

**Making Tax Digital: Voluntary pay as you go (VPAYG)
HM Revenue & Customs (HMRC) consultation document
Response from the Low Incomes Tax Reform Group (LITRG)**

1 Introduction

- 1.1 LITRG welcomes the opportunity to comment on the Making Tax Digital (MTD) consultations issued on 15 August 2016.
- 1.2 This consultation response should be read in conjunction with our responses to the other consultations on MTD.
- 1.3 We begin though with some general comments on the MTD policy.

2 Making Tax Digital programme

- 2.1 We generally support the HMRC digital strategy and recognise that many benefits may be possible in the digital world. We are though hugely concerned that much of the detail of the MTD programme is still to be considered and finalised, and as a result implementation of MTD for unincorporated businesses from April 2018 is totally unrealistic and unachievable in the timescale.
- 2.2 The current timetable does not allow sufficient time for:
- HMRC to properly publicise and educate the public about MTD;
 - businesses to prepare for these very significant changes, both in terms of practical impacts and the additional costs which will result;
 - the software – which is crucial to the success of MTD – to be anything like fully developed and tested.

- 2.3 We strongly urge HMRC to delay the commencement of MTD until the design has been completed and fully tested. This should substantially reduce the massive risk of the project going seriously wrong with the damage done to HMRC reputation but also the inevitable 'teething problems' that will without doubt occur. A more relaxed introduction will therefore lessen the chances of the public quickly losing faith in the system, reduce the chance of naturally compliant taxpayers making mistakes due to having to rush into unfamiliar territory, and protect HMRC from reputational damage.
- 2.4 We do not support the principle of mandating MTD and are wholly opposed to this approach. If we compare it to self assessment (SA) online filing which has been very successful without being mandatory, we can see that if a product is good and beneficial, taxpayers will naturally migrate to it. Mandation is very likely to have the opposite effect to that which it is intended to foster: instead of increasing tax receipts, it may act as a disincentive to businesses to trade legitimately and encourage some into the hidden economy.
- 2.5 Many businesses with low incomes will find it extremely difficult to comply with the requirements of MTD for a number of reasons, being cost, extra administrative time, lack of IT knowledge, and lack of financial literacy. To make the system work as smoothly as possible, we would strongly recommend that the exemption level is raised very substantially above the proposed limit of £10,000 annual turnover. In our view we consider that the exemption limit should initially be set at an amount equivalent to the current VAT registration threshold. This should at least mean that MTD for business will be more successful from the outset as potentially problematic traders will be below the exemption limit. In turn, fewer resources will be required to provide digital and perhaps financial support to those who will need assistance. This should result in a much smaller group than would otherwise be the case. But if MTD is as good as HMRC promise, traders will almost certainly wish to join it voluntarily.
- 2.6 The success of the MTD programme depends heavily on the use of good software. It is the responsibility of Government to provide free software where it is a requirement to have software to be able to comply with legal obligations. In respect of MTD HMRC should ideally provide good, free software to small businesses. Relying on commercial businesses to make free software available is, in our view, fraught with very significant problems and is wholly unsatisfactory. Free software provided from commercial sources will have only limited functionality, thus those unable to afford upgraded packages could be excluded from many of the purported benefits of MTD and free software providers will constantly be bombarding their customers with update requests.
- 2.7 Finally, there will always be some taxpayers who are digitally excluded for a variety of reasons such as lack of broadband due to remote location, or age, or disability. The service and support available to this group of taxpayers must be of at least the same level as that available to digitally enabled taxpayers. Regrettably, the detail of what this support will likely be has not yet been made clear.

