Timely Payment – Call for evidence
Response from the Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

1.1 We are pleased to have the opportunity to respond to the call for evidence on timely payments published in March 2021. As the main focus of the call for evidence is on income tax and national insurance (outside of regimes such as PAYE), the majority of our comments are made with the low-income unrepresented Self Assessment taxpayer in mind.

1.2 We believe the key to any new timely payments regime is to ensure maximum flexibility around any 'real time' advance payments.

1.3 By far the biggest challenge is how to ensure that any 'real time' tax instalments are reasonably accurate. As acknowledged at paragraph 2.29 of the call for evidence document, with income tax having an annual basis of assessment, calculating an emerging liability in-year while recognising the benefit of annual reliefs and allowances will be challenging. Substantially overpaying in advance due to inaccurate in-year calculations could cause significant and unnecessary cash flow difficulties, particularly for start-ups whose access to funds to develop the business in its early years is often crucial.

1.4 Consequently, HMRC will need to ensure they can deal with tax repayments in a timely manner too, particularly as any cumulative payment regime is likely to mean an increase in in-year repayments. Paying in a timely manner must work both ways to foster the trust in the tax system that HMRC want to create.

1.5 Use of third party data will need to be carefully considered when establishing real time liability. While clearly there can be some significant advantages to using third party data, there are some fundamental issues that need to be looked at. These include clarification of whose responsibility it is to ensure third party data is accurate and providing an easy route for challenge and/or replacement of third party figures by taxpayers. We look at these issues further in our response to the tax administration framework call for evidence.[1]

1.6 Taxpayers who are digitally challenged or digitally excluded must not be forgotten in the design of any new process. How the new regime will work for them must be designed into the scheme from the beginning, rather than as an after-thought.

1.7 Any new timely payments system will be heavily dependent on reliable and well-functioning IT systems. Presumably these will need to be designed and built from scratch and will need to be fully integrated with other HMRC systems. Current HMRC systems may also need to be improved so they are better integrated and so work efficiently with any new system. There will inevitably be a significant cost for such a project, and a dependence on delivery of the IT on time. Control of costs and delivery of IT projects would be fundamental to the new regime being a success.

1.8 In our view, a requirement for more regular calculation and payment will not necessarily reduce taxpayer debt. In fact it may give rise to different forms of debt. For example a taxpayer who would have been able to settle a tax bill in full, year on year under the current rules, might be unable to keep up with more frequent payments of the amounts and at the times required. This is because profits in a period do not necessarily equate to good cash flow.

1.9 The primary aim of a more frequent payment regime must be clear from the outset, and in this respect, there would seem to be some tension between principles of accuracy and simplicity. If the objective is to collect the correct amount of tax in real time, then it needs to be based on accurate income figures, and this would mean a more literal current year basis of assessment than we have at the moment for the self-employed. If the objective is to collect tax more quickly in the simplest way possible, then this could be done by changing the frequency of payments under the current payment on account system so they are paid quarterly or monthly rather than six monthly. This would mean the basis of assessment of self-employed profits would not need to change.

1.10 Non-digital channels must remain open to offer support to those who cannot use digital methods for managing their tax affairs. An obvious source of support would be the Extra Support Teams within HMRC who are currently in place to help vulnerable taxpayers deal with their tax. However, HMRC must not expect taxpayers who are struggling to manage their tax affairs to rely on friends and family to use the Trusted Helper service as many prefer not to do this for a variety of reasons.

1.11 If calculation and payment of tax was on a more regular basis then the interaction of this process with annual thresholds for payments such as student loan deductions would need to be considered.

1.12 The reporting rules are different for universal credit (UC) and making tax digital (MTD) for income tax, which is likely to cause confusion for taxpayers who claim UC. This may mean one set of figures is potentially incorrect as many people might well use the same data for both reporting requirements, not appreciating the nuances between the two sets of rules. In other cases, it can present onerous record-keeping and reporting burdens for low-income self-employed taxpayers,

[1] https://www.litrg.org.uk/latest-news/submissions/210712-tax-administration-framework-review

some of whom are likely to be vulnerable. This could perhaps be addressed by using software to work out the correct reporting for both MTD and UC from the basic income and expense data provided by the taxpayer or by looking for opportunities to align the rules.

2 About Us

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 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.

3 General introductory comments

3.1 As the main focus of the call for evidence is on income tax and national insurance (outside of regimes such as PAYE) the majority of our comments are made with the low-income Self Assessment taxpayer in mind. We have not made any comments in relation to questions which raise issues regarding corporation tax, large partnerships, or international aspects.

