxpayer and for HMRC. A system of expenses based on a fixed percentage of turnover (as per the VAT fixed rate scheme), rather than a system of flat rate deductions for particular expenses, could ease the calculation of tax. However, many issues would still arise, including those identified in the call for evidence. Overall, if flat rates were to be considered we would expect a proper consultation to be undertaken by the government; nevertheless we set out below some initial thoughts.

6.55 If there were to be different flat rate expenses given to different trade classes, guidance would have to be very clear so that taxpayers can make the right choice as to which class they fall into. Alternatively, HMRC could inform taxpayers which class they are in, with a mechanism to deal with disagreements. In either case, there needs to be adequate communication so that taxpayers are clear what they can claim.

6.56 If the adoption of flat rate expenses were made optional, this would introduce complexity into the system. Taxpayers would want to consider whether they are better off under a flat rate scheme or not. To mitigate against this complexity, we suggest that the flat rates would need to be sufficiently adequate, so that taxpayers do not need to waste time and professional fees doing a comparison of flat rate v actual expenses to see what is best. Overall, flat rates could create unfairness between taxpayers as the call for evidence notes.

6.57 There would inevitably be increased complexity, and any approach would have pros and cons. For example, a lot of businesses used the VAT flat rate scheme not as a simplification, but because they had worked out/been advised that they would be financially better off.

6.58 Using flat-rate expenses as a proxy for actual expenses for in-year calculation may be the ’least worse’ option, but it would create additional confusion and complexity for taxpayers because they would then have to recalculate using actual figures after the end of the tax year. Alternatively taxpayers could be given the option as to whether or not they would prefer to use the flat-rate expense for the final tax return as well, but not be permitted to chop and change between the options. However, neither of these proposals is a simplification of the current position, where flat rate expenses are an alternative to claiming the actual expenses if you choose to use them.

6.59 For smaller businesses a flat rate around, say, the expense for uniform cleaning compared to the actual expense incurred would not vary a huge amount. However, for larger businesses, it could be a big difference, due to the larger number of uniforms. Therefore, flat rate expenses are less appropriate for larger businesses. However, setting a level below which companies can utilise flat rate expenses if they wish adds complexity and cliff edges into the tax system, although it is a means of managing the potential exposure. Some existing schemes have a lower entry point than exit point, so that you are not forced to leave just because your income fluctuates.

6.60 ***Q28. Do you have comments on the impact and challenges of recognising annual reliefs, allowances, deductions, and other amounts?***

6.61 We agree with the analysis in paragraphs 4.38 to 4.41 of the call for evidence. This is one of the key difficulties of attempting to calculate tax liability based on in-year information. A system based on in-year information would impose a compliance burden on individuals and smaller owner managed companies, who do not routinely do this, to look ahead and forecast what cash they may require for future obligations (other than tax) and investments that they may be making. We suggest that a system along these lines would likely replace the ‘stress’ of having to budget and put away money for future tax bills with the ‘stress’ of having to do management accounts and forecasting in order to more accurately estimate the overall annual tax liability. While this maybe straightforward for some, it will not be for others. We accept that it may be stressful not being able to pay tax when it falls due, but it would also be stressful not being able to take on an additional employee or buy materials or a new machine because you have paid too much to the government in tax in earlier months/quarters.

6.62 This is why a system of payments on account, possibly increased from two to, say, four, based on prior year tax liabilities and a balancing payment would be much simpler.

6.63 ***Q29. Do you have any initial views on the benefits and challenges of monthly, quarterly, or other, payment frequency?***

6.64 The benefits and challenges of frequency of payment will depend to a large extent on whether the payments are based on the taxpayer's previous year liability or on calculations based on in-year information. More frequent payments on account based on the previous year liability could be achieved without additional reporting and administrative burdens, so could be more frequent. We suggest that it would be important to provide a direct debit facility so that people did not forget to pay and end up potentially facing late payment penalties and interest.

6.65 There also seems to have been a reduction in HMRC issuing statements showing a taxpayer's tax liability. So if HMRC do not allow payment by direct debit there are likely to be more defaulters, and a greater need for HMRC to provide statements or payment reminders.

