Low Incomes Tax Reform Group

A voice for the unrepresented

HM Treasury call for representations for Autumn Statement 2015

Response from the Low Incomes Tax Reform Group

1 Executive summary

1.1 We are responding to this call for representations from the perspective of the low-income unrepresented taxpayer.

1.2 Most of our representations are taken directly from our Manifesto[1] that we published earlier this year.

1.3 Our representations have the following main themes:

- Improve the PAYE system to bring greater clarity and accuracy for taxpayers, and lower administrative costs
- Better communication and education on tax matters by government departments
- Make the tax system as accessible as possible for unrepresented taxpayers
- Improve how the tax and benefits systems work together

[1] http://www.litrg.org.uk/Resources/LITRG/Documents/2015/03/Manifesto%20-%20LITRG%20-%20final.pdf

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- A tax system that recognises the distinctive challenges of self-employment

1.4 We welcome the opportunity to reiterate several points as well as recognising new challenges ahead of the Autumn Statement.

2 Who we are

2.1 The Low Incomes Tax Reform Group (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.

2.2 LITRG works extensively with HM Revenue & Customs (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.

2.3 We now turn to our specific proposals that we have categorized under various headings.

3 Our specific proposals

3.1 ***Improve the PAYE system to bring greater clarity and accuracy for taxpayers, and lower administrative costs***

3.1.1 The Pay As You Earn (PAYE) system collects tax and National Insurance contributions (NIC) in relation to employees' wages and salaries and pension incomes. Tax is deducted at source by the employer or pension provider and paid over to HMRC on the taxpayer's behalf.

3.1.2 Many taxpayers now have multiple employments and/or self-employments during their working lives and consequently may start to receive various pensions at differing times from different payers. Ensuring that, as far as possible, taxpayers have the correct amounts of tax deducted from their employment and pension income is becoming increasingly difficult.

3.1.3 PAYE has seen great change in recent years. Behind the scenes, investment has been made in new information technology, allowing HMRC to centralise taxpayers' PAYE records and to automate end of year reconciliations to check whether tax has been correctly paid. Communication between the DWP and HMRC has also improved, but this is an area where further investment would make the system work more efficiently. More recently, PAYE has moved to 'real-time information', though that development has required a great deal of investment from employers as well as HMRC to bring it to fruition.

3.1.4 We are concerned that the same level of investment has not been made by Government in keeping taxpayer communications up-to-date and focused on individuals' needs although we do recognise the work now being done by HMRC to make PAYE coding notices easier to understand and to improve communications when an underpayment is identified in the end-of-year reconciliation.

3.2 ***Ensure the DWP issues statements to all taxpayers at the end of the tax year showing all state benefits paid and whether or not they are taxable.***

3.2.1 *Benefits:*

- *Taxpayers will have a greater understanding of which benefits are taxable*
- *Taxpayers will have the information to hand when either preparing a tax return or checking information provided by HMRC, such as PAYE 'P800' tax calculations*
- *Lower administrative costs for government as fewer taxpayers will need to make requests for separate information from DWP or to query their tax position with HMRC*

3.2.2 Many individuals receive state benefits during their lives. Some benefits are taxable, for example jobseekers allowance (JSA), while some are not taxable, for example the winter fuel allowance. The state pension is liable to taxation, but the Christmas bonus that is paid with it is not. Contributions-based employment and support allowance (ESA) is liable to tax, but income-related ESA is not.

3.2.3 At the end of the year it is difficult for a person to work out how much in taxable benefits they have received. Award letters from the DWP are often unclear. Sometimes several benefits, some taxable and some not, may be included in one amount shown on a bank statement. As a result disputes over the amount of such payments can cause significant work for HMRC as well as distress for many people on low incomes.