3 Voluntary Pay As You Go: Executive Summary

- 3.1 We support HMRC's objective to make it easier for people to budget for their tax payments and, where they are able, to allow them to do this through their digital tax accounts. But we are hugely concerned at the proposal to introduce VPAYG before the substantial changes being brought about by the introduction of MTD have had a chance to settle down and operate for some reasonable time.
- 3.2 Although we feel that there may be merits in the VPAYG proposals and we comment on these in our response, we think a far better and preferred approach would be to continue with the existing voluntary payment services such as the Budget Payment Plan for the time being. If these services are enhanced and better publicised they can provide the opportunity to help people budget for their tax payments without another new measure being introduced at a time of major change to all other aspects of the tax system. Once the main strands of the MTD programme are working smoothly, consideration could then perhaps be given to introducing VPAYG then. It should be noted that most comments in this response are relevant in the context of the existing Budget Payment Plan as well as in relation to VPAYG.
- 3.3 We believe that control, choice, transparency, support and equal access to all are the overriding factors that must be taken into account when considering any voluntary payment service.
- 3.4 If HMRC are committed to their statement that people will have control and choice over their VPAYG payments, it is crucial that people must be able to make these when and how they choose and therefore have the ultimate choice over where payments should be allocated. Although HMRC may have initial responsibility for the allocation of voluntary payments, people should be able to override this or have a right of appeal if they feel that HMRC's allocation has not given them the most favourable result.
- 3.5 People must be given the same opportunities and equal access to government services (provided they are entitled to them), no matter what their circumstances. There should be no reason to restrict the categories of taxpayer who might use a voluntary service such as VPAYG. The digitally able should not have an advantage over those who cannot interact in this way. HMRC should make VPAYG and/or any other voluntary service available to those who cannot interact digitally and ensure that voluntary payments can be made in a variety of ways such as by debit or credit card, BACS, CHAPS, phone, cheque or at a bank, Post Office or PayPoint location. There should also be an easy way for people that are not able to interact digitally to check how much tax they have paid, for example through the issue of monthly statements like those issued by banks; or through SMS text alerts for those who opt to receive information in this way.
- 3.6 HMRC should reconsider their proposal to make VPAYG available only to businesses, the self-employed and landlords. They should give serious consideration to extending it to others such as pensioners who may welcome the opportunity to make VPAYG payments

where, for example, as is often the case that insufficient tax is being deducted through the PAYE system.¹

- 3.7 If introduced, VPAYG must be easily accessible and very simple to use and understand. HMRC must provide robust help and support across a range of channels for those who need this to access the service.
- 3.8 There should be no additional cost to, or burden on, those choosing to use or not to use VPAYG although we consider there will almost certainly be a cost.
- 3.9 HMRC must ensure that they widely publicise the benefits of VPAYG as well as the wider MTD programme, so that those who can will be encouraged to use it.
- 3.10 We are very concerned about the potential interactions between VPAYG and universal credit (UC). This is not discussed in the consultation document at all, which is worrying and it is not clear to us what the status of a voluntary payment will be under the UC legislation. This is something that needs urgently to be understood before any proposals go ahead.

4 About Us

- 4.1 The LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998 LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those on low incomes. Everything we do is aimed at improving the tax and benefits experience of low income workers, pensioners, migrants, students, disabled people and carers.
- 4.2 LITRG works extensively with HMRC and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 4.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

¹ We do of course acknowledge that HMRC will be aiming to minimise such cases through the better use of information to update taxpayers' affairs more frequently in-year (as envisaged in the separate consultation 'Transforming the tax system through the better use of information'). Nevertheless, there may be some cases where this is still relevant, such as where a 'K code' restriction operates such that only 50% of an income source may be deducted through PAYE.

