Low Incomes Tax Reform Group.

A voice for the unrepresented.

Timely Payments in Income Tax Self Assessment
Response from the Low Incomes Tax Reform Group (LITRG)

1. Executive Summary

1.1. The Low Incomes Tax Reform Group (LITRG) welcomes the opportunity to respond to the consultation[1] on proposals to reform the timing of Income Tax Self Assessment (ITSA) payments. This response builds on the issues raised in LITRG's response[2] to HMRC's 2021 Call for Evidence on Timely Payment[3], taking into account administrative changes that have been applied in the tax system since then and the more detailed proposals now under consultation.

1.2. We support the Government's objective of helping taxpayers manage their tax liabilities more effectively and reducing the build-up of tax debt. We recognise that some taxpayers can find it difficult to set aside sufficient funds to meet Self Assessment liabilities that, under the current payment timetable, fall due many months after the income has been earned. Reforms which help taxpayers spread payments more evenly may therefore offer genuine benefits to some taxpayers.

1.3. However, we would find it difficult to support the proposed reform to collect ITSA liabilities via the PAYE system, unless participation remained voluntary and taxpayers had the ability to opt out.

1.4. Our principal concern is the impact of the proposals on unrepresented taxpayers. Many have relatively modest incomes, fluctuating earnings or profits, multiple sources of income and limited financial resilience. Without access to professional advice, some may struggle to understand changes to the way tax is collected and may also experience difficulties engaging with HMRC. Reforms that appear straightforward from an administrative perspective may therefore have unintended consequences for those least able to manage them.

1.5. We have significant concerns regarding the operational complexity of the PAYE system and using tax codes to collect increasing amounts of Self Assessment liabilities. Additional coding adjustments, frequent code changes and movement between payment methods could reduce transparency, increase administrative burdens and make it harder for taxpayers to understand their overall tax position. Throughout our response, we have outlined the practical challenges that we believe are likely to occur should this proposal go ahead.

[1] https://www.gov.uk/government/consultations/timely-payments-in-income-tax-self-assessment/timely-payments-in-income-tax-self-assessment-itsa
[2] Timely Payment – Call for evidence. Response from the Low Incomes Tax Reform Group, 12 July 2021 https://www.litrg.org.uk/sites/default/files/files/210712-LITRG-response-Timely-payment.pdf
[3] See https://www.gov.uk/government/calls-for-evidence/call-for-evidence-timely-payment - call for evidence and summary of responses

1.6. We are particularly concerned that mandatory collection of Self Assessment liabilities through PAYE could lead to unexpected reductions in take-home pay and widespread confusion about tax codes, which in turn will put pressure on employers and on HMRC's helplines. Any new arrangements must include straightforward mechanisms for correcting deductions, varying payments where appropriate and responding to changes in taxpayers' circumstances.

1.7. We believe that the policy objectives could be achieved by expanding and promoting the use of existing payment mechanisms, such as the Budget Payment Plan, which we understand are not currently well utilised by taxpayers. We welcome HMRC's work to improve the Budget Payment Plan service, and the take-up of voluntary payment plans in advance of the 31 January 2026 payment deadline. Voluntary budgeting tools play an important role, particularly for taxpayers who need flexibility in managing their finances, and they should continue to form part of the wider approach to supporting timely payment.

1.8. We have concerns that digitally excluded taxpayers may be disadvantaged. Not all taxpayers are able to engage digitally, as they may lack the necessary skills or access to technology that is required to use digital services. It is therefore essential that any new payment regime provides non-digital routes or that appropriate exemptions are given for those who are digitally excluded.

1.9. The success of any reform should be measured not simply by whether tax is collected earlier, but by whether it helps taxpayers meet their obligations, reduces avoidable tax debt and remains straightforward to understand and operate.

1.10. We welcome consideration of reforms to the Payments on Account regime. The current rules are not well understood and can produce outcomes that do not reflect taxpayers' current circumstances. Any replacement should balance simplicity, flexibility and accuracy, while avoiding excessive in-year payments based on historic income.

1.11. If taxpayers are expected to pay tax earlier or more regularly, it is equally important that HMRC identifies and repays overpayments promptly. Taxpayers should have confidence that, where too much tax has been collected under the new arrangements, repayments will be made quickly and without unnecessary administrative barriers. Timely *repayments* should be regarded as an essential feature of any more timely payment system, helping to avoid unnecessary pressure on taxpayers' personal and business finances.

1.12. Successful implementation will depend on HMRC developing accurate systems, clear and accessible communications, and customer services capable of responding promptly when errors arise or taxpayers' circumstances change. Where forecasts are informed by third party data, taxpayers should be able to understand what information has been used, challenge inaccuracies and have them corrected quickly. HMRC should calculate revised estimated liabilities where taxpayers provide updated income information, rather than requiring taxpayers to calculate revised tax liabilities themselves.

1.13. The proposals must be considered alongside Making Tax Digital (MTD) for Income Tax, Universal Credit and student loan repayments. HMRC should minimise cumulative burdens and avoid requiring taxpayers to provide the same income information through multiple government systems. The interaction between any reforms and other government systems should be carefully considered to avoid unintended consequences.

1.14. In relation to Universal Credit in particular, it is important that detailed modelling takes place to understand the impact of each proposal on UC awards (the amount and the frequency of payments) and steps taken to mitigate any negative consequences. Consideration must also be given to knock-on effects to UC thresholds and schemes which use UC as a passported benefit as well as potential administrative burdens on DWP where the use of manual processes will increase.

1.15. We would not support the use of MTD quarterly update data being used to estimate tax payments and have outlined the reasons why in our answer to question 3. Furthermore, we feel strongly that as HMRC has previously stated that MTD will not in itself lead to more frequent tax payments, any perception that MTD data is being used to accelerate or increase payment obligations could undermine taxpayer confidence and risk damaging trust in the wider direction of tax administration reform.

1.16. Reforms must be introduced gradually, supported by piloting, robust evaluation and continued engagement with representative bodies.

2. Key recommendations

2.1. We recommend that:

Design of the new payment regime

2.2. Any new regime for collecting tax payments more frequently via PAYE should be voluntary rather than mandatory, allowing taxpayers to continue with direct payments via Self Assessment if they prefer.

2.3. If participation were to be mandatory, taxpayers should be able to opt-out or request reduced payments where they would otherwise suffer financial hardship or where circumstances change.

2.4. The system should be flexible in nature, allowing taxpayers to choose payment frequency or PAYE collection thresholds where this is operationally possible.

2.5. The government should continue to develop and promote the voluntary existing Budget Payment Plan before pushing ahead with mandatory reforms.

Forecasting and calculation of liabilities

2.6. Whilst the use of historic tax return data as the default may not be perfect, it is likely to be the most appropriate option. However, taxpayers must be able to update estimates easily if their circumstances or income levels have changed.

2.7. Taxpayers should not be expected to calculate their own revised tax liabilities – i.e. the new system should allow automatic calculation of tax by HMRC when income details are provided (unlike the current system where taxpayers must calculate their expected tax liability to be able to reduce their payments on account).

2.8. Taxpayers should receive a clear calculation showing how liabilities have been calculated and have the ability to challenge them if they believe they are incorrect.

2.9. Third party data should not be used without taxpayer involvement or appropriate safeguards being put in place.

2.10. New income sources should be excluded from forecasting until they can be estimated reliably.

Communications

2.11. HMRC should provide clear and accessible communications explaining what is being collected, the tax period concerned, how calculations have been made, the effect of coding adjustments and any taxpayer action required.

2.12. HMRC should clearly explain the impact of PAYE coding changes on taxpayers' take-home pay and provide sufficient information for taxpayers to understand and verify coding adjustments.