6.66 ***Q30. Do you have any comments about how over- or under- payments of tax could be resolved in-year?***

6.67 The mechanism around repayments is very important. We agree with paragraph 4.55 of the call for evidence that this needs to be 'quick and easy', but current experience of repayments of tax from HMRC do not bear this out. In the first instance the processes and mechanisms for repayment of tax should be improved and streamlined. Currently, even for income tax there are several different ways for repayments to be claimed.

6.68 Under the current ITSA system there is a significant difference in the interest rate for underpayment and overpayment of tax. There is a smaller difference in the interest rates under QIPs system, and the interest is also deductible and taxable. Currently there is a charge of 2.6% on late paid payments on account of income tax, recognising that although this is based on prior year figures it is nonetheless a payment on account of the current year's liability. We suggest that something close to equality would be required in respect of timely payments, to the extent that there is interest due at all. It is more difficult to justify interest or penalties when it is recognised that the tax being paid is only an estimate. To what extent should it be treated as 'incorrect' if the change in tax liability arises as a result of something that happens after the date on which the tax due is calculated? There should be a reasonable range of variation permitted. Also if a person makes a conscientious attempt to make appropriate payments on account in good faith then they should not be penalised (through penalties on top of a small amount of interest) if subsequent events mean that the on account payments are proven insufficient

6.69 We suggest that in order to deal with these difficulties, there would need to be some kind of running balance and an interface (for example, a single customer account or an app) where the taxpayer can easily click a couple of times and get a repayment direct to their bank within a few working days. This whole area needs to be considered alongside the late payment penalty regimes that will be in place too – interest and cash flow are not the only relevant factors – recognising that there are constraints, including, appropriately, concerns about fraud.

6.70 Whilst it may be possible to carry over an over- or under- payment to the next month or quarter payment date and adjust the tax due, this would exacerbate the cash flow issues for taxpayers. It would also remove the perceived benefit of making budgeting easier as a result of certainty as to the amount of tax that will be paid in each smaller instalment.

6.71 Requiring adjustments in respect of over- and under- payments is also likely to increase the amount of taxpayer contact with HMRC throughout the year. This will be costly in terms of time and money for both the taxpayer and HMRC and HMRC need to put appropriate resources in place to manage this.

6.72 A discussion around this needs to take place alongside discussions around offsetting between taxes more generally. HMRC are keen to expand the ability to offset between the taxes. But if this is going to be permitted then there should be rules around how long HMRC can retain the money for. For example, is it reasonable for HMRC to hold on to a repayment for, say, a month, because they know that there is a payment on account due at that time? And even if there are rules around when a repayment can be authorised, the system must be able to react quickly in terms of processing the repayment; the system at the moment is very slow. As we say above, delays in making repayments undermines trust in the tax system and leads taxpayers to the view that HMRC are quicker at taking payment than giving repayments. It is a specific disincentive to any inclination to pay tax early to avoid a big unmanageable payment becoming due later, which is a consideration for some people and might be for more, if there was confidence that amounts turning out to be excessive could more readily be claimed back.

6.73 ***Q31. What systems and processes exist that would help to ensure protection against fraud and organised crime, whilst also allowing quick and easy repayment?***

6.74 We do not have any insight on systems or processes that could help protect against fraud. We would only comment that reasonable anti-fraud checks by HMRC should not mean that legitimate repayments of tax to genuine taxpayers are held up for an excessively long period of time – which appears to be happening at the moment in some cases where HMRC have issued their 'SURF' letters[2] to taxpayers who have claimed income tax repayments.

6.75 We recongise that HMRC's legitimate concerns about fraud must be a factor in delaying repayments, but suggest that due consideration should be given to particular facts and circumstances; for example repaying money to an account which has regularly been used to make tax payments ought to be 'safer' than paying to a newly provided account number. Generally, the processes and mechanisms for repayment of tax would have to be improved and streamlined to support more timely payments of tax.