3.2 This call for evidence has been launched at the same time as the call for evidence on reform of the tax administration framework, which also includes a chapter on tax payments and repayments. This response should also be read in conjunction with our detailed response to the call for evidence on the tax administration framework[1] as many points made in that document are also pertinent to this call for evidence.

3.3 We agree that any move to a timelier basis of tax payment must be a longer term objective and are reassured there is no intention to make significant change within this Parliament. In our view it is vital that the Making Tax Digital (MTD) programme is given time to bed down before any other major administrative changes are imposed on taxpayers.

3.4 In the meantime, we would urge HMRC to improve the existing Budget Payment Plan (BPP) as quickly as possible, including making it easier to access (both digitally and non-digitally) and to set up a plan. Better publicity of this instalment option would almost certainly see increased take-up of the

[1] https://www.litrg.org.uk/latest-news/submissions/210712-tax-administration-framework-review

plan, particularly among lower income self-employed taxpayers who wish to carefully manage their cash flow.

3.5 This was a point we made in our response[1] to the predecessor to this call for evidence 'Making Tax Digital: Voluntary Pay As You Go' which was issued in August 2016. It is disappointing that very little work has been done by HMRC to encourage greater take-up of the BPP since then, especially in view of the research commissioned by HMRC which confirmed that taxpayers have very little or no awareness of the Budget Payment Plan despite responding positively to it when presented with the option[2].

3.6 One of our main themes in that response was that control, choice, transparency, support and equal access to all were the overriding factors to be taken into account when designing a new payment system. This is still valid commentary in the context of the current discussion of timely payments.

4 Call for evidence questions: PRINCIPLES (Chapter 2)

4.1 ***Q1. Do you have any comments on the benefits and challenges of timely payment outlined above (paras 2.1 – 2.33)***

4.1.1 We agree there is some appetite for making more regular tax payments among those on low incomes. This is illustrated by the recent query below that we received via our website :

'I am Self Employed, and was wondering if there is a way I can make monthly payments towards my future tax bill to take the sting off the end of the year tax bill? I didn't see an option for it on my account and wasn't sure if I just add credit on my account that stays there until I file my taxes? any Info given would be much appreciated thank you!'

4.1.2 Another query we found[3] in relation to a gig economy food delivery rider also suggests this is the correct direction of travel:

'I'm looking to make a spreadsheet, containing the hours worked, how much I've earn't and the tax I will have top pay per month. Do I take 20% of my earning for each day? Or do I do it for the whole month?

Also National Insurance is 9% right? And that would be the same, do I do it monthly?

I have had a look on HMRC for the self assessment forms, but that is per annum… I really do not fancy having to save it cash per year to pay my annual tax.'

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[1] https://www.litrg.org.uk/latest-news/submissions/161108-making-tax-digital#toc-voluntary-pay-as-you-go-vpayg-

[2] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/827825/Supporting_customers_to_pay_their_tax_on_time.pdf

[3] https://www.reddit.com/r/deliveroos/comments/9uo5ei/taxes_how_do_you_guys_do_it/

4.1.3 It is likely to help with better budgeting for other business expenditure, and also avoid peaks of larger amounts of expenditure which can be more difficult to fund if money has not been regularly set aside. However it is not a universally held view across all such taxpayers as the OTS report 'Tax Reporting and Payment: Simplifying tax for self employed people and landlords',[1] published in October 2019, concluded.

4.1.4 By far the biggest challenge is how to ensure that any 'real time' tax instalments are reasonably accurate. As is acknowledged at paragraph 2.29 of the call for evidence document, as income tax has an annual basis of assessment, calculating an emerging liability in-year while recognising the benefit of annual reliefs and allowances will be challenging in itself. But substantially overpaying in advance due to inaccurate in-year calculations could cause significant and unnecessary cash flow difficulties, particularly for start-ups whose access to funds to develop the business in its early years is often crucial.

4.1.5 This is also the inherent problem of the MTD model, as using quarterly updates as a basis for real time liability could be misleading as they will not take into account annual tax claims and elections and accounting adjustments. In very straightforward situations, using quarterly update figures may be reasonable, but this could be a flawed approach if looking for a one-size-fits-all solution.

4.1.6 In our view, comparing a real time payment regime for Self Assessment taxpayers with PAYE is not a good analogy as the gross PAYE income which is taxed in real time is likely to be the correct taxable amount for many PAYE taxpayers. By contrast, real time profits for the self-employed or landlords for a particular period such as a month or a quarter can only really be so easily established with a reasonable degree of certainty in the simplest of cases where there are very few fluctuations in turnover, expenses etc.

