Chartered Institute of Taxation

Excellence in Taxation

**Making Tax Digital: Voluntary pay as you go**
**Response by the Chartered Institute of Taxation**

## 1 Introduction

1.1 The Chartered Institute of Taxation (CIOT) is pleased to have the opportunity to respond to the consultation document (condoc) 'Making Tax Digital: Voluntary pay as you go', which was published by HM Revenue and Customs (HMRC) on 15 August 2016.

1.2 Our response to this condoc should be considered in conjunction with the responses to the other Making Tax Digital (MTD) condocs issued on the same day.

1.3 As an educational charity, our primary purpose is to promote education in taxation. One of the key aims of the CIOT 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 Key messages from the CIOT about Making Tax Digital

2.1 Whilst MTD will bring benefits to HMRC, the likely impact on most businesses and taxpayers will be an increased workload and / or increased costs. It is not at all clear that there will be commercial benefits to offset such costs, particularly for smaller businesses.

2.2 The timetable for mandation of MTD is far too optimistic and must be pushed back. The proposed deferral of MTD for certain small businesses over the proposed exemption threshold is insufficient. Effective software is not yet available and fully tested, so the substantial number of businesses that currently do not use software will inevitably have difficulties both selecting the appropriate software and getting to grips with its functionality. Businesses that currently do use software will be prejudiced if their provider cannot keep up with the demanding timescales.

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2.3 Deferral of MTD will allow a smoother and more effective transition. The continued widespread use of spreadsheets, and an upload facility onto an HMRC portal, will assist businesses get used to updating HMRC more regularly, in a more digitised fashion, whilst ensuring that transition time and costs can be better managed.

2.4 The thresholds for mandation need to be increased. The £10,000 threshold for exemption is far too low. It could place the obligation on non-taxpayers and landlords with a single buy-to-let residential property.

2.5 That said, the case for mandating larger businesses into MTD has not been made out. These businesses are already likely to have comprehensive record-keeping systems, already in a digital format, and many corporates will be subject to independent external audit. Mandation of a particular method of digital record keeping, and quarterly reporting, will create significant administrative costs and burdens. The figures being submitted quarterly would still need to be adjusted at the end of the year for tax purposes, and the submission of unadjusted figures will be of little or no benefit to HMRC or to the business.

2.6 Real simplification of the tax system, particularly for small businesses, will help MTD work. For example, a simple income-minus-business expenses model would be easier for taxpayers to understand and report. The simplification proposed is inadequate and potentially detrimental to taxpayers. In any event, simplification should take place BEFORE introducing mandatory digital record keeping and reporting.

2.7 Agents will be an integral part of MTD, yet the consultations are worrying devoid of much mention of agents, and seemingly imply that businesses will wish to ‘do it themselves’. Agent access and functionality needs to keep progress with taxpayer access, and consideration needs to be given to the different types of agent and the various functions that they carry out.

2.8 In any event, communication of MTD, direct to businesses and individuals, is vital. There is much work to be done to educate and inform the public about these very significant proposals, and how they change the interaction they will have with HMRC. In our view, HMRC will need to step-up its promotion of MTD. Digital communications such as YouTube and Twitter will not reach businesses that currently do not use digital tools. Traditional mechanisms such as television, radio and newsprint should be considered.

## 3 Executive summary

3.1 We support measures that help taxpayers budget for and pay the taxes that they owe, particularly as the current payment system requires a significant payment in January, shortly after the expense of the Christmas period.

3.2 However, we do not believe that Voluntary pay as you go (VPAYG) should be introduced in the manner currently proposed.

3.3 MTD as proposed would bring with it substantial changes to the tax system, including fundamentally changing book-keeping requirements, and how information is presented to taxpayers. We recommend that MTD is given time to bed in and consideration is given to aligning the penalties legislation across the taxes before any significant changes to tax payments – even voluntary payments - are made. We do not understand the need to rush in a new regime.