5 Responses to specific questions and proposals

5.1 ***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?***

- 5.1.1 Although some will welcome the facility to be able to budget better, uncertainty over levels of income, particularly for the low income self-employed population, could mean that people may be uncomfortable or unwilling to voluntarily pay money not yet due. Why would people, particularly those from this population, choose to pay voluntarily in advance for their tax when they could instead spend this money to pay in advance for their utility bills? Why would they not prefer to put the money aside in their bank account where they potentially have more flexibility over when and how they use it, along with scope for receiving interest payments on the balance? Even if HMRC make it easy to claim voluntary payment credits back quickly, these people may prefer to keep their money closer to home. HMRC need to think carefully about points such as these and develop an appropriate strategy that encourages people to adopt a voluntary payment service because they fully understand the benefits of doing so.
- 5.1.2 Paragraph 2.6 of the consultation document explains that when an update is submitted by the taxpayer an estimate of their tax bill will be calculated and they will be asked whether they want to make a voluntary tax payment at that time. As the quarterly update process will only give an estimate of the tax position, in many cases this may be substantially inaccurate when compared to the final liability – perhaps due to End of Year accounting adjustments, claims for reliefs such as capital allowances or losses. (We comment further on this in our response to the consultation document ‘Making Tax Digital: bringing business tax into the digital age’.) It must therefore be made very clear to the taxpayer that the tax is an estimated figure and that any payment is voluntary, and there will not be any penalties incurred for non-payment or for only partial payment of the tax figure shown as due. If significant over or underpayments arise, the credibility of VPAYG may become damaged and this could lead to resistance to using the service.
- 5.1.3 It is not clear why HMRC suggest that they may need to restrict the number of payments a taxpayer makes. Businesses and individuals are likely to make payments when cash is available and this may be on a weekly basis. Digitally enabled people are used to being able to move or transfer money around quickly. Placing restrictions on when and how often payments may be made could be a barrier to take-up.
- 5.1.4 Paragraph 2.10 of the consultation document suggests that Dimitri will make his payment direct to HMRC and that the ability to do this through online banking may only be available if he has the right software. The ability to make payments through online banking should be available in all software packages, including free software. Not only might people want to check their bank balance before transferring funds, but being able to pay direct from a bank account prevents the extra step of having to log back into a digital tax account to instruct a payment. Naturally, if a payment is made direct to HMRC from an individual’s online banking facility, they will need to have clear instructions as to how the payment should be

referenced such that it is properly allocated to their account and treated by HMRC on receipt as a voluntary payment.

- 5.1.5 There may be confusion over how VPAYG differs to the existing budget payment plan that allows people to make regular set payments in advance each week or each month. The differences need to be made clear as part of any strategy HMRC might need to develop to promote and encourage people to use VPAYG in due course (if it is envisaged that the two will exist side by side).
- 5.1.6 It may be difficult for those currently paying arrears (which under the current regime is, to some extent, all SA taxpayers) to move to VPAYG in year as there will inevitably be some element of 'double' payment required. If the ultimate goal is to encourage people to file a digital update, see an estimate of the tax bill accrued for that period and immediately consider a voluntary payment to avoid building up a large amount owed at the end of the year, then HMRC need to recognise this 'catch up' problem. Transition to this 'real time' payment system may be the ideal, but it is unlikely to be achievable for many, particularly given the proposal in the 'Simplifying tax for unincorporated businesses' consultation document not to give relief for overlap profits except on termination of a trade. Allowing relief for overlap profits on a move to MTD might be one way of encouraging more people to use VPAYG.
- 5.1.7 It is vital that regular payments made by those who currently have a 'time to pay' arrangement in place to clear old debts are allocated against the correct debt and are not treated as voluntary payments by mistake. A misallocation of a regular 'time to pay' arrangement could result in the arrangement being cancelled and enforcement action being taken or suspended penalties being brought back into charge. These arrangements often run for many years and so will remain pertinent even under the MTD regime. HMRC will need to clearly set out how VPAYG will sit alongside any arrangements already in place to clear tax debts.
- 5.1.8 The consultation document does not consider how VPAYG payments (and repayments) might interact with the benefits system, particularly with UC. UC is paid based on net income and therefore tax and National Insurance (NI) paid is relevant in the calculation of that benefit. Close HMRC liaison with the Department for Work and Pensions (DWP) is clearly needed.
- 5.1.9 It is important to establish and agree whether VPAYG payments will be deductible from earned income for UC purposes or whether they will be deducted when they are 'allocated' against income tax or NI. This applies equally to employees and the self-employed. In doing so, it is also important to consider how accurately the value of a VPAYG payment reflects the tax liability for the relevant UC assessment period and the impacts of any resultant underpayment or refund for UC purposes. If however VPAYG payments are not deductible at the point they are made then we question why would anybody receiving UC (by definition, these would also be people on a low income) would want to make them. It will be crucial that good quality information is available for UC claimants so they understand the impact of

making a VPAYG especially if there is no immediate change to their UC award despite the reduction in their disposable income.