4.1.7 We believe the key to a new timely payments regime is to ensure maximum flexibility around any 'real time' advance payments. This would make the scheme more attractive to smaller businesses in particular as it should enable them to have their money back again to cover any short term cash flow shortfalls if necessary or if they have overpaid in the earlier months and have lower cumulative profits later in the tax year.

4.1.8 As well as considering timely payments, HMRC will need to ensure they also deal with tax repayments in a timely manner, particularly as any cumulative payment regime is likely to mean an increase in in-year repayments (we consider this further below in answer to question 20). Paying in a timely manner must work both ways to foster the trust in the tax system that HMRC want to create.

4.1.9 We agree any transition to a new payment regime will need to be carefully designed and managed to avoid significant adverse effects for taxpayers. We also agree there is a need to be very mindful of

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/843531/OTS_Tax_reporting_and_payment_review.pdf

adding further administrative burdens to small businesses, particularly those who currently only need to report income once per year via their Self Assessment tax returns.

4.2 Use of third party data will need to be carefully considered when establishing real time liability. While clearly there can be some significant advantages to using third party data, there are some fundamental issues that need to be looked at. These include clarification of whose responsibility it is to ensure third party data is accurate and providing an easy route for challenge and/or replacement of third party figures by taxpayers.

4.3 We considered the issues around the use of third party data in detail when responding to the OTS' call for evidence[1] on this topic (our response is available on the LITRG website)[2]. The Office of Tax Simplification (OTS) recently published their report in response to this call for evidence on third party data[3]. We are generally supportive of the recommendations made by the OTS, and many of them support earlier LITRG recommendations especially around transparency of data and ensuring there is an appropriate mechanism for taxpayers to query or amend data. We note that the OTS recommend a roadmap to set out the stages in which greater use of third party data will be made, both to improve the way existing sources of data are provided and used and to add further sources of third party data, and how this will be implemented. We agree a roadmap approach is the right one, and this fits with our suggestion for an overall reform roadmap with key stages highlighted along it in our response to the Tax Administration Framework Review[4]. We feel strongly that HMRC should ensure they improve existing sources of data, and deal with the transparency and responsibility points, before they add more sources of third party data.

4.3.1 We also comment on this further in our response to the tax administration framework call for evidence, chapter 5.

4.3.2 Taxpayers who are digitally challenged or digitally excluded must not be forgotten in the design of any new process. How the new regime will work for them must be designed into the scheme from the beginning not as an after-thought.

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1 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/955498/Third_Party_Data_Reporting_CfE_.pdf

2 https://www.litrg.org.uk/latest-news/submissions/210331-office-tax-simplification-third-party-data-reporting-review-call

3 OTS report – Third party data https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/997582/Third_party_data_report.pdf - This report was published just as this response was being finalised, therefore we do not refer to it in any detail throughout the remainder of this response.

4 https://www.litrg.org.uk/latest-news/submissions/210712-tax-administration-framework-review

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

4.4.1 Working patterns have evolved such that the self-employed landscape is now made up of a variety of casual self-employment, gig economy work, part time self-employment and employment, and those moving in and out of self-employment on a regular basis. Therefore in our view, flexibility must be the key to designing a new payment regime.

4.4.2 Although the call for evidence document suggests that a system akin to how utilities are paid for could be appropriate, it should be borne in mind that tax doesn't work like utilities for many people, including the self-employed. This is because fluctuations in income/profits can be much greater over shorter periods of time than in something like energy use. Therefore fixed direct debit payments, like those many people use to pay utilities, would need to be pitched at fairly conservative levels if they were to be used for tax payments so as to avoid regularly overpaying. Regular overpayments which require repaying would create significant additional administration for HMRC, even if the system is predominantly automated, and would inevitably give rise to increased contacts at HMRC call centres.

4.4.3 It is clear that any new timely payments system will be heavily dependent on reliable and well-functioning IT systems. Presumably these will need to be designed and built from scratch and will need to be fully integrated with other HMRC systems. Current HMRC systems may also need to be improved so they are better integrated and so work efficiently with any new system. There will inevitably be a significant cost for such a project, and a dependence on delivery of the IT on time. Control of costs and delivery of IT projects would be fundamental to the new regime being a success.

4.4.4 Paying modest repayment interest on advance payments may also encourage earlier payment of tax so the taxpayer is not disadvantaged by paying it to HMRC rather than keeping it in a savings account.