3.4 The facility to make voluntary payments already exists. For example, unincorporated businesses (who will be the first into MTD from April 2018), can already avail themselves of the Budget Payment Plan (BPP)[1], although this is not as flexible as many taxpayers would like. It is acknowledged that voluntary payments are not normally needed for VAT (coming into MTD from April 2019), so there is no need to rush in a new VPAYG regime in April 2018 when straight-forward but adequate facilities are already in place for those eligible businesses.

3.5 We would simply recommend that the BPP receives greater publicity so that the policy objective of giving businesses the opportunity to budget towards their tax bills is met, without trying to design a new VPAYG system around a new MTD platform.

3.6 Greater promotion of the benefits of the BPP will (if HMRC's evidence is correct) bring in revenues earlier than they fall due. Pursuing this option may be a better way of generating additional revenue in the early years (in order to make good the investment made in digitalisation from the public purse) than the over-hasty move to mandation which we fear will not achieve its objective and could be counter-productive if compliance levels actually fall. We appreciate that BPP will provide a largely timing benefit but this approach should ensure that when MTD is ultimately mandated it is fully tested, operates efficiently, and stands a greater chance of putting the benefits on a permanent basis'.

3.7 Delaying implementation of VPAYG will give time for HMRC, taxpayers and agents to compare the estimated tax liabilities calculated following submission of the quarterly updates, with the actual tax liabilities calculated after the end of year declaration (or later), to see if a VPAYG system that encourages payments based on the quarterly estimates gives a sufficiently accurate result. We are concerned that taxpayers who make voluntary payments under VPAYG in line with the quarterly estimates will end up with significant under or overpayments, due to seasonal fluctuation, inaccuracies in the quarterly submissions and / or the timing of claims of reliefs and allowances. Taxpayers are unlikely to use the system if the estimates are unreliable.

3.8 Delaying the implementation of VPAYG will also give HMRC the opportunity to undertake more research to evidence the need for a new voluntary payments regime. It is currently unclear whether the number of businesses that make voluntary payments would increase significantly:

- through greater awareness of the BPP facility;
- only if VPAYG was introduced; or
- neither, because the actual desire to make voluntary payments is not as significant as the condoc suggests.

3.9 The delay will also give time for the payments and penalties system to be adequately reviewed, consulted on and redesigned with MTD in mind. A system akin to a credit card statement was considered during the powers review, although it was dismissed

[1] https://www.gov.uk/pay-self-assessment-tax-bill/budget-payment-plan

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

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

- Unless and until the late payment interest and penalty regimes have been aligned across all taxes, taxpayers could inadvertently incur penalties due to how HMRC intend to allocate payments (see the example of Oliver in the appendix to this response). In any event, we believe that the choice of allocation should lie with the taxpayer, unless tax accounts become like credit card accounts, with matching changes to the legislation.

- Taxpayers' digital tax accounts will contain a lot of data, but could appear confusing, especially for taxpayers with more than one tax within MTD, or with MTD and non-MTD obligations.

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

## 4 Supporting evidence

4.1 Before we address the specific questions within the consultation document, we would encourage HMRC to re-evaluate the evidence that has led to these proposals.

4.2 Paragraphs 1.3 and 1.4 of the condoc make reference to the consultation events on 'simpler payments' held earlier in 2016. A number of CIOT representatives attended these events, and while many attendees thought a voluntary system was welcome, a number of opinions were aired during those events, including observations that being able to keep the money within the business for a period of time helped with investment and growth.

4.3 In fact, the BPP was also mentioned during these events and the general consensus of attendees at meetings attended by CIOT was it was inadequately publicised and hence underused. Perhaps there was a 'clear message' that a voluntary system would be beneficial for those who were aware that it existed, and would wish to use it, but not an overwhelming need for an entirely new system.