5.1.10 Neither does the consultation document comment on any possible interaction with student loan repayments where they are being collected through the tax system. If people will be able to make student loan repayments through VPAYG then it must be easy to differentiate in digital tax accounts between these and VPAYG payments made against tax and NI. There should also be a direct cut across and real time feed to the Student Loan Company to prevent overpayments, which can be common towards the end of the loan. We also recommend that VPAYG payments are taken into account when calculating interest on student loans. Great care would, however, need to be made when allocating voluntary payments to student loan repayments. This is because any voluntary overpayment of student loans is deductible from the balance of loan outstanding, but is not deductible from the statutory repayment due. This is fine if the borrower understands that they may be reducing the capital balance of their loan and that is what they wish to achieve; but not if, for example, they find themselves with a higher statutory loan repayment due later and they had intended that any voluntary payment would be carried forward against that liability rather than deducted from capital.

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

5.2.1 HMRC must work closely with software providers to ensure that voluntary payments and credits are displayed clearly and transparently. We are concerned that software produced will not be, or remain, free of charge. It is important also to consider that the more features a software programme offers, the more expensive it is likely to be. It is essential that free software should have VPAYG functionality built in so that those who cannot afford to pay for it and who also arguably may benefit most from being able to budget in this way, do not miss out.

5.2.2 Information displayed must be accessible via smart phones, tablets and more traditional means such as laptops and computers.

5.2.3 All liabilities that fall within and outside of MTD must be clearly and separately identifiable.

5.2.4 Any liabilities that are in dispute must be clearly and separately identifiable.

5.2.5 All VPAYG payments must be clearly and separately identifiable. Information as to when, how and why payments have been allocated must be clearly displayed. It should be easy for people to identify:

- what VPAYG payments have been made, by what means (for example bank transfer, debit card, etc.) and when;
- how, when and why (for example to offset NI contribution; next earliest liability due; to mitigate against penalty payment) amounts will be or have been allocated;

- remaining credits, along with how and when these will be allocated next and the reasons why;
- how to make a further payment or request a repayment.

5.3.6 It should be easy for people to change any amounts automatically allocated by HMRC therefore giving them control and choice over where their voluntary payments are allocated. But software must have the functionality to flag up where changes they make may inadvertently result in a disadvantageous situation such as exposure to a potential penalty.

5.3.7 It should be easy to use by incorporating prompts such as:

- 'Last time you paid [an amount] against an estimated liability of [an amount]. Would you like to do the same again? If so, [proceed to function that allows the taxpayer to make a payment].
- If not, you can choose to pay any other amount. If you would like to do this [proceed to function where the taxpayer can enter the amount and then proceed to payment]'

5.3.8 It would also be helpful to remind people of how they paid the last time as well as asking them whether they would like to continue to use this or an alternative payment method.

5.3.9 Payment options must be easy to understand and supporting information must reassure people of the security of using their chosen option.

5.3.10 There must be a clear warning that paying by credit card may involve additional costs – not just in terms of the fee for card use, but also the risk of incurring interest and other payment charges depending on the card's terms and conditions.

5.3.11 The system should thank people for making their payment, offer a print friendly version of their overall summary of voluntary payment credits on hand and suggest that they save or print a copy of this for their records.

5.3.12 The system should give people the option of saving their card payment details for future use (but not insist upon the details being saved); and make it easy to change any stored debit/credit card/bank account information.

5.3.13 Help and support must be on hand for people to ask questions if they are unsure about any of the voluntary payment information displayed or how to make a payment, claim a repayment or change an amount automatically allocated by HMRC. This help should be fully signposted and available across a range of channels including digital, phone and (where necessary) face-to-face.

5.3.14 Will those who have a direct debit arrangement be able to simply and quickly change the amount they pay? Variations to direct debit arrangements should not be made by HMRC without explicit agreement of the taxpayer. A tick box should be available within the digital tax account to enable people to confirm if they are happy for HMRC to vary direct debit

payments on their behalf. Taxpayers might be more willing to agree to a variable direct debit if the amount by which it can be varied is capped at a certain amount of their choosing.

5.3.15 Repayments should not be withheld because of an imminent liability without the taxpayer's explicit permission. A tick box should be available for this purpose. It should also be easy for people to tell HMRC where and to whom repayments should be made.