2.13. Self Assessment payment statements should be redesigned to be clearer, and digital tools introduced to give taxpayers a clearer picture of their tax position.

Safeguards

2.14. The consultation is silent on how the existing interest and penalty regimes would apply where estimated liabilities are subsequently found to be inaccurate. Taxpayers should not incur late payment interest or penalties where underpayments arise because of forecasting inaccuracies outside the taxpayer's control or due to employer error.

2.15. Simple processes should exist for taxpayers to be able to challenge incorrect third-party data.

2.16. Overpayments should be clearly identified and repaid promptly, and not automatically set against future payments due under the timely payment regime.

Accessibility and support

2.17. Digital services should have equivalent accessible non-digital alternatives, with exemptions available where non-digital routes cannot be provided.

2.18. Additional support should be provided for unrepresented taxpayers and those with additional support needs, including adequate HMRC phoneline and webchat capacity, and input from HMRC's Extra Support Team.

2.19. HMRC should recognise and plan for increased demand on voluntary sector organisations.

Implementation and wider policy design

2.20. Implementation should be phased, with extensive testing, voluntary pilots, ongoing evaluation and the ability to pause the wider rollout if significant problems emerge.

2.21. The government should carefully consider any interactions with, and impact on, UC and other means tested benefits, as well as student loans, through detailed modelling and analysis.

2.22. Reporting requirements across different government departments should be aligned where possible, to reduce duplication and administrative burdens for taxpayers.

3. General comments

3.1. Given the significance and complexity of these proposals and the number of taxpayers who may be potentially affected, the six-week consultation period was too short. We also consider that the consultation would have benefitted from more detailed information to enable stakeholders to provide fully informed responses. For example, there is limited data included on the taxpayers who may be affected by these proposals, few worked examples beyond straightforward scenarios, and little discussion of practical issues such as why eligible taxpayers may not currently choose PAYE collection, or how the proposals would operate where deductions cannot be collected in full.

3.2. We recognise that the proposals set out in this consultation have the potential to improve budgeting for some taxpayers. However, their success will ultimately depend on whether the proposals can accommodate the wide range of circumstances encountered by taxpayers without creating unnecessary complexity or financial hardship. The practical consequences of any change should therefore be assessed carefully from the taxpayer's perspective rather than solely from an Exchequer or administrative standpoint.

3.3. Earlier payment does not change the amount of overall tax due - it merely alters the timing of payment. In some cases, it may simply replace one form of debt with another. For example, a taxpayer who can comfortably settle an annual tax bill under the current system may struggle to keep up with more frequent payments if cashflow is uneven throughout the year. Taxable profits do not necessarily reflect cash immediately available to pay the tax.

3.4. It is possible that some taxpayers who struggle to pay on 31 January (and 31 July where applicable) do so because they have experienced changes in income, unexpected expenditure, ill-health or other challenges in their personal circumstances, rather than because they are deliberately deferring payment. Earlier collection alone may not resolve these additional factors that may be the underlying cause of payment difficulties for some taxpayers.

3.5. These considerations should be viewed in the context of HMRC's commitment set out in the Transformation Roadmap to make tax payments 'more efficient, accessible, and simpler for customers'[4.] The practical design of any new payment system will be key to ensuring that these objectives are delivered in a way that works for all taxpayers, particularly the unrepresented and those on low incomes who stand to suffer the greatest proportionate impact in the event of any inaccuracies in the in-year payments calculated.

4. ITSA payments through PAYE

4.1. ***Question 1:*** *What are the benefits of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?*

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[4] See HMRC's Transformation Roadmap published 21 July 2025, paragraph 3.1 https://www.gov.uk/government/publications/hmrc-transformation-roadmap/hmrcs-transformation-roadmap

Budgeting

4.1.1. The proposed approach has the potential to help some taxpayers budget for their income tax liabilities by spreading payments more evenly throughout the year, rather than requiring lump sum payments on account. This may be beneficial for taxpayers with stable income and predictable Self Assessment liabilities, and particularly where PAYE income greatly outweighs income from other sources.

4.1.2. However, the benefits of more regular payments should not necessarily be equated with improved affordability. For many taxpayers who have low or fluctuating incomes, spreading payments doesn't necessarily make them easier to pay.

Automation of collection

4.1.3. A further potential benefit is that collection through PAYE automates the payment process. This may reduce the risk of taxpayers missing a payment deadline or forgetting to pay their bill, as tax is deducted automatically.

4.1.4. We acknowledge that collecting eligible liabilities through PAYE will make use of an established and automated collection mechanism. A system which aligns the collection of tax on income not taxed at source closer to the point of receipt, combined with clear and accurate explanations, may be easier to understand than the current payments on account regime, which many taxpayers find difficult to navigate.

Alternative suggestion

4.1.5. Alongside these proposals, or as an alternative, we encourage HMRC to continue developing and promoting voluntary budgeting tools, such as the Budget Payment Plans. These have the potential to help taxpayers spread the cost of their tax liabilities while allowing them to retain flexibility over the timing and amount of payments. It may be beneficial to substantially improve awareness of existing voluntary budgeting tools before adopting a mandatory system.

4.2. **Question 2:** *What are the challenges of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?*

Estimated liabilities

4.2.1. The proposed approach raises a number of practical challenges, particularly for taxpayers whose income is variable or unpredictable. Where PAYE deductions are made based on estimated liabilities, there is a risk that payments will not reflect current circumstances. This may create cash flow pressures for some taxpayers, particularly where income has fallen during the year.

4.2.2. In particular, the reliance on historic Self Assessment data as the starting point for forecasts is likely to be problematic. The proposals suggest that this will be based on income from two tax years earlier (CY-2)[5]. For taxpayers whose circumstances have changed significantly since then, this may

[5] The proposed changes will apply from April 2029 (tax year 2029/30) based on income detailed on the most recently submitted tax return. This will be for the tax year ended 5 April 2028 (tax year 2027/28).

result in estimates that are not representative of current liability until updated information is available.

4.2.3. In addition, HMRC will need to be clear how an amendment to the tax return relied upon for source information will impact on the in-year payments being made, or how the tax payments will be calculated if the source tax return is filed late, including after the start of the tax year in which "in-year" payments are being made. Similarly, it is not clear what will happen if a determination is made by HMRC and whether this will result in subsequent PAYE deductions being generated.

Updating current year tax forecasts

4.2.4. While we are pleased that HMRC acknowledges that taxpayers must have a facility to update their estimated liability, we would point out that this requires taxpayers to proactively engage with HMRC in order to do this.

4.2.5. Further engagement with HMRC – even if this takes place via a well-designed digital service – will inevitably lead to increased need for helpline support across the affected population. HMRC must factor in this additional helpline support need when assessing the viability of these proposals.

4.2.6. Equally, taxpayers may not feel confident in engaging with HMRC to adjust their tax forecast (whether or not support is readily available). It is possible that there may be a greater need for adjustments amongst those who are on lower incomes and need to protect their cashflow or prevent falling into financial hardship – if they are not able to easily do so, then this could have serious knock-on effects for their financial well-being.

4.2.7. We note that HMRC is also considering how third-party data might be used to update tax estimates and we share our thoughts on this in para 4.3.2.

4.2.8. Focusing on data provided proactively by the taxpayer, it is not clear from the consultation document how taxpayers will update their income forecasts and how this then translates to an update of their predicted liability – and by extension, their coding adjustment.

4.2.9. Looking first at the facility for providing updated forecast data to HMRC, we assume the intention is to provide a digital service to enable taxpayers to self-serve. It is **vitally important** that an equally effective and accessible service is created for those who are digitally excluded.