4.4 Further, the simpler payments discussion paper draws heavily on the research conducted for HMRC in 2015 'Understanding the impact of taxation cycles: Business experience and compliance behaviour of small and medium sized enterprises'. That research involved just 40 SMEs, and so is an inadequate sample of the taxpaying population on which to base significant decisions. In any event, the research was not wholly supportive of more frequent payments, and it also reported that the majority of the businesses consulted already kept money aside for taxes.

4.5 We note in passing that the same research states that '*Reactions towards more frequent reporting were predominantly negative, due to associations with administrative burden and the sense it was for HMRC, rather than the business*'. It would appear that those conclusions have not been taken on board.

4.6 No other evidence has been published to support the need for a sophisticated voluntary payments regime.

4.7 With this in mind, we would strongly recommend undertaking further research to evidence the need for a new voluntary regime.

## 5 Question 1: Do you see any challenges with the voluntary payments process described? Do you think there are alternative options that should be considered, and if so, what are these?

5.1 Introduction of VPAYG

5.2 Paragraph 1.6 of the consultation document states that VPAYG '*will apply to those unincorporated businesses, sole traders and landlords, in respect of their Income Tax/National Insurance Contributions/Capital Gain Tax, from 1 April 2018, to VAT from April 2019 and to incorporated businesses, in respect of their corporation tax affairs, from 2020*'.

5.3 We do not believe it is necessary or desirable to introduce VPAYG from 1 April 2018. Indeed, we would recommend waiting longer – possibly until April 2020 (if not later) – before introducing the regime, for a number of reasons.

a) As acknowledged in paragraphs A.3 and A.4 of the condoc, self-assessment taxpayers can currently make voluntary payments, either on an ad-hoc basis or more regularly under the existing BPP. A level of flexibility, including the ability to obtain a refund of voluntary payments, already exists.

b) As acknowledged in paragraph A.13, VAT registered businesses very rarely make voluntary payments on account of their VAT liability, due to the regularity of their payments.

c) As acknowledged in paragraphs A.7 and A.8, companies can also make voluntary payments and, like self-assessment taxpayers, can obtain a refund of voluntary payments etc.

d) In the early years of MTD, both the information reported, and the estimated tax liabilities, could be materially inaccurate (see below). There is a real danger that if taxpayers base their voluntary payments on these estimates, significant over or underpayments of tax will occur - creating administrative and cash-flow difficulties, rather than preventing them.

e) In any event, MTD is a significant departure from the existing book-keeping and tax regime, and taxpayers and businesses will need time to get used to this new way of working, and the new information within their digital tax accounts (DTA). Bringing in a new system for voluntary payments is likely to create confusion; particularly for those who have more than one tax within MTD (eg both income tax and VAT), or taxes both within and without MTD.

5.4 With this in mind, we would simply recommend that greater publicity is given to the existing means by which voluntary payments can be made. Paragraph A.4 states that 35,000 businesses currently use the BPP facility.

5.5 When asked, HMRC were initially unable to tell us how much money is received through the BPP. Following assistance from their IT suppliers, we were provided with the following figures:

| | 2015/16 | 2014/15 |
|---|---|---|
| Number of taxpayers | 51,870 | 45,393 |
| Total amount collected | £102,960,402 | £100,674,052 |
| Average amount per taxpayer | £1,984 | £2,217 |

5.6 Whilst the take up is still relatively modest,[2] what is more surprising is that HMRC is proposing a significant structural change to the voluntary payments system, without knowing the take-up of the existing voluntary payment systems.

5.7 As noted in the 'supporting evidence' section above, there is inadequate information to demonstrate whether such a low take up is a consequence of ignorance of the BPP facility, or simply a lack of enthusiasm for voluntary payments, and we would encourage further research to be undertaken before changes are made.

5.8 <u>The digitally excluded</u>

5.9 Our Low Incomes Tax Reform Group will make further representations in this area, but suffice to say that the proposals as described will only work for those who are digitally enabled, are able to make electronic payments, and can view and understand their digital tax account.