5.3.16 A tick box should be made available for people to elect for overpayments to be held as voluntary credits.

5.4 ***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?***

5.4.1 In the example case of Dimitri used in the consultation document, he will have almost certainly expected his payment of £1,300 to be treated as a payment towards his 2019/20 tax bill as it was based on his first quarterly update for that tax year. Therefore, we feel that there should be a period of grace to make non-voluntary payments towards liabilities not covered by voluntary payments made at the point the full liability becomes due. We feel that a period of 30 days to make a non-voluntary payment would be sufficient. If this is not made in time and HMRC go on to allocate a voluntary payment, this decision should be reversible provided there is a reasonable excuse for why a deadline was not met, for example because of ill health.

5.4.2 If VPAYG is to be made available to those who cannot interact digitally, this period of grace may need to be a little longer than 30 days to provide an equivalent service (that is, to allow for postal delays).

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

5.5.1 To mitigate interest and late payment penalties, voluntary payments should perhaps generally be allocated against liabilities that arise first. But this will not always be the case. For example, a taxpayer may wish to protect contributions towards benefit entitlements such that they want a payment to be allocated first to, say, a class 2 NI liability. Also, some taxes currently carry heavier penalties for late payments than others, so allocating a payment to the first liability becoming due may not necessarily give the most favourable result. If VPAYG is completely voluntary, people should have the choice to allocate payments as they wish and help and support must be on hand to enable them to do this.

5.5.2 Assuming HMRC initially allocate voluntary payments on a person's behalf, we feel it is important to flag up that the allocation and set-off for payments across a range of taxes has the potential to lead to confusion unless the rules and reasons why are properly explained in advance of any allocation or set-off. These explanations must be tailored and clearly visible at the point where people are invited to voluntarily pay in advance. There must also be a clear explanation of any late payment penalties that might arise as a result of their allocation. Failure to do so may result in resistance to using VPAYG.

- 5.5.3 It is important to note that people are entitled to believe that HMRC will best protect their interests when allocating payments. To do this effectively, HMRC's systems must be fully integrated and up to date so that this can be done quickly and seamlessly. For example, somebody issued with a VAT default surcharge notice might want VAT payments to be kept up to date to avoid a surcharge arising. In this type of case it is crucial that digital tax accounts accurately reflect the circumstances.
- 5.5.4 Liabilities which are being disputed must be ring-fenced so that VPAYG payments are not allocated against them unless the taxpayer asks for this to be done.
- 5.6 ***Question 5: Do you foresee any problems with HMRC's intended approach to the allocation of voluntary payment?***
- 5.6.1 It is imperative that the allocation of payments (both voluntary and non-voluntary) is clearly explained as outlined at 5.5.2 above and there is help and support on hand across a range of channels.
- 5.6.2 The success of VPAYG is however dependent on HMRC having good back office systems which are able to do the allocations correctly. In recent years, HMRC have not had a good track record in allocating either specific or ad hoc payments correctly and the VPAYG proposals are significantly more complicated than the current system.
- 5.6.3 We would also reiterate that the software, whether paid for or free, must have the capability to manage VPAYG. We have significant reservations as to whether free software will be able to deliver the level of functionality required for this to work smoothly.
- 5.7 ***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?***
- 5.7.1 Although we recognise that money laundering has been identified as a potential issue it is unlikely that these concerns will apply to the low income population that LITRG represents.
- 5.7.2 It is essential that VPAYG gives HMRC the facility to check where and to whom repayments should be sent. For example, HMRC may receive a payment from a couple's joint bank account (on behalf of one half of the couple who is either in business, self-employment or a landlord). If a repayment arises for that person, HMRC may assume that the payment should go back to the account from where it came. If however, the joint bank account holders are no longer a couple, sending the repayment there may mean that the person entitled to it may never receive it. To mitigate this sort of situation, HMRC must make it easy for people to use their digital tax account to authorise where and to whom repayments should be made.
- 5.7.3 If there is going to be a facility to enable people to pay from and store/change details such as a nominated debit/credit card/bank account, HMRC need to ensure (and reassure people) that this information is secure.