4.2.10. Under the current payments on account system, taxpayers are entitled to reduce their payments on account if they expect their tax liability to be reduced for the relevant tax year. The taxpayer is expected to calculate their own updated payments on account where they wish to make use of this facility. It is not clear whether taxpayers will similarly be expected to calculate a revised tax liability under the current proposals, or whether HMRC will allow taxpayers to share updated estimated income data and will then perform the updated tax calculation on the taxpayer's behalf.

4.2.11. Furthermore, case study three in the consultation indicates that Lisa should report a change in circumstance to HMRC when her self-employment income increases. This infers that taxpayers would be expected to exercise judgement about whether changes in income are likely to affect their overall tax liability and, where appropriate, would be required to increase their payments if income rises. This represents a significant change from the current payment on account regime where taxpayers can reduce their payments on account if required but have no obligation to estimate upwards.

4.2.12. Unrepresented taxpayers may face significant difficulties in calculating their own projected liability – particularly in light of differing tax bandings. We feel the onus must lie with HMRC to calculate any update to the estimated liability, with the taxpayer needing to provide the raw data only. However, the taxpayer must be provided with a schedule showing how the updated estimated liability has been arrived at and must be able to challenge it.

4.2.13. As a final point, taxpayers may not understand that changes to income forecasts will result in coding changes, which will impact on their take home pay. Inconsistent take home pay amounts could make it very difficult for some taxpayers to manage their living expenses. Therefore, appropriate explanations of the impact of any recalculations should be developed to ensure taxpayers are able to understand how their PAYE is affected and also, where appropriate, to amend or reject the coding changes where they would give rise to financial hardship. We consider PAYE coding complexities further in para 4.2.17.

Balancing payments/repayments

4.2.14. Under these proposals it is inevitable that most taxpayers will either still have to make a balancing payment or will be entitled to a balancing repayment. In many cases it is unlikely – even in the case where current year income information is updated by the taxpayer – that the correct final liability will be identified ahead of the end of year tax return submission.

4.2.15. This likelihood might not be clear to the taxpayer, who may assume that their tax has been fully settled. Unexpected balancing payments, which have not been budgeted for may lead to continued 'bill shock' and taxpayer frustration. HMRC must consider what options will be available to support taxpayers who have difficulty in paying their balancing payment.

4.2.16. In the context of repayments, HMRC must ensure they are able to process these promptly and without unnecessary delay. Though not mentioned in the consultation document, we feel it would be unwise to deal with repayments by netting these off against the following year's expected tax liability, as this would be likely to cause further confusion to tax coding adjustments and reduce the taxpayer's visibility of their tax position for the year in question. We hope HMRC would therefore seek to issue any balancing repayments directly.

PAYE coding complexities

4.2.17. In our view, the largest and most important challenge posed by the proposals is the complexity surrounding the PAYE system.

4.2.18. If PAYE income is much lower than that from other sources on which SA liabilities will arise, under current proposals, up to 50% of the PAYE income may be withheld to collect the in-year tax payments. This could be problematic for those who rely on a regular PAYE income source to meet their living costs throughout the year, acknowledging that levels of SA income may be more likely to fluctuate over the course of the year. This will be the case particularly where it relates to seasonal work or investment income, which can often be paid annually.

4.2.19. In recent years, the PAYE tax code has become relied on heavily to collect tax on income that is entirely unrelated to the PAYE income source in question. For example:

- State pension is collected via the PAYE tax code where there is a source of PAYE income.
- From 2025/26 onwards, Winter Fuel Payment charges are now being collected via PAYE tax codes in certain circumstances (non SA cases).
- High income child benefit charge can now be collected via the PAYE tax code.
- Estimated bank interest is routinely included in PAYE tax codes.
- We understand that HMRC can seek to collect historic tax debts via the tax code (in addition to the usual arrangements whereby this can be the default method of collecting a Self Assessment liability in cases where the tax return is filed by 30 December).
- Further adjustment can be given via the tax code to provide relief for higher rate pension contributions and gift aid donations.
- Matters can also be particularly complex for those with more than one source of PAYE income.

4.2.20. Multiple tax code adjustments such as those mentioned above already impact the understandability of PAYE deductions. Introducing the potential for more adjustments to the tax code under these proposals, noting that multiple amendments to these adjustments are likely to be required over the course of the tax year, will introduce further complications, particularly where other PAYE adjustments are also taking place.

4.2.21. Frequent revisions to forecasts and resulting changes in tax codes are also likely to increase administrative burdens for both HMRC and employers, particularly where taxpayers experience multiple changes in circumstances or income sources throughout the tax year.

4.2.22. ‘K’ codes can cause considerable confusion for some taxpayers, as these result in the taxpayer having a ‘negative’ personal allowance. It seems clear that cases of K codes will increase significantly if the proposals to collect Self Assessment liabilities via PAYE go ahead.

4.2.23. The government should also consider the interaction with salary advance schemes that are used by many low-income taxpayers.[6] Employees using these schemes effectively access part of their gross pay before payday, with PAYE operated in the normal way when wages are processed. If increased PAYE deductions are made to collect Self Assessment liabilities, some employees may receive a lower net payment than expected, leaving them in the position where they owe money to their employer to cover tax and NI contributions, and making them more reliant on salary advances in future.

[6] See our previous submission to the 2023 consultation on proposed amendment regulations, which allow employers to delay reporting an advance payment of salary (salary advance) made to an employee until payment. https://www.litrg.org.uk/submissions/salary-advance

4.2.24. We have various concerns relating to complications where people move in and out of PAYE collection, and we cover these in our answer to question 7.

Taxpayer behaviour surrounding Self Assessment liabilities

4.2.25. Some self-employed taxpayers or property landlords may, quite sensibly, maintain a separate business bank account and use this to manage all aspects of their business/property activity – including any tax liabilities that arise. This approach can help with budgeting, cash-flow management and can help a taxpayer understand the true profitability of their business.

4.2.26. Similarly, taxpayers may prefer to set aside money from their untaxed income in a separate account or savings pot to meet their future tax liabilities, again providing easier visibility of their tax affairs. Mandatory collection of ITSA liabilities via PAYE may make it more difficult for some taxpayers to have true visibility of the overall spread of their tax burden and manage their financial affairs effectively.

Alternative suggestions

4.2.27. We accept that, for some taxpayers, the challenges discussed will be less concerning, and they may welcome the opportunity to use an existing PAYE source of income to automate the payment of their Self Assessment liability.

4.2.28. In our view, if HMRC decide to proceed with this policy, they should do so on a voluntary basis only. This would enable those for whom regular in-year deductions are helpful to benefit from the system, while allowing others with more variable incomes, complex circumstances, or those who treat their business activity separately from their other personal income, to continue to manage payments directly. Any opt-in or opt-out process should be straightforward and capable of being completed without access to professional advice and with appropriate provision for the digitally excluded.

4.2.29. We encourage HMRC to consider whether the policy objective could be achieved in part by greater promotion of existing payment mechanisms. HMRC's recent Tax Confident campaign[7] focuses on life events such as retirement. This campaign already prompts taxpayers to think about life at key points when their tax affairs may change considerably. These interactions could provide an ideal opportunity to signpost taxpayers towards the current Budget Payment Plan offering.

4.3. **Question 3:** *Should the government use, or give the option to use, anything else (for example, MTD quarterly updates and in the future, reputable third-party data) to inform the forecasting approach for this change?*

4.3.1. In the interests of fairness across all taxpayers who would be impacted by these proposals, we would prefer a consistent 'default' position be applied to the forecasting approach. We consider that any updates to that default position should be taxpayer driven. However, it may be appropriate and helpful to taxpayers to provide them with additional information to assist in updating their forecast.