3.2.4 Every other employer and pension provider, no matter how small, is required to provide an end of year statement (P60) to those it pays, yet, in most circumstances, DWP is not. (The exception being where a claimant is in receipt of taxable JSA or ESA at 5 April in a tax year but even in these circumstances the statement will only show the amount from the current claim.) We think this should change. DWP should have all the information on their systems, linked to the individual's National Insurance number, but the provision of this basic information is not made available to the individual unless they request it. Such requests can meet with significant delays. It is time to provide this information automatically.

3.3 ***Review the possibility of the DWP operating PAYE on the state pension***

3.3.1 *Benefits:*

- *For those taxpayers whose state pension exceeds their personal allowance, tax would be deducted at source, meaning that fewer of them are required to complete self assessment tax returns, saving HMRC money*

- *By operating a PAYE code against the state pension, problems with coding which may be created as a result of people taking advantage of pension freedoms from 6 April 2015 should be minimised*

- *Taxpayers would have a greater awareness that the state pension is taxable*

3.3.2 Although for most people the state pension will be covered by their personal allowance (£10,600 for 2015/16), for some individuals it is not and this creates a tax liability. This is not collected monthly as would be the case for most PAYE income, but is collected in a lump sum after the end of the tax year. This can cause hardship and stress. It may also be unexpected since many people remain unaware that the state pension is taxable.

3.3.3 A further issue is that because no PAYE code is operated against the state pension, sometimes the state pension is not considered when allocating personal allowances to other sources of income. This can cause significant issues, particularly in the early years of receiving the state pension, when it is most likely to be overlooked by HMRC in the coding process. If proper PAYE procedures were operated on the state pension, significantly fewer tax underpayments would arise. These cause real distress and hardship to some pensioners as well as creating significant work for HMRC. In addition, the costs for HMRC of processing self assessment tax returns to collect small amounts of tax on the state pension are significant relative to the amount of tax being collected.

3.3.4 The case for this change has been strengthened by the announcement of the new 'freedom and choice in pensions' regime which will allow people to take much more flexible withdrawals from their pension plans. This is likely to lead to more individuals not having a consistent source of income (such as they may in the past have had when purchasing an annuity) against which to 'code out' and collect tax on the state pension.

3.4 ***Better communication and education on tax matters by government departments***

3.4.1 While the Internet provides huge opportunities to disseminate information, inability to access it may also exclude some members of society. Any information available must be easily found, whether on the Internet or via conversations with the relevant Government Department. Taxpayers and benefits claimants are required to make decisions about their own affairs, and they need to be able to do so against a background of open and clear guidance.

3.4.2 In addition, good communications between Government Departments will aid taxpayers as well as allowing best practice to be shared. Given the increased powers to be given to the Scottish Parliament, it is essential that any cross-UK border issues are fully examined before implementation.

3.5 ***Improve communication and application of special relief***

3.5.1 *Benefit:*

- *Less time would be wasted pursuing debts from the vulnerable that they are unable to pay, and that are not based on their true (lower) tax liability*

3.5.2 Special relief is a “last opportunity” for HMRC to write off the debt of a taxpayer where collecting it would be “unconscionable”. Such relief may be claimed where a taxpayer has failed to submit tax returns, determinations are raised by HMRC to collect the tax that they estimate is due, but the taxpayer later files the outstanding tax returns showing a liability lower than that determined by HMRC. Where the returns are filed outside the relevant time limits, HMRC are not required to correct the tax bills to the lower amounts and issue the related repayments to taxpayers. Thus although the actual taxable income of the taxpayer is now known, and therefore also what their tax liability should be, the higher determination made by HMRC stands unless special relief is claimed and allowed.

3.5.3 It is very difficult for the unrepresented taxpayer to find any information about special relief – it is challenging to find any mention of it online and even HMRC’s call centre operators frequently do not acknowledge that it exists. Accordingly, many taxpayers end up paying more tax than would have been due had their tax bill been commensurate with their actual income. This is particularly unfair since on the opposite hand HMRC have powers to collect tax where they “discover” that tax due for an earlier period was not assessed properly.