5.8 ***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?***

5.8.1 We feel that HMRC should not automatically be able to restrict a repayment simply because a liability is due shortly. This is not giving people control and choice over what they pay and when. In this type of situation the taxpayer must be made aware that a liability is imminent and asked whether they would like to receive the repayment or whether they would like it allocated against the forthcoming liability. This should be possible quickly and easily by communicating through digital tax accounts either by a message or by inserting a tick box to confirm whether people want this to happen.

5.8.2 We cannot over emphasise that while we fully support the fact that payments should be made on time, HMRC have no understanding of an individual or business's other circumstances. Repayments arising may be essential for example to enable a contract to go ahead, to help buy something for a family member who is ill or used to make a payment against a credit card where the interest charged on an outstanding amount might be considerably higher than market rate.

5.9 ***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 Making Tax Digital (MTD)?***

5.9.1 We can see the benefits of suggesting changes to payments on account based on an automatic comparison of the payments on account with actual payments due based on real time quarterly updates. Any message indicating that payments might be inadequate or too high based on information provided to date must however contain a strong caveat that the position could change once the information for the whole year is known. We feel that most taxpayers will find the interaction between quarterly estimates of tax due and payments on account extremely confusing and so there must be clear guidance and explanations at every opportunity to try to alleviate this.

5.9.2 We are concerned that making changes to the payments on account process may potentially lead to an overhaul of the entire self-assessment payment system. While we support the possibility of change to make the system better, this should not be rushed through as part of the MTD programme but should instead in itself be subject to full and separate consultation.

5.9.3 We are also concerned that the proposal to charge interest on payments of account based upon estimated liabilities (paragraph 3.5 of the consultation document) is a departure from the existing rules. Currently, payments on account are an estimated payment towards the next tax year's liability based on the previous year. Interest is not charged on the final balancing payment unless somebody has incorrectly claimed to reduce their payments on account, in which case interest may be charged on the difference between what was paid and what should have been paid. So even if payments on account do not cover the full year's liability, provided they are paid on time, no interest is incurred. A system in which payments on account are less certain, based on quarterly updates which may be far from

representative of the whole tax year's liability, and on which interest may then be due if there is a final balancing payment would therefore raise some significant concerns.

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

5.10.1 We support the concept that people should be able to elect for overpayments to be held as voluntary credits. But as with our earlier comment regarding restrictions on repayments, this must be their choice and not an automatic HMRC right. A tick box should be made available within VPAYG for people to confirm whether they are happy for this to happen. And of course, they should be able to change their minds at any time to request a refund of any overpayment.

5.11 ***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?***

5.11.1 Many partnerships already make payments on behalf of partners, so making a VPAYG payment should be no different. Subject to wider responses to the 'Making Tax Digital: Bringing business tax into the digital age' consultation document, we feel that allowing a partnership to make a voluntary payment on behalf of partners must strictly be by consent of all partners involved. The functionality to enable this to happen should be built into digital tax accounts.

5.11.2 Consideration needs to be given to how partners will agree the amounts of any voluntary payments: establishing an accurate level of voluntary payment for a partner could be difficult as the ultimate liability depends on whether there is other income and the partner may prefer this information not to be shared with fellow partners.

5.11.3 Consideration also needs to be given to whether repayments arising should be sent to the partnership or to an individual partner. Will a partner be able to request a repayment of voluntary payments made by the partnership?

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

5.12.1 Consideration must be given to the practicalities of allowing somebody to make a voluntary payment on behalf of another. Will the person making the voluntary payments have to access the other person's digital tax account for example as a Trusted Helper? Or will there be a facility to allocate a voluntary payment to others from within an individual's digital tax account? Or indeed can a third party make a voluntary payment to another person's account via their own online banking system, by sending a payment to HMRC accompanied by a tax reference (and if so, how will they make it clear that it is a VPAYG payment)? How will this information be displayed in both people's digital tax accounts – if indeed they both have one?