[7] See https://taxconfident.campaign.gov.uk/

Third-party data

4.3.2. Third-party data – such as bank and building society interest information communicated directly to HMRC – may well have a bearing on a person's expected Self Assessment liability and would seem logical that this can be used to adjust a taxpayer's forecast.

4.3.3. However, there are risks associated with using third-party data. Information may be incomplete, outdated, incorrectly reported, or matched to the wrong taxpayer[8] or tax period. Unrepresented taxpayers in particular may not be aware of this process or have the knowledge or confidence to challenge figures set out by HMRC. Where this occurs, it could result in inaccurate forecasts and inappropriate PAYE deductions or in-year payment demands, potentially without the taxpayer being aware that third-party information has been relied upon.

MTD quarterly updates data

4.3.4. It is important to recognise that HMRC has previously stated that MTD will not in itself lead to more frequent tax payments[9]. Any perception that MTD data is being used to accelerate or increase payment obligations could undermine taxpayer confidence and risk damaging trust in the wider direction of tax administration reform.

4.3.5. However, in terms of the practicalities of using MTD data, it is important to bear in mind the following limitations:

- MTD quarterly updates are limited in the data captured, with further work required at the year-end to ascertain the final tax position.
- MTD will only be newly in place for many taxpayers from April 2028, with the proposed changes to the timing of tax payments set to apply from April 2029. This leaves a relatively short period for new MTD users to accustom themselves to the system before it is potentially used as the basis for determining their tax payments.
- While MTD submissions may improve the timeliness of information, they are still based on 'unpolished' taxpayer data and may contain errors, particularly where users are new to digital record-keeping or where the software they are using is not easy to use or does not easily enable an overview or review of calculations.

On balance, we are therefore not supportive of HMRC unilaterally updating taxpayers' forecasted liabilities based on MTD quarterly update data.

Alternative suggestion

4.3.6. In principle, we recognise that using additional information such as MTD quarterly updates and other reputable third-party data could help reduce the need for taxpayers to repeatedly provide the

[8] This was acknowledged by Jonathan Athow in his article in The Telegraph 5 June 2026, https://www.telegraph.co.uk/money/tax/income/hmrc-why-were-asking-banks-to-tell-us-how-much-savings/

[9] For example, see HMRC's guidance 'Use Making Tax Digital for Income Tax' updated 16 July 2026: 'Making Tax Digital for Income Tax will not change the way you pay tax or the dates that payments are due.' https://www.gov.uk/guidance/use-making-tax-digital-for-income-tax/submit-your-tax-return

same information to HMRC and improve the timeliness and completeness of the data used for forecasting.

4.3.7. It also makes sense, in principle, to align estimated liabilities with information already being provided through other government systems, such as MTD and Universal Credit, in order to reduce duplication and administrative burden.

4.3.8. As such we feel that any process made available to taxpayers enabling them to update their forecasted liability should draw attention to any relevant third-party data held by HMRC (essentially presenting this information within the service), and let the taxpayer choose if they would like to apply that data and generate the updated forecast.

4.3.9. For those who use Making Tax Digital, this should be accompanied by clear guidance setting out the possible limitations of quarterly update data to help taxpayers make an informed choice as to whether the data is suitable.

5. ITSA payments through PAYE – Safeguards

5.1. **Question 4:** *What other safeguards should the government consider?*

Interest and penalties

5.1.1. The consultation is silent on how the existing interest and penalty regimes would apply where estimated liabilities are subsequently found to be inaccurate. This is an important omission.

5.1.2. Though we are opposed to HMRC using third-party data without the express agreement of the taxpayer, if HMRC were to proceed with plans whereby they do automatically update forecasted liabilities in this way, the question of late payment interest and penalties becomes more important. If an underpayment arises because HMRC has relied on estimates or third-party data that are later shown to be incorrect, taxpayers who have taken reasonable care should not be charged late payment interest or penalties in respect of the resulting shortfall.

5.1.3. Where the taxpayer is able to alter their own forecast, it will be essential to provide clarity to taxpayers whether any resulting underpayments will be potentially subject to late payment interest or penalties, so they can make an informed decision.

5.1.4. If income increases unexpectedly at the end of the year thereby proving previous estimates of liabilities to have been inadvertently understated, taxpayers should not face penalties.

5.1.5. If the existing penalty framework is retained, HMRC should monitor whether any new timely payments regime results in a greater number of taxpayers incurring penalties than under the current system. A significant increase may indicate that the new arrangements are proving difficult for taxpayers to understand and operate and should prompt further review.

Processing refunds

5.1.6. If taxpayers are expected to pay tax earlier, they should also have confidence that excess tax will be returned promptly where forecasts overstate their liability.

5.1.7. The process for returning overpayments made in-year through the PAYE system will need to be carefully designed to ensure the repayments are made promptly. This is likely to mean that updated tax codes will need to be generated and issued promptly, and taxpayers should be supported in understanding how this refund is then reflected in their future take home pay. This is likely to arise in a case where the forecasted tax liability has been revised downwards part way through the year.

5.1.8. Similarly, tax refunds arising after the end of the tax year must also be issued promptly. In some cases, the funds may be required urgently, for example to support business cashflow. The process of claiming a refund, if not made automatically, needs to be easy to understand and set out in guidance. If the process for requesting refunds is not accessible, there is the risk that clients may try and use unscrupulous tax refund companies.

New income sources

5.1.9. We have already mentioned that we are opposed to HMRC placing any expectation on taxpayers to revise their forecasted liability upwards from the default position (unless the taxpayer wishes to do so).

5.1.10. However, should this be the case, at the very least we would recommend that any new income sources commencing during the year should be excluded from the calculations of estimated liabilities for an agreed period until a time at which the likely level of taxable amounts from this source can be reasonably quantified.

Employer failures

5.1.11. Consideration must be given to how the new arrangements will operate when an employer fails to pay over PAYE deductions to HMRC. Robust safeguards will be needed to ensure employees are not disadvantaged in these circumstances and that there are clear processes for resolving such cases promptly.

Ability to challenge third-party data

5.1.12. We have already mentioned that we are opposed to HMRC using third-party data to update tax forecasts without taxpayer authorisation.

5.1.13. However, should HMRC decide to proceed with automatic use of third-party data to forecast liabilities, taxpayers should have access to a straightforward and accessible process to request a review of their estimated liability where they believe it does not reflect their circumstances. This should include the ability to challenge information provided by third parties where it has been used in calculating the forecast. Particular care must be taken by HMRC if AI or automation is being used to collect and/or process third-party data.

5.2. Question 5: *Which groups of taxpayers would find a different threshold helpful?*

5.2.1. The current 50% limit[10] provides an important safeguard to ensure that taxpayers retain a proportion of their PAYE income to meet their day-to-day living expenses. We would therefore be cautious about increasing the threshold as a default position, particularly for low-income taxpayers.

5.2.2. Some taxpayers, such as those with stable employment income and who have confidence in their projected Self Assessment liability, may prefer a higher threshold where they consider PAYE to be a more convenient means to dealing with their Self Assessment tax payments.

5.2.3. Rather than applying a different threshold to particular groups of taxpayers, we consider that a more appropriate approach would be to allow taxpayers to voluntarily choose a higher threshold where they consider this beneficial. This would preserve the existing protection to minimum net income levels by default, while providing greater flexibility for those who wish to make larger in-year payments through PAYE.

5.2.4. Any election should be accompanied by clear information about the effect on take-home pay and should be capable of being withdrawn where a taxpayer's circumstances change.

5.2.5. However, we appreciate that there may be technical challenges in implementing different limits on an optional basis. Should this be unworkable from an operational or payroll software point of view then our preference would be to simply retain the current limit.