4.4.5 A requirement for more regular calculation and payment will not necessarily reduce taxpayer debt. In fact it may give rise to different forms of debt. For example, a taxpayer who would have been able to settle a tax bill in full year on year under the current rules might be unable to keep up with more frequent payments of the amounts and at the times required. This is because profits in a period do not necessarily equate to good cash flow.

4.4.6 Aligning the pattern of regular payment to the cash flow patterns of a business could help to alleviate this kind of problem. For example, farmers should have the option to make payments at the point in the farming year when they have funds available and not during the periods when they are subsisting on bank loans.

5 Call for evidence questions: OVERVIEW OF CURRENT REGIMES (Chapter 3)

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

5.1.1 Payment dates for tax payments under Self Assessment (31 January and 31 July) are generally reasonably well known, and initially basing payments on account on the previous year's tax liability gives a degree of certainty as to the amount that is due for payment in good time (provided the tax return is completed and submitted on time).

5.1.2 For those who are newly self-employed, the delay in their first tax payment becoming due can be advantageous as it can allow them to build up their business and meet the inevitable expenses of doing so without restricted cash flow due to paying estimated tax bills. It can be difficult to forecast taxable profits with any degree of accuracy in the early years of a business. Also, tax bills may be fairly modest for the first couple of years, particularly for a business with significant expenditure in the beginning.

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

5.2.1 Managing cash flow to make two payments of tax six months apart is a challenge for some; a due date for tax payments of 31 January, being shortly after Christmas, can exacerbate cash flow difficulties.

5.2.2 One person's advantage is another's challenge so for some newly self-employed taxpayers, the length of time between starting a business and the first tax bill becoming due may cause difficulties in budgeting, particularly when the first tax payment also includes a payment on account for the following tax year.

5.2.3 It can be particularly difficult for those taxpayers who regularly fluctuate between being in the payments on account regime and paying only once by 31 January.

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

5.3.1 Amongst those non-business ITSA taxpayers are those subject to the high income child benefit charge (HICBC). The HICBC can be triggered in one-off situations, for example taking a lump sum pension withdrawal. Often, lump sum pension payments are over-taxed and so an in-year tax refund can be claimed. However the paperwork[1] that must be completed to claim the refund does not ask whether anyone in the household is receiving child benefit and so cannot identify whether there is a liability to the HICBC if the £50,000 adjusted net income threshold has been breached. This could give rise to excessive refunds being made in-year which must then be clawed back via the Self Assessment return after the end of the tax year. It also misses an opportunity to prompt the individual that they have an obligation to notify liability to HMRC that they need to complete a Self Assessment return (as the legislation requires when the HICBC is triggered).

5.3.2 Another example might be where an ITSA taxpayer has an unexpected income tax liability in one tax year due to a chargeable event in connection with a life policy. The notional tax withheld in these circumstances is at a rate of 20% however it is possible that the amount of the chargeable event gain

[1] The form to complete depends on the individual's circumstances – see https://www.litrg.org.uk/tax-guides/pensioners/what-tax-position-when-i-take-money-my-pension-flexibly#toc-how-do-i-get-tax-back-if-my-pension-provider-has-taken-too-much-under-paye-

can push a basic rate taxpayer into higher rates for that one tax year. As the additional tax on the chargeable event gain will not be due until 31 January after the end of the tax year in which the gain arose, this can be a long time after the gain itself arose and so budgeting for the additional tax can sometimes be difficult – especially if the taxpayer does not realise there is further tax to pay on the gain.

5.3.3 These examples illustrate that there can be payment challenges in a wide variety of circumstances; it might be more difficult to implement a timely payment regime where one-off tax liabilities arise.

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

5.4.1 There is a general lack of understanding of the payments system among many who are on a low income and/or vulnerable. Although there may be an awareness of when payments need to be made, the amount that is due to be paid on the due date is often not clear to taxpayers in these groups, particularly where payments on account need to be made. Those who find themselves on the borderline of the payments on account regime, and so sometimes need to make payments on account for one tax year and then don't need to make them for a later year, often find it very difficult to understand what they need to pay. Therefore we disagree with the comment at 4.14 of the call for evidence document that this is a well understood area.

5.4.2 With regard to payments on account, we find that taxpayers may not understand that they can claim to reduce payments on account if their tax bill is likely to be less than the previous tax year's bill, on which the payments on account are based. Those who are unrepresented and so are not advised about this option may then struggle to pay payments on account that are incorrect and excessive from profits which have fallen. In turn, they may find themselves in debt which proves to be incorrect when the tax return is submitted and the associated payments on account recalculated.