3.5.4 Further there have been two recent Tribunal cases: TC04509: *John Clark* and TC04597: James *Ronaldson Scott* in which the taxpayers, with the assistance of professional representation, have been successful in having claims for special relief allowed, despite opposition from HMRC. It is difficult to see how an unrepresented taxpayer would have been able to pursue such claims, even if they had been aware of the possibility of making them.

3.6 ***HMRC should improve communication and guidance for tax credit claimants, especially where people stop being part of a couple***

3.6.1 Benefit:

- *Claimants would be able to comply more readily with the complex tax credit rules, leading to a reduction in errors and overpayments*

3.6.2 Where a couple who are required to make a joint tax credit claim end their relationship, they must report this change verbally or in writing to HMRC and they often go on to make separate single claims. The same types of issues arise where a person who has recently ended a relationship and makes a claim for tax credits for the first time. Mistakes and confusion can arise where the claimants believe their relationship has come to an end but other information leads HMRC to interpret the situation differently; for example, HMRC may then decide that a joint claim should have continued and that the single claims are incorrect. This leads to overpayments on the single claim(s).

3.6.3 HMRC could improve their understanding of what causes errors in this scenario by undertaking detailed research into their existing Error and Fraud cases and use that analysis to do more to prevent those errors being made.

3.6.4 We recommend that HMRC introduce a process which involves having a conversation with people who are reporting that they have split up and wanting to make a fresh claim. Rather than simply taking the notification as fact from the claimant, it would help enormously if the rules are clearly explained to the claimant at that point before the change is made. This would mean that errors in understanding or fact could be resolved before they give rise to errors in the tax credit award.

3.6.5 While tax credits are being phased out and replaced by universal credit (UC), similar principles will apply to the provision of information around claims for the latter.

3.7 ***The Government should improve the guidance and support in relation to taxation issues arising from the reform of the pensions regime.***

3.7.1 *Benefits:*

- *Individuals would be helped to make informed decisions about their pensions without "forfeiting" part of that wealth unnecessarily*
- *Tax problems would be averted at the outset, rather than HMRC and voluntary and community sector organisations having to deal with a flood of queries down the line*

3.7.2 Prospective pensioners with low incomes and small pension pots could be left behind in the new 'freedom in pensions'[2] regime. Those with limited means often have complex circumstances and difficult decisions to make with what pension savings they have managed to muster, yet may not be able to pay for advice to ensure they maximise their benefits and minimise their potential tax liabilities.

3.7.3 From 6 April 2015, the 'Pension Wise' guidance service has been available to all prospective pensioners – that is, those eligible to withdraw funds from their personal pension savings from the age of 55. The guidance takes the form of web-based information, with the option of a telephone or face–to-face discussion with one of the Pension Wise service providers[3] if they choose.

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[2] Those with personal pension savings will be able to make withdrawals as they choose, from the age of 55. Up to 25% of lump sum withdrawals will be tax-free but the remaining 75% will be taxable income.

[3] The Pensions Advisory Service is providing telephone support. Citizens Advice is providing face-to-face sessions.

3.7.4 We are concerned that the Pension Wise service is unable to provide the level of support people need.

3.7.5 People need to understand the way in which their pension withdrawals will be taxed, including how Pay As You Earn (PAYE) applies and whether or not this will lead to further self assessment reporting obligations and a further tax liability, or to an over-payment of tax and how long they will have to wait for a refund. Additionally people might well incur substantial and unexpected tax charges on taking lump sums, which may not have arisen had they waited until a new tax year or spread the withdrawals.

3.7.6 Explaining these matters to a prospective pensioner alone could more than take up a face-to-face Pension Wise session which should last no longer than 45 minutes. Some may be able to afford further advice and we would urge that they are directed to qualified tax professionals. But to whom will those with limited means turn, if they cannot pay for more personalised advice?