5.10 <u>Amount of voluntary payments</u>

5.11 We would caution against linking the estimated liabilities with the amount of a taxpayer's voluntary payment – at least in the early days of MTD (condoc paragraph 2.8). 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.

5.12 If taxpayers are going to be encouraged to pay their estimated tax liability as per their MTD update (which we would caution against), then clear messages should be displayed to the effect that these are just estimates and may not be accurate, and encourage the taxpayer to take advice if a more accurate estimate is required.

5.13 Further, those tax estimates could fluctuate significantly for legitimate reasons. For instance, a taxpayer might make quarterly voluntary 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 he has insufficient funds to do so – not appreciating that the investment would reverse his earlier tax payments, and that he could have them refunded.

[2] Even the 2015/16 figures represent just a tiny fraction (<1%) of the 5.2m unincorporated businesses that appear eligible to use it (Based on 'Impacts on businesses & civil society groups' element of the impact assessment on page 68 of 'Bringing business tax into the digital age).

5.14 Perhaps a better approach, at least initially, would be to encourage taxpayers to make voluntary payments against their known future payments on account, within the BPP. In the example 'Dimitri', he could be encouraged to pay £375 per month[3] in February to July 2020 inclusive, in order to fully satisfy his second payment on account for 2019/20, due on 31 July 2020.

## 6 Question 2: Do you have any views or suggestions on the display of voluntary payments in the digital tax account?

6.1 If, as is currently envisaged, VPAYG will cover more than one tax (albeit only those within MTD), the display of payments in the digital tax account could look very confusing. The schedule on page 13 of the condoc is not particularly easy to follow, and could become more complicated if, for example, the VAT return periods are not aligned with the normal quarterly updates, or the taxpayer has more than one business interest within MTD. A credit card statement approach with aligned rules across taxes may be preferable.

6.2 The display of other taxes will need careful consideration. Presumably non-MTD taxes will be shown separately from MTD taxes, so that will potentially bring greater confusion:

- Non-MTD taxes will be viewed on a tax-by-tax basis.
- MTD taxes will be viewed on an across-tax basis.

6.3 Also, how are other elements of a taxpayer's liability, such as interest and dividends in excess of the relevant allowances, or reliefs that could reduce a liability such a gift aid payments, to be reported and displayed?

6.4 All these factors suggest it is unwise to further complicate the transition into MTD with a new payment regime, which needs to be displayed alongside an already new display within the digital tax account.

6.5 Despite our strong reservations, in the interests of a constructive dialogue, the remaining questions are answered on the basis that VPAYG is introduced as the consultation document proposes.

## 7 Question 3: Should there be a 'period of grace', and if so, what period would be appropriate to allow for separate payment of an amount becoming due?

7.1 We agree that there should be a 'period of grace' during which a taxpayer can 'tag' a payment as being attributable to a particular type of tax.

7.2 However, unless and until the interest and penalty regimes are aligned across all taxes, we suggest that the taxpayer should be able to 'tag' a payment <u>once and for all</u> as relating to a particular tax, ie HMRC cannot then re-allocate that payment against another tax.

[3] Page 13 of condoc. 1st and 2nd POA due for 2019/20 are each £2,250, so paying the 2nd POA in six monthly instalments would represent £375 per month.

7.3 We have set out in the appendix an example ('Oliver') of the consequences of HMRC reallocating a payment from one tax (Oliver's VAT payment), to another (his income tax liability). Of course, these situations could be overcome if it is clear that the payment made by Oliver was NOT a voluntary payment, but was a payment of an actual VAT liability. But if that were not possible, apart from crystallising a significant penalty in such circumstances, this is likely to put taxpayers off making voluntary payments.

7.4 We do not see any significant problems arising within specific taxes. If a taxpayer is able to temporarily 'tag' a payment (as per the example of Dimitri in 2.16), we agree that HMRC should be able to allocate the voluntary payment against a crystallised liability – but only on the date that the crystallised liability properly falls due. HMRC should not re-allocate voluntary payments in advance of the due date for payment of those taxes. See also our comments below on allocation.