5.4.3 There are also challenges for low income and/or vulnerable taxpayers when it comes to obtaining a refund. They may be unaware of expenses and reliefs they can claim, or if they do know about them, they are unsure how to claim them. Both circumstances can mean they are more likely to rely on assistance from a tax refund company. These high volume repayment agents (HVRA) obtain tax refunds for the taxpayers, but the taxpayers find they lose a significant proportion of any refund due in fees to the HVRA – and indeed of future refunds if they sign a deed of assignment.[1] Whilst it is entirely legitimate for people to exercise a free choice over whether to use a tax refund company, this should be an informed choice based on a full and proper understanding of any terms and conditions, especially around fees and deeds of assignment. In our view, HMRC should do more to help taxpayers claim refunds of this nature, and also make the claims process easier, and more

[1] See our website article for more information on this: https://www.litrg.org.uk/tax-guides/tax-basics/how-do-i-claim-tax-back/should-i-use-tax-refund-company and our recent press release: https://www.litrg.org.uk/latest-news/news/210625-press-release-litrg-concern-growing-complaints-about-tax-refund-companies

consistent across the various tax refund claims that can be made. This may then reduce the number of taxpayers who turn to HVRA for help.

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

5.5.1 This is covered by our comments in answer to question 6 above.

6 Call for evidence questions: HANDLING MORE REGULAR PAYMENTS (Chapter 4)

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

6.1.1 In our view, this depends on the aim of a more frequent payment regime – accuracy or simplicity. If the objective is to collect the correct amount of tax in real time then it needs to be based on accurate income figures, which in turn would mean a more literal current year basis of assessment than we have at the moment. If the objective is to collect tax more quickly in the simplest way possible, then this could be done by changing the frequency of payments under the current payment on account system so they are paid quarterly or monthly rather than six monthly. This would mean the basis of assessment of self-employed profits would not need to change.

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

6.2.1 As we have mentioned in our response to the tax administration framework consultation, there are tensions between the principles for change. Here, it seems to us that there is an inherent tension between being flexible to meet the needs of different groups of taxpayers and having different options which can create complexity. Complexity makes the task of explaining obligations much harder and therefore can lead to a lower rate of accurate compliance. It also means people are likely to need far more support. For example, if there are options to calculate how much tax you pay on different bases and when you pay it, this can create a knock-on complexity for UC claimants, as their benefit entitlement can be affected (given that UC is calculated on net income and tax is deducted by reference to when it is paid).

6.2.2 There is also a challenge to consider in terms of having a fixed threshold to determine where the cut off falls with regard to being in the system, as with the £1,000 tax limit for the current payment on account regime. As noted previously, this can cause people to move in and out of payments on account, which can create confusion and budgeting problems. Thought needs to be given to this issue in any new system. If there is such a threshold, one option could be to align this with the MTD threshold, so that if you are within MTD you must be in the timely payments regime.

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

6.3.1 Digital solutions, such as software or apps or 'smart' banking products, could offer an efficient way of dealing with in-year calculations assuming of course they are designed to be responsive to in-year changes in circumstances and income. We are aware that there are already a number of solutions in the market that have the ability to produce a running estimate of the tax liability for a year, based on the individual's collated information.

6.3.2 This could potentially be a next step for the MTD programme for taxpayers who come within its scope. But it is not clear what assurance process such digital solutions go through in terms of the 'advice' given and risks to the taxpayer. There are also clear disadvantages to those who cannot cope with digital methods of interacting, or who have difficulty 'doing digital' for any number of reasons, such as obtaining equipment due to cost or having unreliable broadband services.

6.3.3 Those who cannot afford more expensive software and will be relying on free software from commercial companies – in the absence of free software from HMRC – will almost certainly have an inferior product and so could be disadvantaged.

6.3.4 Also, if taxpayers are brought within the scope of a more timely payment regime but are not within scope of MTD, would this mean a different digital system would have to be designed for them to run in parallel with MTD? If so, this does not sound very cost effective and could prove confusing if people have to work out which system they fall within.

6.3.5 Taxpayers with fluctuating incomes and/or expenses could find themselves in a regular cycle of payments and repayments as their cumulative tax liability adjusts to reflect the upturns and downturns in profits over the trading year. This is also considered in our response to questions 1, 2 and 21. It is hard to see how an end of year reconciliation can be avoided in most cases.