6.76 ***Q32. How could more frequent payment based on current year liability be phased in?***

6.77 Large companies in the QIP regime find that it presents difficulties from a cash flow perspective transitioning from paying tax nine months and one day after the year end into the QIPs processes, thus the transition or phasing in of any new rules is an important consideration.

6.78 Transitional rules should prevent the collection of tax in respect of last year and the current year at the same time. If there is any overlap, rules would be required to spread the liability on an introduction of the new rules incrementally.

6.79 We also reiterate our comments about timing overall: the government should wait for all of the other measures due to take place, or currently under consideration to be settled first before making any changes with regard to payment of tax liabilities. It will also be important to wait for things like a single customer account to be developed so that there is, in reality, an appropriate digital background to support a proposal such as this. We refer again to our response to the Tax Administration Framework Review and our more

[2] https://www.tax.org.uk/hmrc-self-assessment-repayment-claim-verification-letters

general comments around allocation of payments and repayment of tax processes. Implementation of more frequent, timely payments of tax should follow all of this.

6.80 In addition, we would like to see the educational steps and work around encouraging take up of the voluntary Budget Payment Plan given a chance to succeed before changes are made.

6.81 Extensive testing of any digital solution, app/interface and systems for payment and repayment would be required before they are introduced, as well as ensuring that arrangements to support vulnerable and digitally excluded taxpayers are tested.

6.82 ***Q33. Do you have any comments on any specific impacts that more frequent payment of tax could have on large partnerships and how these might be mitigated?***

6.83 On the one hand, large partnerships are just large businesses with many partners. Therefore, similar issues arise for partnerships as for other large businesses as set out above: that it is difficult to reliably calculate payments for seasonal businesses, unexpected/large transactions close to the year end, year end accounting/tax adjustments, the need to estimate the effect of tax allowances/reliefs and year end adjustments, the effect of unexpected external economic shocks (for example, financial crisis or pandemic).

6.84 However, there are also issues that are specific to partnerships. Partnership profit shares are not generally determined until after the year end so individual partners will not know the amount of profits that will be allocated to them any earlier. This is another reason why it is preferable that payments on account are based on prior year figures not current year figures.

6.85 Many large partnerships manage the payment of tax on behalf of their members/partners. Calculating payments in real time is difficult for partnerships and it is different to the exercise corporates undertake for QIPs. If 300+ partners in a partnership are expected to pay tax on a quarterly real time basis then that is 300 x 4 = 1,200 estimates every financial year. This requires knowledge of the partnership's profits, their division between partners, each partner's non-partnership income/gains/reliefs etc – as all these factor into their tax liabilities. Even the current system (with payments on account based on prior year profits) is a considerable exercise for large partnerships. This is exacerbated by the existing basis period rules for people joining/leaving partnerships, although we hope that this aspect may be addressed by the consultation on basis periods published on 20 July 2021.

6.86 The other issue is that some large partnerships have international operations. The interaction of tax payment rules in the UK and other countries in which their liabilities arise may be problematic, especially as profits may not be established until after the accounting period. If tax payment was required on a real time basis in the UK then this may result in overpayments in the UK if the double tax relief could not be ascertained at the time the payments were due. Thus time would then need to be spent reclaiming payments at a later stage.

6.87 Tax payments by large partnerships are sometimes made out of reserves that also provide working capital cash flow for the business. More frequent or earlier payments will impact business cash flow so careful consideration will need to be given to transitional rules and giving sufficient notice of the new rules if the current payment timings change.

7 Chapter 5: Cash-Flow Impacts

7.1 ***Q34. What methods do taxpayers use to budget for their tax bill?***

7.2 Taxpayers who budget for their tax bill tend to set aside a percentage of their income in a separate bank account. Taxpayers who do not do this may do so if HMRC facilitated budgeting – for example by investing in education to improve awareness of the Budget Payment Plan as noted in paragraph 5.3 of the call for evidence.

7.3 ***Q35. Do you have any comments on what more HMRC could do to help taxpayers pay their tax on time?***

7.4 The introduction of more options to set up a direct debit would help, as can already be done for VAT where HMRC deduct the funds from the taxpayer's bank account once the taxpayer has filed their monthly or quarterly VAT return.