6. ITSA payments through PAYE – Impact on employers and pension providers

6.1. **Question 6:** *Do employers and other payroll operators need additional safeguards for these changes?*

6.1.1. Although our focus is on individual taxpayers, there will be some unrepresented taxpayers with small businesses who employ staff and will therefore be impacted. We consider it important that any changes are designed to minimise additional burdens on employers and reduce the risk of confusion for employees.

6.1.2. We anticipate that these proposals could lead to more frequent changes to PAYE tax codes as taxpayers' estimated liabilities are updated throughout the year. HMRC should engage with employers and payroll software providers to ensure that systems can accommodate more frequent tax code changes without creating unnecessary costs or disruption to payroll processes.

6.1.3. It is also important that employers are given reassurance that their role will remain unchanged. Employers should only have to implement the tax code issued by HMRC and should not be expected to calculate or verify the tax adjustments that make up the code. This should be clearly communicated to employers and payroll professionals.

6.1.4. Consideration should be given to taxpayer confidentiality. Employees with 'side hustles' or other separate income sources may be concerned that changes to their tax codes could lead their employer to know about additional sources of income. HMRC's communications should make clear that employers do not receive information about the underlying reasons for a tax code change beyond what is necessary to operate PAYE.

[10] As set out in The Income Tax (Pay As You Earn) Regulations 2003.

6.1.5. HMRC should anticipate an increase in employee queries where changes to tax codes result in unexpected changes to net pay. Employees are likely to approach their employer in the first instance, even though the employer may not always be able to explain the reason for the change. Guidance should be given to employers to be able to signpost employees to the appropriate HMRC support or information.

6.1.6. Consideration will also need to be given on how the proposed arrangements will operate when an employee starts or leaves employment during the tax year. Existing PAYE processes, such as new starter checklists, may need to be adapted to accommodate the new arrangements.

6.1.7. As already mentioned, the consultation is silent on late payment interest where forecasting has not been accurate. In the context of employers, it is also not clear what happens where a PAYE error occurs. For example, if an employer operates an incorrect tax code, resulting in an underpayment of tax, HMRC should clarify who bears the responsibility for any late payment interest in such circumstances. Taxpayers should not be disadvantaged by errors that are outside of their control.

6.2. **Question 7:** *What support or guidance might employers benefit from?*

6.2.1. Employers would benefit from clear guidance explaining their role under the new regime, including that they are only responsible for implementing the tax code notices issued by HMRC. Guidance should set out the process for correcting any payroll errors and directing HMRC to the appropriate HMRC queries relating to their wider tax position, rather than payroll operation itself. This would help reassure employers that they are not expected to advise on matters that are the responsibility of HMRC.

6.3. **Question 8:** *Are there other impacts for payroll operators that the government should consider?*

6.3.1. We have no specific comments on the impact for payroll operators. However, any changes should be accompanied by clear and timely guidance to minimise implementation burdens and reduce the risk of payroll errors affecting employees.

7. ITSA payments through PAYE – Impact on taxpayers with varying income

7.1. **Question 9:** *What options should the government consider to support taxpayers who might move in and out of paying their ITSA liabilities via PAYE?*

7.1.1. Any change to how people pay their tax liabilities should be supported by clear and transparent eligibility rules, so that taxpayers understand when and why they may move from one payment model to another. Clear communication will be essential, and this should include details of the reason for the change, when it will take effect, what it will mean for the timing of payments and any action required by the taxpayer.

7.1.2. The current payment on account regime provides an example of difficulties taxpayers can face when moving between payment arrangements. Taxpayers whose liabilities fluctuate around the £1,000/80% thresholds[11] may move in and out of the payment on account regime, which can result

[11] The conditions for the current payment on account regime are detailed at https://www.gov.uk/understand-Self Assessment-bill/payments-on-account, as set out for the Taxes Management Act 1979, s59A.

in long periods between tax payments, followed by a significant payment when they re-enter the regime. Similar issues could arise where taxpayers move between PAYE and ITSA payment routes.

7.1.3. The consultation document explains (in the example of 'Lisa') that where the taxpayer does not have sufficient PAYE income (bearing in mind the 50% deduction limit), the Self Assessment liability will not be included in the tax code, or removed from the code part way through the year.

7.1.4. While we agree that seeking to collect part of the estimated liability via the code subject to the 50% cap would add further complications to the overall tax collection process, the potential for people to move in and out of collection under PAYE (either from year to year, or part way through the year) also presents difficulties and we see huge potential for taxpayers to inadvertently fall behind with their payment obligations.

7.1.5. The examples included in the consultation document do not show the practical reality of how a person's payment pattern and overall 'experience' might look in a case such as this. For example, in the case of Lisa it is suggested that she starts off by paying her forecasted Self Assessment liability through PAYE, but part way through the year, she no longer meets the PAYE criteria and the code is updated to remove the restriction. We are then told that Lisa must pay 'her remaining' estimated liability separately. This gives rise to the following questions:

- How will this change be communicated to her? Lisa will now need to proactively initiate payments towards her Self Assessment bill, and this will presumably require fairly prompt action (assuming that she may be required to pay monthly or quarterly under the proposed timely payment arrangements for those with non-PAYE income). How will HMRC ensure that Lisa understands that she will need to make payments separately going forward, and support her in doing so?

- Will the tax already collected via Lisa's tax code to date be retained by HMRC? Or will the removal of the restriction mean that she is automatically refunded the tax that she has already paid via the payroll? Operation of a W1/M1 code might prevent this occurring – but such a code may not be appropriate for the other elements of her tax code and result in severe under/overpayment of tax on her non-Self Assessment income.

- How would the code be further adjusted if Lisa were to move back into a PAYE deduction position later in the tax year? It is not clear how coding adjustments could be easily implemented to handle these variations and will surely hinder a taxpayer's ability to verify their tax position.

8. Potential reform of direct Payments on Account - Possible changes to timing and frequency of POAs

8.1. **Question 10:** *What potential approach, including frequency of payments, would be most appropriate to achieve the policy objective, taking account of different taxpayer circumstances?*

8.1.1. The current payment on account (POA) regime is complex and not easily understood by some taxpayers. Reform provides an opportunity not only to change the payment regime, but also to improve taxpayer understanding through clearer information about how and when tax payments are calculated. Simplification and accessibility should be considered alongside payment frequency.

8.1.2. We welcome reform of this area. However, any new approach should only be introduced following careful evaluation and testing to understand the impact on different groups of taxpayers, including those with accessibility needs. Reform should not result in a system that is more complicated than the current POA arrangements, more difficult for HMRC to administer or more burdensome for taxpayers, who may already struggle to understand their obligations.

8.1.3. A key consideration should be the extent to which forecasted payments reflect taxpayers' actual circumstances, which can change over time. Historic data can provide a useful starting point, but it may not accurately reflect the position when income fluctuates. Taxpayers should therefore be able to easily update their income information in real time, allowing payments to be adjusted where appropriate. Many of the comments earlier in this submission relating to the forecasting of liabilities for collection under PAYE equally apply to the considerations here – including our concerns around the potential use of third-party data (or in some cases, MTD quarterly updates) to assist in updating forecasts.

8.1.4. The frequency of payments will also need careful consideration. More frequent payments may help some taxpayers to spread the cost of their tax liabilities[12], but this could create cash flow difficulties for others. For example, those with seasonal businesses may be required to make payments of tax earlier in the year when they have not yet received that income, essentially creating a 'dry' tax charge. This could result in financial hardship for those with low incomes.

8.1.5. The government should consider whether taxpayers could have some degree of choice over payment frequency or whether these should be circumstances where a taxpayer can opt-out of a particular payment arrangement. A flexible approach may better reflect the wide range of circumstances of those who fall within ITSA.