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

6.4.1 Non-digital channels must remain open to offer support to those who cannot use digital methods for managing their tax affairs. The obvious source of support would be the Extra Support Teams within HMRC who are currently in place to help vulnerable taxpayers deal with their tax. Taxpayers who can't use digital channels could contact the appropriate support team by phone and discuss their in-year tax calculation, for example notify changes of circumstances so that the effect of the change can be factored into the in-year tax calculation. Those without digital access or who find it challenging, must also be provided with adequate, accessible guidance.

6.4.2 Less confident taxpayers may seek help from friends and family and so the Trusted Helper service should also be maintained. However HMRC must not **expect** taxpayers who are struggling to manage their tax affairs to get help in this way. While some may not mind getting help from a family member say once per year to complete a tax return, if they are not digitally confident and are within scope of MTD, asking for help four or five times per year to comply with their MTD obligations might be a different matter. There may also be issues of confidentiality around things like income levels among family members, and often people don't want to feel like they are a burden on other family members if they feel they have to keep asking for help. We refer further to these matters in our response to the tax administration framework review[1].

6.4.3 It should be remembered that low income taxpayers may have more limited access to reliable IT, whether that is equipment such as tablets, computers etc or services such as fast broadband. They may run older, sometimes outdated, versions of software on any equipment they do have and often have to share the equipment with other family members. The extent of this became evident during the coronavirus pandemic when schools were running online lessons while pupils were in lockdown at home. Indeed, it appears increasing reliance on technology during the pandemic has highlighted and even exacerbated digital inequality with concerns being raised about those 'left behind'.[2]

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

6.5.1 If calculation and payment of tax was on a more regular basis then the interaction of this process with annual thresholds for payments such as student loan deductions (SLDs) would need to be considered. Would the SLDs be calculated based on proportion of the annual threshold each payment period (so if quarterly calculations and payments were made, would SLDs be due once the quarterly income exceeded one quarter of the annual threshold), or would they be calculated as part of an annual reconciliation?

6.5.2 For those who are within PAYE and also have sources of income which fall within a new timely payments regime, consideration would need to be given as to how the personal allowance would be allocated between the sources of income as clearly this will impact on how much tax should be paid under the timely payment process.

6.5.3 It might also be helpful to take this opportunity to reconsider payment dates across the whole income tax landscape as these are currently inconsistent. For example, in relation to tax arising from an end of year reconciliation, there is a mismatch between Self Assessment (31 January and 31 July), Simple Assessment (31 January) and tax due as a result of a P800 tax calculation (variable).

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

6.6.1 Basis periods for those who are self-employed mean that what is understood to be the 'current year basis of assessment' doesn't really equate to real time taxation. In our paper 'A better deal for the low income taxpayer'[3] we suggest that for small businesses there should be a default year end for

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[1] https://www.litrg.org.uk/latest-news/submissions/210712-tax-administration-framework-review

[2] See 'Living online: the long-term impact on wellbeing', 1st report, 'Beyond Digital: planning for a hybrid world', 21 April 2021: https://committees.parliament.uk/work/742/living-online-the-longterm-impact-on-wellbeing/publications/

[3] https://www.litrg.org.uk/latest-news/reports/201204-better-deal-low-income-taxpayer

self-employed accounts of 31 March, with an option to choose an alternative year end if it is preferable for the business. We think this would be a straightforward approach to simplify what can be a complicated area of tax for small unrepresented businesses. It would also mean the profits are assessed on a tax year basis for the majority of the smallest businesses, which means moving closer to the ‘real time’ basis envisaged for this new regime.

6.6.2 An alternative option might be to make the year to 31 March the basis period for assessment for a tax year, and then self-employed businesses that do not make up accounts to 31 March would need to apportion profits from two accounting periods into the basis period. However this might have a significant disadvantage in that the accounts for the second accounting period falling into the year to 31 March may not be finalised by the time the tax return must be submitted and therefore estimates may be required and then amended tax returns subsequently submitted when the accounts have been finalised.

6.6.3 For example, if Sarah has a business which prepares accounts to 31 December each year, then her profits for the basis period for the 2022/23 tax year of 12 months to 31 March 2023 would require her accounts for the year to 31 December 2022 and 31 December 2023 to be prepared and time-apportioned into the basis period. But as her 2022/23 tax return (under the current rules) must be submitted by 31 January 2024 it is unlikely her accounts for the year to 31 December 2023 will be finalised by then.

6.6.4 Any move to a different basis of assessment for self-employed profits will inevitably mean there will need to be transitional considerations such as how to establish the amount of and give relief for overlap profits, which will need to be carefully thought through.