3.7.7 The charity Tax Help for Older People[4], subject to suitable funding, may be able to take referrals of cases where pensioners with low means need assistance in considering the tax impacts of their pension options – but otherwise would not be able to afford that help. Already they are seeing significant increases in the contacts they receive in relation to these pension matters, around three times as many contacts in the first six months from April as they would normally see with regard to trivial commutations.

3.7.8 This is likely to be a growing need. Automatic enrolment in employers' schemes will undoubtedly increase the proportion of people who retire with pension funds in addition to the state pension, but unless they can have some degree of certainty as to their options upon retirement and the effect of taxation upon those options, the full benefits will not be felt. Indeed public trust in pension savings might be damaged considerably if the effect of taxation is not properly explained.

3.8 *Make the tax system as accessible as possible for unrepresented taxpayers*

3.8.1 Many people struggle to understand their tax responsibilities as regards taxation. For those who are wealthy, paying a professional adviser means that any complexities may be dealt with easily. For those who cannot afford such representation, it is crucial that they can access quickly and easily the information they need to check their tax position. In addition, they need to be provided with the tools to let them deal with any disputes.

3.8.2 Those who, because of age, disability or some other factor, lack the capacity to deal with their own tax affairs, deserve particular consideration. It is vital that the system is flexible and responsive, with alternatives to interacting online for those who are not computer-savvy. Sometimes people in this category will end up with their tax affairs in a mess before

[4] See www.taxvol.org.uk

they seek help. The work of charity advisers in helping them get their affairs back on an even footing is crucial and must continue to be supported.

3.9 ***HMRC's Needs Extra Support service should be promoted, expanded and similar practice extended to other government departments***

3.9.1 *Benefits:*

- *Taxpayers facing difficulties would be helped to comply with their tax affairs, resulting in less worry for them and fewer contacts with HMRC*
- *Other Departments might learn from HMRC experience/best practice in this area*

3.9.2 The Needs Extra Support service (NES) is a team within HMRC dedicated to assisting those taxpayers who need assistance in dealing with their tax affairs, because of illness, age, disability or other reasons. This includes those who are not able to engage fully with digital services. The NES service will help to file tax returns, and provide explanations to taxpayers on a face–to-face basis, if necessary. NES was rolled out in summer 2014 as HMRC's network of face-to-face enquiry centres was closed down, and those of us who have seen it in operation are impressed by the dedication and professionalism of its staff.

3.9.3 Feedback on NES to date has been very good. The service seems to be working well, but awareness of it remains low, although it is increasing, and HMRC need to work harder at publicising it. Also the scope of the service is limited, but improving. It is aimed primarily at income tax and tax credits, though assistance might also be given for other taxes by liaising with colleagues from other areas of tax. With increasing numbers of care and support employers (that is, people employing carers to look after them), it is pleasing that this group of employers has been recognised as a core user of the NES service. Nevertheless in the area of debt collection, the service might still be improved.

3.9.4 Recognising the success of the NES service within HMRC leads us to suggest that other Government departments might also benefit from such a NES team. In particular, since NES currently assists individuals with tax credits renewals, we recommend that DWP puts in place a NES team to assist UC claimants.

3.10 ***Continue to seek opportunities to simplify the tax system for unrepresented taxpayers, ensuring non-digital channels are available for those who require them***

3.10.1 The introduction of the 'marriage allowance' has enabled low-income spouses who are not using their personal allowances to pass part of their allowance to their spouse in certain circumstances. Unfortunately the guidance on GOV.UK is over-simplified and misleading. Further, because the only way to make an election at the outset was online, many people may have been discouraged from making one. Indeed little or no publicity seems to have occurred since it became possible to make such an election by telephone or in writing.

3.10.2 This combination of circumstances is extremely disappointing and seems to put difficulties in the way of low-income taxpayers to claim a relief to which they are entitled.