**8 Question 4: Do you have any general comments to make on the allocation of voluntary payments?**

**Question 5: Do you foresee any problems with HMRC's intended approach to the allocation of voluntary payments?**

8.1 We address these two questions together as there is significant overlap between them.

8.2 <u>Non-MTD taxes</u>

8.3 It is assumed that VPAYG will not apply to payment of non-MTD taxes (such as PAYE) – or at least that these taxes will not come on stream until a much later date.

8.4 If that is correct, it must be abundantly clear to taxpayers (in guidance and / or in their digital tax account):

- Whether the tax they are paying is within the VPAYG regime or not.
- How their payment will be allocated if within VPAYG (see below).
- Whether or not payment of one tax can be swept across into another tax or into / out of VPAYG if another tax liability arises earlier.

8.5 Paragraph 2.21 of the condoc refers to set-off, and allocation and set-off of payments in general. What will happen, for example, if a taxpayer is behind with PAYE obligations, but makes a VPAYG payment towards his income tax liability? Will HMRC re-allocate that payment against his outstanding PAYE liability, or because PAYE is not part of MTD will the voluntary payment still stay as a credit against a future income tax liability? These types of issues need to be considered and made clear to taxpayers.

8.6 <u>First in first out</u>

8.7 Whilst a first in first out ('FIFO') basis does appear sensible, this is subject to the following provisos:

- Unless and until the late interest / payment regimes are aligned, there is a risk that a FIFO allocation could give rise to significant problems. As noted above, the example of 'Oliver' in the appendix is a simple illustration of how a taxpayer could be inadvertently penalised.

- Debts which are in dispute must be adequately ring-fenced so that voluntary payments are not allocated against disputed liabilities.

**9 Question 6: What improper or inappropriate use of the repayment facility do you think there may be, and what rules do you think should be applied by HMRC to stop that happening?**

**Question 7: Do you agree with a restriction on repayment shortly before a liability becomes due, and if so, what period or terms of restriction do you think should be put in place?**

9.1 Again, we take these related questions together.

9.2 Considering the overarching principles for VPAYG (condoc paragraph 2.1), we do not believe there should be any limits on the number of payments / repayments that a taxpayer can make / request. To impose restrictions would limit the flexibility, and hence the attraction, of VPAYG.

9.3 In practice, whilst the number of voluntary payments made by a person might be high (for example, if a taxpayer chose to make weekly payments), we suspect that the volume of repayments will be much lower. HMRC are not proposing to pay interest on voluntary payments, and so it is less likely that taxpayers will 'invest' monies with HMRC, which they subsequently intend / are likely to withdraw. However, we do consider that a 'cap' might be placed at a sensible level – maybe 12 (equivalent to one repayment a month).

9.4 We also do not consider that repayment should be withheld unless a liability has actually become due. If payments and repayments are to be made electronically, they can be made at short notice. It is possible that a taxpayer may need very short time financing – see the example Theresa in the appendix – and the flexibility to obtain a repayment, even close to the statutory payment date, should remain.

9.5 Further, it must be an actual liability falling due – not simply a return falling due which might show a liability. For instance, a 30 September VAT return might be due by 31 October (under the proposed shortened timeframe), but refusal of a repayment should not be made on the condition that the return is due, only if it has been filed and shows an actual liability.

9.6 Of course, we do recognise that HMRC need to encourage taxpayers to have sufficient funds to pay their tax liabilities. If a repayment is sought close to a liability falling due, a prompt could be included to highlight the forthcoming liability.

**10 Question 8: Do you have any views or evidence on whether, and how, HMRC should revisit the sums paid as payments on account to match more closely to the sums being reported under MTD?**

10.1 As explained in the earlier paragraphs, we do not, at this stage, consider it appropriate for payments on account to be matched with the sums reported under

MTD. MTD already represents a significant amount of change for all taxpayers, and changes to payments on account are likely to create additional confusion.