7.5 Better education generally would also help – for example, as we say above, encourage the Budget Payment Plan and make this more prominent on GOV.UK.

7.6 However, system improvements are also needed. The current systems that taxpayers access are not particularly user friendly. On submission of ITSA returns there is often a delay between electronic submission and the liability showing up on the taxpayer's online account. It should be instantaneous so the person can pay the balance of tax due straight after submitting their return if they want to do so. Also if HMRC were to develop a tax account to show liabilities across all taxes then it would also be good if the taxpayer could (with a few clicks) get overpayments in one tax moved to pay tax due on another tax. This should be a function of the single customer account.

7.7 ***Q36. Do you have any comments on the positive and negative cash-flow impacts for businesses of more timely payments?***

7.8 We broadly agree with the cash flow impacts outlined in paragraphs 5.5 to 5.9 of the call for evidence, however the magnitude of the implications of these for each taxpayer will depend very much on that taxpayer's particular circumstances.

7.9 With regard to the comments in paragraph 5.6 of the call for evidence around certainty as to tax liabilities, as we note above, certainty can also be achieved by prompt preparation of tax returns after a year end under the current system, coupled with the knowledge that the tax is not due for some time. That course of action would remove the worry about a large bill in the future, because the amount of the bill can be known. How will taxpayers be 'certain' and 'confident' about in-year tax payments if these are necessarily an estimate due to the underlying annual assessment basis of tax liabilities that may require a reconciliation? Unless their business is simple, how can a taxpayer be confident that the amount of tax will not change at the end of the year. As is recognised in paragraph 5.7 of the call for evidence, a business can only invest if it has the cash to do so. There will be less cash available in the short term if the business is making more timely payments of tax.

7.10 Having tax based on past liability with the payment schedule under the current system allows a period of time for the business to take action to find the funds to meet tax liability so long as they prepare their tax return reasonably well in advance of the submission deadline. Budgeting is required by a prudent taxpayer to ensure that they do have funds to meet the tax liability when it falls due, but the current system provides flexibility for individuals to meet changing circumstances. It is noted throughout the call for evidence that it may be stressful for a taxpayer to face a tax liability, particularly if they do not have resources easily available to do so. But it is also stressful for a business person not to be able to invest in their business because they have paid tax earlier.

7.11 ***Q37.What wider economic impacts do you foresee from reducing the time between the income and the taxation?***

7.12 Reducing the time between the income and taxation might be advantageous for the Exchequer – provided businesses can cope and it does not lead to an increase in tax debt overall as businesses fail due to cash flow difficulties.

7.13 There could also be a more general impact around the ability of businesses to grow, either because they are lacking the necessary cash to invest at the best time to do so or because accelerating the timing of tax payments causes a delay in the business's plans to invest in new equipment, staff, training or premises. These factors could lead to a delay in improvements to their profits and, could also damage the profitability of businesses from whom they may have bought those goods/services. There could also be an impact on investment if businesses need to turn to third party lenders for finance when they might otherwise have utilised the cash flow benefit of their tax due dates. We suggest that some research is done into these possible outcomes.

7.14 ***Q38. Which taxpayer groups will be most or least affected by the cash-flow impact of more timely payments?***

7.15 We would expect that seasonal businesses and businesses that are intending to make capital investments will be most affected. We would expect that the least affected would be those that supply labour only. But the cash flow impact will to a very great extent depend on individual circumstances.

7.16 ***Q39. Are there particular ways in which accruals accounting might lead to greater impacts on certain groups or types of business?***

7.17 We mention above that the effect of accruals accounting is that the profits might have arisen before the cash is received, hence reducing the business's ability to pay HMRC.

7.18 ***Q40. Do you have any comments on the cash-flow impacts on the case studies outlined above?***

7.19 The examples are overly simplistic and subjectively conclude that timely payments would help in each case without fully reflecting the other challenges that would arise. We are not convinced that the balance of benefits and challenges would be as suggested in the examples, nor that timely payments based on calculations of tax liability using in-year information would necessarily assist all of the taxpayers in the examples.