3.10.3 The introduction of tax-free childcare has been delayed but we understand claims will largely be online. Given that this is essential funding that allows many parents to take up work, we strongly recommend that any system for claiming it is tested robustly and that non-digital channels are available from the outset.

3.11 ***Improve how the tax and benefits systems work together***

3.11.1 Broadly an individual's available income depends on the income they earn plus any state benefits they are paid less any tax liabilities due on that total. To the extent that a state benefit is taxable, that means that the value of that benefit is reduced in the hands of a taxpayer. It is therefore crucial that the tax and benefits systems work closely together so that the value of any benefits is properly understood.

3.11.2 In Section 3.1 above we noted the difficulties that may arise when the tax system does not tax such benefits at source. This can create both stress and potential financial hardship for individuals so providing clear information to them on whether such benefits are taxable is crucial both at the time of any benefits payment and at the end of the tax year.

3.12 ***Consider accompanying future increases in the income tax personal allowance with equivalent changes to the work allowance within Universal Credit, so the lowest earners who don't pay tax gain financially from entering work***

3.12.1 *Benefits:*

- *low-paid workers receive overall financial benefit from entering work or increasing their hours of work*
- *the state benefits system is seen to be fair*

3.12.2 In order to illustrate this point, let's consider two individuals each working 30 hours per week.

3.12.3 At the current Minimum National Wage (£6.70 per hour), the first person will earn £201 per week or £10,452 per year. With the new personal allowance (from April 2015) being £10,600, such workers will pay no tax: any further increase in the personal allowance will make no difference to their take-home pay.

3.12.4 Contrast that with a worker earning £15,000 per year. They will pay income tax. The increase in the personal allowance from £10,000 (2014/15) to £10,600 (from April 2015) will save them tax of £120 per year (£600 at 20%).

3.12.5 UC is calculated based on the claimant's circumstances. Broadly a claimant is allowed to earn a certain amount, the work allowance, before UC is reduced. Once the claimant earns more than that, some of the UC is removed. In the examples we have shown here, the taxpayer would remain better off after the increase in the personal allowance, while the non-taxpayer does not gain at all.

3.13 ***Interactions between taxation and benefits must be considered fully by the Scottish Government and UK Government before any further devolution takes place***

3.13.1 *Benefits:*

- *Any new benefits introduced will provide actual financial benefit to the claimant rather than restricting other benefits*
- *The taxation of any new benefit will be clearly understood*

3.13.2 Currently there are unfortunate complexities where some state benefits are paid. For example, contributions-based employment and support allowance (ESA) is taxable whereas any income-related ESA is non-taxable. Entitlement to some benefits, for example UC, is dependent on after-tax income, so the tax status of other benefits is crucial. Any new benefits introduced by the Scottish Government might have effects on taxation and, in particular, in relation to any benefits cap.

3.13.3 The importance of effective inter-governmental working is recognised both in the Smith Commission Agreement and the recent UK Government Command Paper Scotland in the United Kingdom: An enduring settlement (para. 9.1.2 and passim).[5]

3.13.4 It is important that this extends not just to interaction of UK and Scottish taxes and interaction of UK and Scottish state benefits, but to the interaction of taxes and state benefits.

3.13.5 Given the increased powers that may be given to Wales and Northern Ireland, as well as areas in England, possibly, in the future it is crucial that a proper protocol is put in place now.

3.14 ***The Government should review potential disadvantages for the self-employed in universal credit***

3.14.1 *Benefits:*

- *Reporting income would be made easier for the self-employed.*
- *The self-employed would be treated in a similar way to their employed counterparts.*

3.14.2 The UC rules should be amended so that self-employed people are in the same position as employed people to the extent that their tax, NIC and their pension contributions do not cause the Minimum Income Floor (MIF) to be invoked, thus reducing their overall entitlement to state benefits. We also recommend that further consideration is given to changes to the MIF criteria so it is only invoked in cases where someone is not carrying on a trade with an expectation of profit or in a genuine, commercial way.