8.2. **Question 11**: *What could the impact of more frequent payments be on taxpayers?*

8.2.1. More frequent payments could benefit some taxpayers, by helping them spread the cost and avoiding large lump sum payments. For taxpayers with regular income, this may make budgeting easier.

8.2.2. However, the impact is likely to vary significantly depending on an individual's circumstances. Taxpayers with seasonal or irregular income levels may find more frequent payments challenging. This could create additional cash flow pressures for those whose income is concentrated at particular times of the year.

8.2.3. More frequent payments may also create additional administrative burdens for taxpayers, who may need to monitor their income levels more regularly throughout the year. Where taxpayers are required to estimate their income levels, inaccuracies in these estimates could result in the wrong amount of tax being paid. HMRC should provide clarity on, in the case of a tax underpayment, if and

[12] HMRC's own research in 2018 found that customers demonstrated a strong preference to pay their tax in instalments, rather than in one large bill. See Supporting customers to pay their tax on time - HMRC Research Report 557 at page 5.

how penalties and late payment interest would be applied in this scenario, and how these amounts would be determined / calculated if so. HMRC should clarify whether credit interest will be paid where tax has been overpaid.

8.2.4. The practicalities of making more frequent payments must also be considered. Not all taxpayers can easily make tax payments digitally. More frequent payments could create additional burdens for those who rely on non-digital payment methods. The range of non-digital payment options has reduced in recent years, for example, with the removal of the ability to pay at the Post Office. HMRC should ensure that accessible payment methods remain available for all taxpayers, not only those who are able to use digital tools.

8.2.5. Finally, any opportunity for reform should consider HMRC's payment statements. These are already difficult for many unrepresented taxpayers to understand and reconcile/balance. A new system involving more frequent payments risks making these statements ever harder to follow. Reform provides an opportunity to redesign Self Assessment payment statements so that they are simpler and easier to understand.

9. Potential reform of direct Payments on Account - Changes to ITSA income

9.1. **Question 12**: *If these changes were introduced, what additional measures could the government consider to support taxpayers when their Self Assessment income changes during the year?*

9.1.1. If taxpayers are expected to update their income information during the year, it is essential that there is a simple and accessible way to do so. The comments we have provided in the context of forecasted liabilities for timely payments collected under PAYE equally will apply here. Taxpayers should be able to override any assumptions based on prior year data, where this no longer reflects current circumstances.

9.1.2. Any changes should result in a prompt and accurate recalculation of the taxpayer's liability, with clear explanation of how the revised figure has been calculated. This will be important to help taxpayers understand their current position and avoid any unexpected tax bills. Taxpayers should have an easy way to view this information, for example, within the personal tax account.

9.1.3. Flexibility will be needed where taxpayers' circumstances change. For example, there should be a straightforward way for payments to be paused or reduced if a taxpayer is experiencing financial hardship.

9.1.4. Any system introduced for reporting income must not rely solely on digital channels. Some taxpayers cannot engage digitally easily, and accessible non-digital routes will be needed to ensure that digitally excluded taxpayers can manage their obligations. If a non-digital route is not possible, taxpayers should be given an exemption from any timely payment regime.

9.2. **Question 13**: *How else might the government support taxpayers to manage more regular payments?*

9.2.1. The government should consider whether existing arrangements, such as the Budget Payment Plan system, could be expanded to support taxpayers who are required to make regular payments. There may be opportunities to build on systems that taxpayers are already familiar with, rather than introducing entirely new processes.

9.2.2. The consultation does not appear to set out whether there would be a de minimis amount before taxpayers move in to more frequent payments. The government should carefully consider how any such threshold is set and the potential impact on taxpayers who will be close to that threshold. A small change in income could result in a significant change in the way someone pays their tax, creating unnecessary complexity.

9.2.3. The government should also consider the complexity of accurately forecasting tax liabilities throughout the year. Income tax is fundamentally an annual tax, so there will always be some uncertainty about tax liabilities early in the tax year. Income tax calculations can also be influenced by a range of factors which may not be apparent at the start of the tax year, including the use of losses and claims for tax relief on pension contributions and gift aid.

9.2.4. Any new reporting process should minimise duplication where possible. As discussed earlier in the context of timely payments under PAYE, HMRC should consider how third-party data (or MTD quarterly update data) might be used to help taxpayers in updating their timely payments, but we are not supportive of HMRC using this data automatically.

9.2.5. Consideration must be given as to how amendments to earlier tax returns will interact with any timely payments regime. Changes to a prior year liability could affect a taxpayer's current position. Clear guidance will be needed on how any adjustments will be calculated.

9.2.6. Reliable and accessible payment reminders will need to be built into the process.

9.2.7. Any move to a new payment regime should include an appropriate transition period. A period of voluntary testing, similar to the approach taken for other major tax changes such as MTD for income tax, could help to identify any practical issues and allow taxpayers to adapt before new requirements become mandatory.

9.3. **Question 14**: *Which groups of taxpayers might require additional support to access or use payment management tools?*

9.3.1. Additional support will likely be required for some groups of taxpayers, particularly those who do not have a tax agent. The current POA system can already be difficult for taxpayers to understand and there is a risk that a more dynamic system could create further confusion.

9.3.2. Taxpayers who are digitally excluded or have limited digital confidence may require particular support. The government should consider how those taxpayers will be able to manage and understand their tax position. Consideration should also be given to whether some taxpayers may need alternative arrangements or additional support where digital tools are not suitable – for example, where taxpayers are unable to verify their identity online.

9.3.3. Taxpayers with additional support needs should also be considered. HMRC's Extra Support Team will have an important role to play in helping taxpayers who need more tailored assistance. Any support available should be easy to access and clearly signposted.

9.3.4. Taxpayers with fluctuating or seasonal income may also need additional assistance, as their payment position may be harder to predict. Clear guidance will be needed to help these taxpayers understand how changes in income affect their payment obligations.

9.3.5. It is likely that some taxpayers will need support from voluntary organisations such as TaxAid to understand and comply with any new payment arrangements. The government should recognise the important role these charities play in supporting unrepresented low income taxpayers and consider the potential impact on demand for their services.

10. Issues affecting both taxpayers with and without PAYE income

10.1. **Question 15**: *How might the government best support taxpayers to manage the transitional period?*

10.1.1. The success of any new payment system will depend not only on its design, but also how it is introduced. Sufficient time should be allowed for taxpayers, software providers and HMRC to adapt to the changes, including building any new systems required.

10.1.2. We would recommend that implementation should be phased, beginning with an extensive testing period and followed by a voluntary pilot. User feedback should be gathered throughout the testing phase to ensure the system works in practice, including for those who are unrepresented.

10.1.3. The government should also consider adopting a 'soft landing' on late payment interest and penalties during the transitional period. Where taxpayers make genuine efforts to comply, HMRC should take a supportive approach. This should include not charging late payment penalties while taxpayers familiarise themselves with the new regime.

10.1.4. Clear and timely communications will be essential. Taxpayers should receive advance notice of any changes, what they need to do and where they can go for help. Communications should be written in plain English and available in accessible formats.

10.1.5. Finally, HMRC should ensure that sufficient support is available throughout the transition period, and beyond. Increased demand for telephone and webchat services is likely, particularly in the early stages. HMRC should ensure it has the capacity to be able to respond promptly to taxpayers' queries Consideration should also be given to dedicated support channels during the transition if demand requires them, for example, a specific temporary phone line for timely payment queries during the transition period.