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

6.7.1 We have an annual basis of taxation, so it seems there will always be the need to carry out an end of year reconciliation as it will be virtually impossible to make ‘in year’ tax payments accurate enough for this to become unnecessary. Reforming the basis of taxation so that it was, say, a quarterly liability would be one way of aligning tax liability with transactions more closely. However, this would be a fundamental shift in the basic principles of our taxation system so could not be undertaken lightly.

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

6.8.1 We have outlined some of our concerns around making tax payments based on quarterly updates in answer to question 1 above. Given these concerns, we suggest that making estimated payments towards a current year liability based on MTD updates could be considered as an option but should not be mandatory (though care needs to be taken where options are given, as we note in our answer to question 14 that choice can create complexity).

6.8.2 As we assume that the estimate of the tax position for an accounting period for someone within MTD will be updated each quarter, following submission of a quarterly update, it is just as likely that repayments may be due for a quarter as further payments from the taxpayer. Therefore HMRC’s systems must be geared up to deal with refunds quickly and efficiently as businesses' cash flow will be dependent on this.

6.8.3 If quarterly payment based on a quarterly update is not the way forward for taxpayers within MTD, the interaction between MTD quarterly returns and tax estimates with a payment on account regime, something like that which we have now, will be very confusing for taxpayers. Therefore, careful thought needs to be given as to how this interaction would work.

6.8.4 However, some taxpayers may feel that MTD quarterly updates give them a reasonable feel for their overall tax position, in which case maybe there could be an option to make voluntary payments based on the updates.

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

6.9.1 Seasonal businesses – where income and profit track peaks and troughs – will not want to pay tax on profit for a quarter when they know their annual taxable profit will ultimately be much less than, say, quarter 1 multiplied by 4, due to the reduction in profits in their later periods which cover their 'off season'. Perhaps these businesses should have the facility to opt out of the tax payments part of the regime, if it develops along those lines? Alternatively they could be exempt from the formal timely payments process but have the option of making voluntary payments, but identifying who would qualify under this kind of exemption could prove challenging.

6.9.2 The only other alternative basis for paying tax 'in year' would have to be based on previous year profits as now, which may not be very satisfactory if real time taxation is the ultimate aim. If this is, how the system moves forward consideration needs to be given to issues touched upon earlier, such as: increasing taxpayers' awareness and understanding of how to reduce payments on account; potentially giving people the option to increase payments on account where they are expecting a higher tax liability than the previous year; and how to improve the position on starting up a business when the first tax payment (and/or first time falling into payments on account) can cause difficulties.

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

6.10.1 We recently read a statistic from BEIS that 87% of people in the gig economy earned less than £10,000 per year[1] so would not fall within MTD. This is another reason, as we explain in answer to question 45, why it is vital that a 'payments' solution is found for this group.

6.10.2 For non-MTD customers, reporting or updating information via the personal tax account (or eventually the single digital tax account) would be the obvious way of using digital methods – however the question is whether or not this category of taxpayers would need to make timely payments along the lines of those being considered? A significant proportion of this cohort of

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11 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/687553/The_characteristics_of_those_in_the_gig_economy.pdf

taxpayers are likely to have small amounts of rental income or self-employed income (turnover of less than £10,000 otherwise they are in scope of MTD), and may well be entitled to the trading or property allowance and so are likely to have modest tax liabilities, if any. This does, though, also depend on how their personal allowance is allocated – for example, if it is offset against a PAYE income source, there may be a tax liability on such secondary sources of income.

6.10.3 Also, consideration needs to be given to how to deal with taxpayers who are only in Self Assessment due to a one-off liability, eg a capital gain or an income tax liability on a chargeable event gain. Timely payment might be difficult to assess in such situations – for example, as now, those paying capital gains tax under the 30-day reporting regime need to estimate their other income levels for the year in order to work out how much capital gains tax is likely to be due. The position may then need to be reconciled at the end of the tax year. Consideration therefore needs to be given as to the appropriateness of timely payment in these situations, and to how a taxpayer will know that they need to pay on a timely basis.[1]

6.10.4 For taxpayers within MTD, providing flexibility could mean giving them an option of more frequent reporting of data eg monthly. But it would seem sensible to let the MTD regime bed in first and then revisit this option if it looks like it might be useful.

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

6.11.1 This question needs to consider two issues. The first is reporting of self-employed earnings for both income tax and UC. The second is what impact more frequent tax payment will have on UC claimants.