3.14.3 UC operates on a month by month basis, using an individual's personal circumstances together with their income for the month to determine the level of any award for UC. Thus as income rises, so the award of UC falls. The first issue that arises is that the way this income is reported is different from the way they need to report their income for tax purposes. This causes unnecessary duplication of work as well as confusion in the mind of the self-employed. We recommend this is reconsidered so that reporting is the same for both UC and income tax purposes.

3.14.4 In order to qualify for UC, the self-employment must be 'gainful' – in other words be expected to produce profits or the claimant would be subject to requirements to search for work. However, even if the self-employment can be shown to be gainful, UC assumes a minimum income level known as the MIF.

3.14.5 Further details are in Appendix 1, but our concerns about the existing proposals may be summarised as follows:

- Any losses in the business are not properly recognised;
- Relief for pension contributions is not as freely available as it is for employees; and
- The fixed payment dates for tax may actually mean the self-employed person is deprived of UC.

3.15 ***A tax system that recognises the distinctive challenges of self-employment***

3.15.1 The Office for National Statistics has confirmed the growing number of self-employed individuals in the UK. Its report from August 2014[6] shows that:

- self-employment is at its highest level for at least 40 years, 4.6 million in total;
- much of the increase in employment figures since 2008 are new self-employments; and
- the self-employed now make up around 15% of the workforce.

3.15.2 This is therefore a large group of workers – and indeed some people are being "encouraged" into self-employment as a route out of unemployment and to reduce reliance on state benefits. Self-employment may be an especially attractive option to some people with disabilities, if it provides them with the greater flexibility they need to be able to work. Accordingly, making the system fairer and easier to navigate is essential

[6] http://www.ons.gov.uk/ons/dcp171776_374941.pdf

3.16 ***HMRC should make more flexible tax payment arrangements for the self-employed***

3.16.1 *Benefits:*

- *Tax liabilities should be collected earlier*
- *Fewer newly self-employed people should find themselves in payment difficulties*
- *Tax debt should be reduced*

3.16.2 A mechanism is needed for the self-employed to pay their tax liabilities flexibly, as and when they have cash available. Unlike employees, usually the self-employed do not receive regular amounts of cash – they depend on jobs being at a stage where payments may be requested, and then rely on prompt payment. It may be difficult to plan ahead for tax payments – a problem often felt especially by the newly self-employed, as demonstrated in our case study of John.

3.16.3 For general background on how the self-employed pay their tax liabilities, see Appendix 2. This also illustrates that HMRC already have power in primary legislation to develop flexible payment arrangements, so making such a change would only require investment by HMRC to adapt their systems to allow such flexibility.

3.16.4 *Case Study 2 – John*

3.16.4.1 An individual who becomes self-employed takes some time to be fully incorporated into the payment system. Let us imagine John becomes self-employed from 1 June 2013. His profits are £2,000 per month. His first tax return relevant to his self-employment is that for 2013/14 that he will lodge by 31 January 2015. On that date he will also have to pay his tax for 2013/14 and make his first payment on account for 2014/15. Based on profits of £2,000 per month, he will actually pay tax and class 4 NIC based on £20,000 for 2013/14 (being profits for the ten months to 5 April 2014).

3.16.4.2 What may come as a shock to him is that he also has to pay a further 50% of that liability as a payment on account for the tax year 2014/15. He therefore has a larger bill to pay then he might have expected, resulting in financial hardship and possibly debt accruing. Penalties are charged on late tax payments so that can exacerbate the situation.

3.17 ***Ensure new test for self-employed working tax credits claimants is genuine and does not discriminate against disabled and vulnerable claimants***

3.17.1 *Benefits:*

- *The benefits system is seen to be fair*
- *Disabled and other vulnerable groups are not prevented from undertaking self-employed work that provides them other significant advantages (for example, more social interaction) as well as reducing reliance on state benefits*

3.17.2 In the Autumn Statement 2014,[7] it was announced that new requirements would be introduced for self-employed people claiming working tax credits. Our main concern lies with a new test to prove that the self-employment is “genuine and effective”. Claimants showing self-employment income equivalent to less than the National Minimum Wage for the hours the claimant declares that they have worked would be required to show HMRC that their self-employment was genuine and effective.