10.2. **Question 16:** *Would the option to make voluntary pre-payments, ahead of implementation, be helpful?*

10.2.1. Yes - we believe the option to make voluntary pre-payments ahead of implementation could be helpful for some taxpayers. The government should consider whether this could be delivered by enhancing or extending the existing Budget Payment Plan, rather than introducing a separate payment mechanism. Building on an existing system may be simpler for HMRC to administer.

10.2.2. Participation should remain entirely voluntary, and taxpayers should be able to opt-out of the arrangement at any time if they no longer wish to make advanced payments. Where taxpayers do choose to opt-out, HMRC should ask for feedback and seek to understand the reasons why. This feedback could help to identify any barriers and inform future improvements.

10.2.3. Clear information should also be provided so that taxpayers understand that making voluntary pre-payments do not replace the need to file an accurate tax return and that any balance owing will still be determined once their final liability is known.

10.3. **Question 17:** *If changes were made, what transition period would be most appropriate?*

10.3.1. A gradual transition period will be essential to minimise disruption and allow taxpayers time to understand and adapt to any new payment arrangements.

10.3.2. Particular consideration should be given to the interaction between the existing payment on account regime and any new payment regime. For example, if the new regime were introduced from April 2029, taxpayers could still have outstanding payment on account obligations for the 2028/29 tax year, with a payment on account due in July 2029 and the balancing payment due in January 2030. At the same time, they may also be expected to begin making payments under the new regime. This overlap could create significant cash-flow pressure, especially for taxpayers on lower incomes.

10.3.3. The timing of any changes should also be considered alongside MTD for income tax. Many taxpayers will still be adapting to new record keeping and reporting requirements and introducing further changes within such a short time period risks increasing confusion and reducing compliance. The cumulative impact of these changes should not be underestimated.

10.3.4. We would therefore recommend a phased implementation over a number of years, supported by ongoing evaluation at each stage. The impact on taxpayers should be monitored and the rollout of the programme paused or adjusted if significant practical issues emerge. This would help ensure that the new arrangements were not creating unnecessary financial hardship.

10.4. **Question 18:** *What other support would help ITSA taxpayers during the transition period?*

10.4.1. In addition to the points made elsewhere in our response, taxpayers will need clear, comprehensive and accessible guidance, which is supported by practical examples covering a range of common circumstances. Easy to use calculators and dashboards would also help taxpayers understand their current position.

10.4.2. Communications should begin well in advance of any mandatory implementation and should be targeted at taxpayers who will be affected by the changes. HMRC should also ensure that sufficient support is available through its telephone and webchat service to deal with increased demand during the transition period.

11. Issues affecting both taxpayers with and without PAYE income - Newly registered, or returning, ITSA taxpayers

11.1. **Question 19:** *How might the government best support new or returning taxpayers to make timely payments, when they start earning ITSA income?*

11.2. New and returning taxpayers will need clear information from the outset about how and when they are expected to pay tax, including the basis on which payments are calculated. Early guidance and budgeting support will be required to reduce the risk of payment difficulties later.

11.3. The government should also consider how these taxpayers will be identified at an early stage. The current Self Assessment registration deadline of 5th October following the end of the tax year may not be well suited to a system based on more timely payments. Consideration should be given as to whether this registration deadline will have to be changed and any additional knock-on impacts this may present.

11.4. Where there is little or no historic data, any estimates should be based on reasonable and realistic assumptions, with straightforward mechanisms for taxpayers to update those estimates. The government should also consider encouraging voluntary pre-payments in the first year, with any mandatory payment requirements only applying once taxpayers have had time to adapt to the new system.

11.5. **Question 20:** *How might estimating appropriate liability for new or returning ITSA taxpayers be achieved?*

11.6. Estimating the liability of new or returning ITSA taxpayers will require a cautious approach, particularly in cases where there is little or no historic data available. Any estimate must require input from the taxpayer, as they will be best placed to provide information about their own expected income and circumstances.

11.7. The government should develop straightforward tools to help taxpayers make realistic estimates, supported by clear guidance and practical examples. These tools should be co-designed with stakeholders to ensure they are accessible and easy to use, particularly for those without a tax agent.

11.8. Taxpayers should be encouraged to review their estimates regularly and prompted to do so. The process should be simple and capable of producing a quick recalculation of any payments (or repayments) due.

11.9. As always, non-digital options should be available for those who require them.

12. Potential Issues affecting both taxpayers with and without PAYE income - Potential changes to POA criteria

12.1. **Question 21:** *What could be the impact of reducing the POA threshold, or are there alternative ways to support taxpayers below the current threshold to achieve the timely payment objectives?*

12.1.1. Reducing the payment on account threshold would bring more taxpayers into earlier tax payment arrangements and could have a significant impact on those with lower or fluctuating incomes. While paying tax more regularly may benefit some taxpayers, others may face increased cash-flow pressures and find it more difficult to manage payments where their income is uncertain or variable.

12.1.2. Expanding the number of taxpayers within the payment on account regime is also likely to increase demand for HMRC support, particularly during the early stages of implementation.

12.1.3. Before extending the scope of the regime, the government should consider whether improvements could instead be made to simplify the existing payment on account regime and improve taxpayer understanding. This may help achieve the policy objective without bringing in additional taxpayers to payment arrangements that they may find difficult to understand.

13. Potential Issues affecting both taxpayers with and without PAYE income - Choice between ITSA payments through PAYE and direct ITSA POAs

13.1. Question 22: *In what circumstances could the government consider offering taxpayers with PAYE and ITSA income the choice between making ITSA payments through PAYE, or direct ITSA POAs, such as via Direct Debit?*

13.1.1. As already mentioned, we feel that collection of more timely Self Assessment payments via PAYE should only proceed on an optional basis. We have set out many concerns relating to the practicality of mandating collection in this way

13.1.2. There is unlikely to be a single 'one size fits all' approach – providing a degree of choice would enable taxpayers to select the payment method that best reflects their personal circumstances.

13.1.3. Taxpayers' circumstances may change over time, and they should be able to switch between payment methods where appropriate without unnecessary administrative burdens. Flexibility will be particularly important for taxpayers whose income fluctuates from year to year.

13.1.4. To support informed taxpayer decision making, HMRC should provide clear comparisons of the available payment options, with worked examples, showing the advantages and disadvantages of each approach. An interactive choices tool could help taxpayers identify the option that is most appropriate for their own circumstances.

13.1.5. For example, collection through PAYE may be more suited to a taxpayer who has stable employment income and relatively modest amounts of ITSA income. Conversely, direct ITSA payments may be more suited to a taxpayer whose Self Assessment income represents a greater proportion of their total income, or where their employment income fluctuates, making PAYE collection less practical.

14. Impacts on agents' role

14.1. **Question 23:** *What would agents find useful to enable them to carry out their role effectively under the announced changes or possible reforms?*

14.1.1. Our focus is on unrepresented taxpayers unable to pay for advice. Our CIOT technical team colleagues will be responding on this point in more detail.

15. Support and Guidance

15.1. **Question 24:** *What support or guidance might be most effective for taxpayers with particular challenges and needs?*

15.1.1. Taxpayers with particular support needs will require more than just general guidance. HMRC should ensure that specialist assistance is readily available, including greater awareness of and access to HMRC's Extra Support Team, especially if any exemptions are going to be provided.

15.1.2. It will also be important for taxpayers to receive consistent advice across all HMRC channels, regardless of how they contact HMRC. Advisers across HMRC's telephone, webchat and any other support channels should receive the same appropriate specialist training on the new payment arrangements.

15.1.3. Practical support, such as decision tools which we have previously mentioned, will be equally important. However, these resources should not be limited to digital channels. Equivalent help should be available for taxpayers who are unable to engage digitally.