7.20 The first issue presented in the example of **Stuart, the gig worker**, could be solved by better effort to ensure that he is aware of his obligation to register for ITSA. Stuart will, presumably, have to be made aware of his obligation to report his earnings and expenses in relation to online platform earnings for timely payments, and it is not clear why it would be easier to communicate one obligation than the other. It is not clear why paying tax in respect of his liabilities each month would be any less stressful than making two or three payments; for example paying monthly could be stressful in a month where he does not have any income from his online platform work. In addition, the monthly reporting of his income and expenses from his online work could be burdensome for him (particularly if he was not within the scope for MTD due to having a turnover below the £10,000 threshold) – he does not have these reporting obligation in relation to his employment income as the work around the payment of tax is done by his employer.

7.21 With regard to **Rupa, the tutor**, unless exam time coincides with the deadlines for tax reporting under ITSA, it is not clear why this work means she is unable to keep on top of her tax affairs. It is also not clear how a requirement to make, say, monthly payments of tax and keep on top of the information being used to calculate these would be any easier in these times of additional work pressure than the current system of ITSA. In fact, our understanding is that many tutors have an accounting period end of 31 July, so that they can address their annual return obligations in their 'quiet' month! We do agree, however, that it would be useful for Rupa to have all her information in one place, which is why we support the creation of a single customer account for all taxpayers, referred to above and in our response to the Tax Administration Framework Review.

7.22 The example relating to **Olga, the landlord**, is not objective. Not having enough cash readily to pay a large maintenance bill or a large tax payment may be stressful, but there is no reason to assume one is more stressful than the other. It is quite a leap to suggest that the cash flow problems are outweighed by a benefit of 'understanding the return she's receiving from her investment' engendered from more frequent payments of tax. How does one thing lead to the other? And, if Olga is capable of understanding the return from her investment, we suggest that she is capable of dealing with the cash flow pressures that can arise from running a property business.

7.23 With regard to **Vikram, the business professional,** it is not clear that a system which requires at least quarterly reporting and monitoring estimates of tax liability to determine monthly payments, plus an end of year reconciliation would result in Vikram spending less time on his tax affairs. In addition, why would he be better able to do the work required for more timely payments more easily than he could do his own return under ITSA if he chose to do so?

7.24 In the final example of **Jane, the state pensioner,** the problem could be resolved if the DWP operated PAYE on state pensions in the same way as all other pension providers have to. This would avoid the need for any payments to be made by Jane. They could be handled in the same way as other deductions at source under Real Time Information (RTI). It would also send the message that state pensions are taxable as income in the same way as all other occupational pensions and would give insight into the hands-on operation of the RTI system to the government. Common examples of tax underpayments are pensioners that have other income, but who have no idea that their state pension is taxable. As the retired population continues to grow and be more active, this problem can only get worse.

7.25 ***Q41. Is there a better way of grouping people to consider the level and nature of impact on cash-flow, outside of trades?***

7.26 Grouping could be done based on complexity of tax affairs including primary sources of income, international aspects, for example. Other options include grouping based on levels of turnover or other income.

7.27 ***Q42. What are the common uses for the funds that will become due as tax on income during the period before it is payable? Does this differ by business, trade, or other factors? Is there research, data, examples, or other supporting evidence to build up a picture?***

7.28 Funds that will become due as tax are often used to finance day to day expenditure and unexpected expenses, to smooth cash flow when incoming payments (for example from customers) are not received on a timely basis, to finance other debts with earlier due dates and, sometimes, for investment purposes. Seasonal businesses are more likely to require funds set aside to smooth cash flow in the 'off-season' whilst start-ups are more likely to use funds to finance unexpected expenses and investment.