3.17.3 Some individuals may be unable to consistently earn this amount from their business, despite their best endeavours, but are still carrying on a genuine business. And it is crucial that this test is not applied in such a way as to unfairly penalise those trying to support themselves and their families through self-employment, when that self-employment goes through fluctuating periods of profitability, particularly as the same earnings test principle is not applied to those in employed work.

3.17.4 We are concerned that the way this test is applied must not discriminate against disabled people, older people or single parents, who may not be able to always show such income because of either a condition, health or caring responsibilities rather than because their business is not commercial.

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7 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/382327/44695_Accessible.pdf

Appendix 1: Further details in relation to the universal credit (UC) minimum income floor (MIF)

If the claimant's self-employed profits for the month fall below the MIF, then instead of using their actual profits, the MIF is used, resulting in a lower award of UC. There are a number of issues with this:

- If a taxpayer makes a genuine loss in one month or has a low profit due to a large expense, this is currently ignored for UC due to the imposition of the MIF. Accordingly, over the course of a year their entitlement to UC will be less than it would have been had the MIF been considered on a cumulative basis. No such MIF exists for an employee. This negative impact will be even greater if the proposed surplus earnings policy goes ahead as that will lead to further disparity between the employed and self-employed.

- In calculating the level of the MIF, no pension contributions are taken into account. This means a self-employed person will not get any relief for pension contributions where those contributions take them below the MIF. An employed person has no such restriction.

- In the months where a self-employed taxpayer pays his tax and NIC, his profits for UC purposes will be much lower and the MIF may be invoked. An employed person pays his tax and NIC weekly or monthly and so his claim to UC takes full account of these deductions from his pay. This issue could be reduced if self-employed taxpayers could pay their tax at more regular intervals but HMRC's Budget Payment Plan that is currently in place will only allow taxpayers to join if their tax affairs are up-to-date and requires predetermined payments.

Appendix 2: Further details in relation to payment of tax liabilities by the self-employed

Currently the self-employed pay their tax and class 4 NIC in three parts:

- Two payments on account on 31 January in the year of assessment and 31 July following the year of assessment and
- A final balancing payment on 31 January following the tax year.

In addition, self-employed people pay class 2 National Contributions – normally monthly or quarterly, although this is to change so that the full payment will fall due on 31 January following the end of the tax year.

The Finance Act 2009 introduced primary legislation to allow taxpayers to spread the payment of their tax liabilities, but the administration for implementing this initiative appears to have been placed on the back burner. Indeed, this proposal fell somewhat short of the greater flexibility we hoped might be introduced as a result of HMRC's Consultation on Modernising Power, Deterrents & Safeguards[8] from which the following may be found in Chapter 4 when discussing other payments plans:

> "4.11 HMRC would welcome views on how to extend the principles behind these two schemes. The aim is to allow taxpayers to make flexible payments, so helping them with cashflow and preventing them getting into debt in the first place. This has to be balanced with ensuring that they pay enough, regularly enough, to keep their tax affairs up to date. It also has to protect the flow of funds to the Exchequer. Any scheme should reflect the principle that amounts deducted from an employee's wage are accounted for promptly. It must also be affordable for HMRC, both operationally and for changes to computer infrastructure.
>
> 4.12 It should be emphasised that any such payment options would be **voluntary**. Those businesses which prefer to pay under the current rules would still be able to do so."

While this appeared to imply such payment plans would only be available to businesses, we also hoped they would apply to individuals.

LITRG

16/10/15

[8] http://www.rightsnet.org.uk/pdfs/HMRC_consultation_June_2007.pdf