15.1.4. The government should also consider that there will be taxpayers both within and outside MTD for income tax. These taxpayers should have access to equivalent functionality and receive a consistent standard of service, regardless of the system used to interact with HMRC and view their tax information. This will help avoid confusion and differences in customer experience.

15.1.5. Finally, the consultation does not appear to address how the proposed arrangements would operate for taxpayers who file on paper and rely on HMRC to calculate their Self Assessment tax liability[13]. The government should ensure that these taxpayers are not disadvantaged and explanation should be given as to how these customers will be supported to estimate their tax liabilities.

15.2. **Question 25:** *What extra support or guidance might taxpayers who qualify for financial support from the government (such as Universal Credit) need?*

15.2.1. Taxpayers who receive means tested benefits, such as UC, are likely to require additional support if more regular payments are introduced so they understand the impact on their benefit payments. Careful consideration should be given to the interaction between the tax and benefits system to ensure that changes do not inadvertently result in financial hardship, additional administrative burdens or any other unintended consequences and interactions (for example with the various thresholds within and connected to UC).

15.2.2. For both employed and self-employed claimants, UC is calculated based on net income after deductions for tax, NI and pension contributions. Any changes to when tax payments are made may affect UC payments. If more tax is paid in a month because of the proposals, in some cases, UC will increase to adjust for the reduction in net income.

15.2.3. For employed UC claimants, earnings data in the majority of cases is sent to DWP by HMRC (obtained from the claimant's employer through the real time earnings system). So changes to tax through a PAYE code should come through the feed to DWP automatically. However, the UC legislation for employees also states that any repayment of income tax received by a person from HMRC in respect of a tax year in which the person was in paid work is to be treated as employed earnings (unless it is taken into account as self-employed earnings)[14]. Our understanding is that this is a manual process in UC. If the consequence of these proposed changes is that UC claimants will have far more refunds that need to be reported to DWP manually, this will create administrative burdens on claimants and on the DWP to deal with them. There will need to be clear guidance, both

[13] In 2024/25, 2.75% of Self Assessment tax returns were filed on paper, equating to 316,000 paper returns. See [11.48 million beat the Self Assessment deadline - GOV.UK]

[14] Regulation 55(4A) https://www.legislation.gov.uk/uksi/2013/376/regulation/55

on GOV.UK but also given directly to UC claimants and built into the UC system, that makes this requirement clearer.

15.2.4. There may also be wider interactions/consequences to consider. For example, we are aware that the Welsh Government has recently published a consultation[15] on the council tax reduction scheme and reassessment thresholds. The consultation points out that as UC is based on real-time information from HMRC, households receiving UC can experience more frequent income fluctuations which then leads to more council tax reduction scheme reassessments. This leads to higher administrative costs and confusion for claimants. The consultation estimates that over a 12-month period 26% of UC households in Wales experienced at least one income change, compared to 8% of households receiving legacy benefits. The current HMRC proposals will vary the amount of tax paid and therefore affect net pay – which may lead to more people having income changes in UC and with further consequences to the council tax reduction scheme and other things that use universal credit as a passport benefit.

15.2.5. Some self-employed UC claimants[16] are subject to the Minimum Income Floor (MIF). If the MIF applies, the claimant's actual earnings from self-employment are ignored and instead their universal credit is calculated based on the MIF. The MIF is usually calculated as 35 hours a week x relevant minimum wage rate, less a deduction for notional tax and national insurance.[17]

15.2.6. The MIF was introduced as a way to ensure the state were not supporting businesses sustaining a very low level of activity. We agreed that there should be equality between the employed and self-employed in similar circumstances and understand some of the concerns that led to the introduction of the MIF. However, the MIF as currently designed is a broad brush tool and it applies independently each month without (generally) considering what has gone before or what may happen in future. That means it doesn't fully reflect the realities of self-employment well. As a result, it can have negative impacts for those who have fluctuating earnings or who pay large business expenses in one month (rather than over the year). It can mean that even if someone is earning similar to an employed person when viewed over 12 months, they can get less universal credit over that same period due to the operation of the MIF because their earnings fluctuate.

15.2.7. The relevance of this to these proposals is that for some, paying their tax bill more regularly might have a positive impact in relieving this impact of the MIF compared to a larger tax payment made once or twice a year. However, depending on the final proposals there may be some unintended, more negative consequences.

[15] https://www.gov.wales/council-tax-reduction-scheme-wales-technical-consultation-reassessment-thresholds-html
[16] The MIF only applies to those who are gainfully self-employed. The MIF doesn't affect all self-employed universal credit claimants – some may not be gainfully self-employed, some may have sufficiently high earnings which means the MIF does not apply and some will be exempt from the MIF under various rules, at least temporarily.
[17] The MIF is not always set at 35 hours; it depends on the circumstances of the claimant. To work out the level of MIF for an individual you need to multiply the minimum wage for their age group by the number of hours that they are expected to work. A notional amount of tax and national insurance is deducted to arrive at the person's MIF. If their actual earnings are below the level of their MIF, the MIF will be used instead of their actual earnings when calculating their UC award.

15.2.8. We recommend that detailed work is carried out with a range of examples to understand the potential impact on universal credit claimants in different scenarios and whether any changes/mitigations are needed to the proposals to deal with these consequences as well as identify what specific support and guidance is needed. We also recommend that each proposal should be accompanied by detailed modelling to understand the impact on the amount of UC people receive. It is particularly important that this work is done in relation to the numerous thresholds that exist within UC and alongside it, some of which are based on net income and are therefore sensitive to any changes in tax payments.

15.2.9. More broadly, this consultation provides an opportunity to consider whether closer alignment between the tax and benefits system could reduce administrative burdens on taxpayers. Self-employed UC claimants already have to provide monthly information to DWP, while those within MTD for income tax will also have quarterly reporting obligations. Someone who falls within both reporting regimes will need to make a minimum of 17 submissions per tax year based on the current reporting rules.[18] The rules governing these two regimes are different, meaning taxpayers cannot simply use one set of figures for both purposes. Introducing further reporting requirements for these types of taxpayers would be unjustifiable and would place an unreasonable compliance burden on some of the lowest-income taxpayers.

15.2.10. The government should therefore explore opportunities to better align reporting requirements and where possible, allow taxpayers to use the same underlying information across government systems. Reducing duplication is likely to simplify compliance and reduce the risk of errors.

15.3. **Question 26:** *What support or guidance might be most effective for tax agents?*

15.3.1. Our focus is on unrepresented taxpayers unable to pay for advice. Our CIOT technical team colleagues will be responding on this point in more detail.

15.4. **Question 27:** *Are there are any additional comments you would like to make regarding the 'timely payments in ITSA' announced changes and possible reforms?*

15.4.1. Further clarification is needed on how the proposals will interact with student loan repayments. The consultation appears to assume that student loan repayments will form part of the more timely payment regime, but this is not expressly addressed. The government should explain how these repayments would operate in practice, including when amounts collected would be transferred to the Student Loans Company.

15.4.2. Ideally, these repayments will be transferred at the time of collection and should be reflected on the borrowers' loan account balance as soon as possible. If repayments are not credited to borrowers' loan accounts promptly, borrowers could continue to accrue interest on amounts that have already been collected via the PAYE system or via any non-PAYE timely payments regime. This would be unfair and should be avoided. Further detail should be set out including worked examples of how taxpayers with student loans would be affected by the proposed arrangements.

[18] Comprising 12 monthly UC submissions (one for each assessment period), 4 quarterly updates for MTD and a final end of year tax return. The number of submissions could be even higher for someone with multiple sources of ITSA income, for example, a taxpayer with two different sole trades.

16. About Us

16.1. 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 who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

16.2. LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

16.3. 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.

LITRG
4 August 2026