10.2 Further, as set out above, the tax estimates given by the quarterly updates are likely to be highly inaccurate, particularly as an estimate of a quarter of the year's tax bill – at the very least while taxpayers become accustomed to what to report, and when, under MTD.

10.3 We would therefore recommend a prolonged period (say two years) to enable HMRC to undertake a comparison between the tax estimates provided by the quarterly reports, and the actual finalised tax liabilities. If there is significant correlation between the two, then changes to payments on account may be considered at that stage.

**11 Question 9: Do you have any views or suggestions on customers' ability to elect for overpayments to be held as voluntary credits?**

11.1 It seems perfectly sensible for taxpayers to elect for overpayments to sit on their account as voluntary credits, although it should be made clear that the taxpayer has an unfettered choice as to whether to receive a refund, or for the monies to be held on account of a future tax liability.

11.2 We infer from the condoc (paragraph 3.10) that no interest will be paid on overpayments held as voluntary credits (or indeed on voluntary payments generally). While interest rates are currently extremely low, there might be little pressure on HMRC to pay interest on these amounts. However, as and when interest rates rise, taxpayers are likely to seek a refund of amounts overpaid unless HMRC start to pay interest. In any event, paying interest on both voluntary payments, and overpayments, might incentivise taxpayers to make use of any VPAYG facility as they will see a tangible benefit in doing so.

**12 Question 10: What are your views on how voluntary payments might work for partnerships? Do you think partners will see the convenience of direct payment towards their total liabilities as outweighing a loss of a limited amount of confidentiality?**

12.1 As highlighted in our responses to the other MTD consultations, MTD will be extremely complex for all but the simplest of partnerships.

12.2 While partners / partnerships should not be prevented from making voluntary payments, we think that trying to design a system at this stage that can deal with the nuances of partnerships and partners' own tax affairs is premature:

- Partners may have other sources of income / business interests outside the partnership that could significantly impact upon their tax liability. For example, a partner might have to submit MTD returns for a buy to let, and also have investment income. How would this tie in to the partnership's estimate of the partner's tax liability?

- The actual profit shares of many partnerships is not finalised until well after the accounting period (year) end. Therefore, any partnership allocation made under MTD is at best provisional, and could again be materially inaccurate, especially for 'eat what you kill' partnerships.

12.3 As with VPAYG generally, we would recommend that MTD is given time to bed in before such a regime is implemented for partnerships.

## 13 Question 11: Do you think there are any special considerations that should apply to third party voluntary payments?

13.1 It is not clear from the condoc how frequently third party voluntary payments arise. If HMRC has not already undertaken this research, we would suggest that it does so in order to confirm the need for this facility, both in principle and as part of a VPAYG system.

13.2 Subject to evidence confirming such a need, thought would need to be given to the practicalities (access, security, flexibility etc) of adapting a VPAYG regime which is in reality designed to be used by taxpayers themselves.

13.3 For example, how would a family member make a payment towards another family member's tax liability? Would access be needed to the DTA? If so, how would this be enabled? Would that person then be able to see all the taxpayer's affairs?

13.4 It may be more straight forward to have a simple, stand-alone, regime for third party payments, where the payer simply needs the UTR / identifying details of the taxpayer, and can make a payment over the phone or via GOV.UK.

## 14 Question 12: What additional processes or measures would make customers feel more confident about making voluntary payments?