8 Chapter 6: Wider questions

8.1 ***Q43. Are there other taxes administered by HMRC that the government should consider for more timely payment of tax?***

8.2 There are no other taxes that we suggest the government should consider for more timely payment of tax.

8.3 ***Q44. Do you have any initial comments on the opportunities and challenges of more timely payment of CGT?***

8.4 The recent experience around the introduction of more timely payments for CGT on residential property transactions (30 days after the sale) demonstrates the difficulties that can arise from more timely payments of tax, in this instance in respect of one particular type of transaction (the disposal of residential property). These have arisen because:

- an individual's tax liability is based on their overall position in relation to all income, profits or gains in the tax year, and after relevant reliefs and allowances etc (as already noted);
- estimates often have to be used in order to meet the short payment deadline; and
- these can both lead to over- and under-payments of tax which then need to be dealt with after the end of the tax year via the self-assessment tax return.

There have been difficulties implementing the policy digitally which has created administrative and costs burdens for taxpayer and agents and has meant that HMRC's systems cannot currently deal with what the legislation requires and allows[3] (in particular the process for offsets of CGT overpayments).

8.5 We would urge the government not to roll out CGT 30 day reporting any further until they can be sure that it can be successfully implemented digitally. If it is proposed to extend it, this should not be done without further consultation.

8.6 ***Q45. Is there anything else you would like to suggest to help progress the exploration of this policy?***

8.7 As mentioned at the outset we would like to better understand the type and/or category of taxpayer that most stand to benefit from the proposed changes, including, for example the profile of those entering into TTP arrangements and of those mostly likely to go into tax debt. The impact of the COVID pandemic should also be taken into account as we anticipate that there will be a huge spike in TTP arrangements due to COVID. We suggest that these need to play out before introducing a new system.

8.8 More generally on timing, as we say above, the government should finish the conversations around reforming basis periods and changing the end of the tax year before making any decisions about timely payment.

8.9 We suggest that work on the impact assessments should be undertaken at each stage of considering these potential changes as we remain unconvinced of the overall benefits to taxpayers and who might benefit and where the balance between the benefits and challenges lies.

[3] https://www.tax.org.uk/cgt-on-property-30-day-reporting-issues-process-for-offset-of-cgt-overpayment

9 Acknowledgement of submission

9.1 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
27 July 2021

Appendix

What an alternative 'real time' basis of calculating tax could look like

It seems to us that in order to be able to calculate tax in something like real time, with a system of having to pay (or receive back) each quarter the balance of a 'tax account' that could be close to a definitive tax liablity on a real time basis, thought would have to be given as to how that balance might accrue.

For example:

- The starting point might be a percentage of all revenues reflecting the tax rate. The question is how you would deal with higher rates. Perhaps you could leave tax at higher rates as an annual tax? (This is similar to the orginal reason for having 'surtax' (in the 1960/70s) as a different tax, so that income tax could be operated as much as possible by a flat witholding tax).

- Flat rate expenses: these could be deductions of a fixed percentage of the revenue (similar to the rules in France or the UK has for the flat rate VAT scheme), with a different percentage for different economic sectors. These could taken into account in real time by varying the percentage of revenue accruing in the tax account and to which the tax rate is applied to as per above.

- There would need to be a system to deal with capital expenditure (capex). Should the decsion to incur capex trigger a right to take a deduction straight to the tax account (so it would be a tax credit not a deduction)? Or perhaps a series of such credits over time to reflect the fact that not all capital allowances are given 100% upfront (like the first year allowanceand annual investment allowance). So alongside the tax account there could be a memo account, setting out future credits to be taken into account at particular dates. It would be for consideration how to deal with a sale or a scrapping of the capital items purchased or its withdrawal from or cessation of a trade: perhaps some at least of such events might be replaced by simply taxing as revenue the proceeds of any sale of capital items purchased for the business or value of those withdrawn. It is unlikely that a system that was practically operable in real time could precisely replicate the net impact of all current rules in all circumstances; decisions around that would need to be made.

- Similarly, decisions would be required about how to replicate the rules on losses, including those due to capex or pension contributions etc. Would one limit the right to cash net credits each quarter in some way so that some larger net credits got commuted into a series of future credits approximately replicating the loss restriction rules?