5.12.2 If third-party payments are received, who would any repayments arising be made to?

- 5.12.3 Are HMRC equipped to quickly investigate large and unexpected amounts to prevent money laundering?
- 5.12.4 We assume that agents will not be able to make third party voluntary payments on behalf of their clients – indeed professional rules might effectively prohibit this.
- 5.13 ***Question 12: What additional processes or measures would make customers feel more confident about making voluntary payments?***
- 5.13.1 To motivate people to pay voluntarily, and indeed to consider using their digital tax accounts, they need to see what is in it for them. HMRC must develop and roll out a comprehensive education and publicity campaign that promotes the benefits of MTD, including any voluntary payment service such as VPAYG.
- 5.13.2 We agree that incentivising VPAYG will make it more attractive and be likely to encourage more people to use it, but these incentives should naturally arise by digital services being so convenient and easy to use that they become the preferred choice.
- 5.13.3 The service must be reliable and accurate. Over or underpayments arising from large discrepancies between estimated and final liabilities will lead to confusion among taxpayers and may lead to resistance to using VPAYG.
- 5.13.4 Although we agree that paying interest on credits is fair (however with interest rates currently so low this may not be any great incentive), we do not agree that cash rewards for paying voluntarily should be used. Not only would this be unfair for those unable to participate with VPAYG but a system such as this may be open to manipulation: for example people may decide to make a voluntary payment in order to receive the cash reward and, once received, then withdraw the money.
- 5.13.5 Guaranteeing quick and easy repayments of credits, should an individual or business urgently need their money back, is crucial. If people believe it is easy to do this and that they will receive their money back quickly (within 24 hours) they may be more likely to use VPAYG.
- 5.13.6 Setting out scenarios that display how much money an individual or business has potentially saved (by avoiding penalties) may be a ‘non-cash’ incentive. Similarly, HMRC could consider utilising ‘club mentality’ by telling people they are for example one of over five million people choosing to have more control and choice over their tax finance and budgeting by using VPAYG.
- 5.13.7 HMRC will need to provide robust help and support across a range of channels so that people can be reassured of exactly what is happening within their digital tax account. Also, the highest level of security must be in place so that people feel confident that they are safe to use their money in this way.
- 5.13.8 HMRC might also use payment history to build up ‘goodwill’ for people so that if they miss a deadline for payment or submission, any penalty might be mitigated. But if this approach is

adopted, HMRC must ensure that those who do not make voluntary payments are not treated more harshly.

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

5.14.1 We feel that early repayments should only be made where it is reasonable to believe they are being made against what is expected to be an individual's or business's final tax liability in a year. HMRC need to provide education to enable people to understand when they might be able to claim an early repayment

5.14.2 HMRC should revisit the repayment policy for those people claiming jobseeker's allowance (JSA). It seems harsh that people being paid JSA cannot claim an early repayment but instead must wait until either their JSA claim stops or until the following 5 April.

5.14.3 HMRC need to consider that some people in a repayment situation may be unlikely to ever have a tax liability to set it against. These people must be able to access their repayment immediately and bearing in mind the vulnerability of the low income groups we represent, there should be no *de minimis* level for amounts repaid.

5.14.4 There is already a process for early repayments of tax over-deducted on pension lump sums. Will this process be embedded into digital tax accounts, for those who are digitally capable, whilst preserving alternatives for those not so enabled? This is particularly important bearing in mind the higher rates of digital exclusion amongst older people.

5.15 ***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***

5.15.1 *Impact on individuals and households* – There could be an impact on individuals and households should the repayment facility not be quick and easy for those who need to claim voluntary credits back. Consideration also needs to be given to the fact that not everybody will be able to pay for the equipment or broadband facility to enable them to interact digitally.

5.15.2 *Equalities impacts* – Unless non-digital alternatives to VPAYG are made available, those unable to interact digitally will be at a disadvantage to the digitally able, particularly if HMRC proceed with their proposals to use incentives to encourage take up. This could constitute a breach of equalities legislation if indirect discrimination against those with protected characteristics results.

5.15.3 *Impact on businesses and Civil Society organisations* – We agree that robust testing across the full range of HMRC audiences must be carried out so as to understand the needs of all taxpayers. This will inform what needs to be done to successfully engage and encourage them to use VPAYG.

5.15.4 *Impact on HMRC or other public sector delivery organisations* – The links between VPAYG and UC entitlement and VPAYG and the repayment of student loan debts must be properly

explored. Clear guidance and support that explains the interaction between VPAYG and UC must be available to enable UC claimants to make informed choices.

LITRG
7 November 2016