14.1 In our view, taxpayers will feel more confident about making voluntary payments:

- If they know that they can. As noted above, take up of the BPP and other voluntary regimes is low and we consider that is in a large part due to the lack of publicity / promotion of the BPP. If voluntary payment was promoted better by HMRC, then take-up would be greater.
- If it is easy to use and understand.
- If it is flexible, such as to be able to make payments other than by direct debit, such as by online banking or BACS, and to take payment holidays when the taxpayer chooses.
- If it is secure. The number of scams and phishing emails is ever increasing, both in frequency and ingenuity. It needs to be made abundantly clear to taxpayers how and where to make voluntary payments, and the fraudulent activity to look out for.
- If it is reliable. Taxpayers will not use the regime if it encourages them to pay £A based on their quarterly update, but their actual tax liability is £Z. This is why caution needs to be exercised before implementing VPAYG, and

certainly before linking tax estimates with voluntary payments or payments on account.

14.2 We agree that voluntary payments might be more attractive if there were incentives attached. At the very least, paying interest on voluntary payments would make it comparable with putting money aside in the bank – which HMRC's own research confirmed that businesses already do. Other incentives might include cash rewards, and extra time to pay if the voluntary payments fall short of the finalised tax bill.

14.3 Whilst the suitability of making voluntary payments will vary from business to business, agents will advise their clients on the most suitable option for their circumstances, and professional bodies can assist their members signpost the various options, perhaps with standard paragraphs or templates to make this process easier.

## 15 Question 13: Do you have any suggestions for the basis on which earlier repayments could be reasonably claimed?

15.1 As indicated in paragraphs 5.6 and 5.7 of the condoc, these are measures that might be considered 'once digital record keeping and updating is firmly embedded'.

15.2 We agree with this approach. While early repayment will, if correct, be beneficial to taxpayers – to contemplate anything at this stage would be too premature. Again, we would recommend that the basics of MTD are embedded first, and are working adequately, before more sophisticated elements are introduced.

## 16 Question 14: Please tell us if you think there are any other costs or benefits not covered in the summary of impacts, including any detail you may have.

16.1 No further comments.

## 17 Acknowledgement of submission

17.1 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.

## 18 The Chartered Institute of Taxation

18.1 The Chartered Institute of Taxation (CIOT) is the leading professional body in the United Kingdom concerned solely with taxation. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. The CIOT's work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.

The CIOT draws on our members' experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries. The CIOT's comments and recommendations on tax issues are made in line with our charitable objectives: we are politically neutral in our work.

The CIOT's 18,000 members have the practising title of 'Chartered Tax Adviser' and the designatory letters 'CTA', to represent the leading tax qualification.

The Chartered Institute of Taxation
7 November 2016

**Appendix One**

**Example 1 - Oliver**

Oliver is self-employed and VAT registered. He prepares his VAT returns calendar quarterly. He has experienced difficulties in adapting to MTD, and also making payments of both his VAT liabilities and his income tax liabilities. He is in the default surcharge regime, and will be subject to a 10% penalty if he submits or pays his next VAT return late.

He submits his December 2019 VAT return on 26 January 2020, which shows a VAT liability due to HMRC of £10,000. He makes a payment of £10,000, also on 26 January 2020, in satisfaction of his VAT liability.

However, HMRC allocates that £10,000 to Oliver's income tax liability (balancing payment for 2018/19 and first payment on account for 2019/20), which Oliver couldn't afford to pay in January (because of his VAT liability), but which he hoped to pay in February.

As a result of HMRC's allocation of Oliver's £10,000 payment, Oliver will incur a default surcharge (a penalty) of £1,000, notwithstanding the fact that Oliver thought he'd paid his VAT on time, and would only be a few days late paying his income tax.

**Example 2 – Theresa**

Theresa is self-employed and has one member of staff, who she pays on the 20th of each month. The employee's net pay for July 2019 is £3,000.

Theresa pays £1,000 per month under VPAYG against her expected tax liabilities. In July 2019, there is a dispute with Theresa's main customer, who does not pay Theresa until 27 July 2019.

Because cash flow is tight, on 18 July Theresa seeks a £2,000 repayment of the voluntary payments she has made towards her tax liability to use towards the net pay she owes her employee.

Following receipt of the payment from her main customer on 27 July 2019, Theresa settles in full the Payment on Account due on 31 July 2019.