6.11.2 Taking the first issue, the reporting rules are different for UC and MTD[2], which is likely to cause confusion for taxpayers who claim UC. We believe it will inevitably mean one set of figures is potentially incorrect as, in all practicality, most will probably use the same data for both reporting requirements, not appreciating the nuances between the two sets of rules. In other cases, it can present onerous record-keeping and reporting burdens for low income self-employed taxpayers, some of whom are likely to be vulnerable. This could perhaps be addressed by using software to work out the correct reporting for both MTD and UC from the basic income and expense data provided by the taxpayer. Due to the fact this will be to support UC claimants, who by their nature have low incomes, of course the software would need to be free. Alternatively, we recommend that serious consideration should be given to a greater alignment of the two sets of rules.

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[1] See for example the OTS report on CGT published 20 May 2021 which raises concerns about how people find out about their obligations to report UK residential property gains within 30 days and that 30 days is too short a time period. (Report page 10: https://www.gov.uk/government/publications/ots-capital-gains-tax-review-simplifying-practical-technical-and-administrative-issues)

[2] See LITRG report 'Self employed claimants of universal credit- lifting the burdens': https://www.litrg.org.uk/latest-news/reports/171030-self-employed-claimants-universal-credit-%E2%80%93-lifting-burdens

6.11.3 On the second point, UC is based on net income in a monthly assessment period, so broadly monthly 'profit' after deducting expenses and tax and NI. In general, the lower the net profit figure, the higher the UC award (although that is not an absolute rule in every case – especially if the minimum income floor applies). If more frequent tax payments are made, this is likely to impact on UC awards over a period because there will be more months in the year in which a tax payment is made and so more months with a lower net profit figure may correspondingly lead to more months with higher UC awards. This may also trigger other thresholds such as entitlement to free school meals and the operation of the minimum income floor provisions. There are various complexities in the UC rules and any changes to the operation of tax need to be thoroughly researched and understood to investigate interactions with UC and any adverse interactions should be appropriately mitigated. HMRC would need to work closely with DWP and we would be happy to contribute to further detailed discussions in this area.

6.11.4 We think that HMRC and DWP should also consider implementing a process under which HMRC notify DWP when tax payments and refunds made, in the same way RTI data is provided to DWP, for UC claimants.

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

6.12.1 Taxpayers within the MTD regime will be required to report actual expenses in their quarterly updates. If they want to claim flat rate expenses, for example, mileage allowance, trading allowance or property allowance they would presumably need to do so via their End of Period Statement to establish their actual taxable profits. As the original intention of the trading and property allowances was to introduce a simplification to save smaller businesses from having to keep detailed records of expenses, this objective will clearly not be met for those within MTD. If any new flat rate expenses were to be introduced, we assume a similar process would apply for a business within MTD to claim them.

6.12.2 Trading or property businesses outside MTD are most likely to be the smallest businesses (ie those with turnover less than £10k) and they are already able to claim trading and property allowances. Therefore maybe it would be better to consider increasing the amount of these existing allowances rather than introducing new flat rate expense schemes and complicate this landscape still further?

6.12.3 It is noted that flat rate expenses can be a good simplification, but they work best when they are an alternative to claiming the actual expenses if you choose to claim them. Therefore we would prefer to see any new flat rate expenses schemes operate in a similar way and not just be used to estimate the in-year tax position, otherwise it will be very confusing for taxpayers.

6.12.4 We would also caution that introducing any new flat rate expenses could mean that the calculation of taxable profits diverges further from the calculation for universal credit (UC), which could further complicate matters for those on the lowest incomes. An analogy can be drawn here with the trading allowance, which is available for income tax but not for UC. HMRC would therefore need to proceed with caution in this area and ensure any potential interactions are fully understand and mitigated where possible.

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

6.13.1 As discussed earlier, there seem to be two fundamental problems with timely payment. One is fluctuations of taxable income/profits; the other is how to deal with annual adjustments. This summarises perfectly the problem with estimating an in-year tax position when annual allowances/adjustments can be claimed after the year end. We have talked more about this issue in section 4 above. It is important that HMRC find a way to recognise these annual reliefs when calculating in-year regular payments, otherwise we fear there will not be a buy-in to the process from taxpayers.

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

6.14.1 We have made various comments above on the frequency and timing of payments in various scenarios, see for example our answer to question 2 above.

6.15 ***Q30 Do you have any comments about how over- and under-payments of tax could be resolved in-year? Q31 What systems and processes exist that would help to ensure protection against fraud and organised crime, while also allowing quick and easy repayment?***

6.15.1 Under- and over-payments must be resolved on a quarter by quarter basis. We state this above in answer to question 20 in the context of MTD, but it should be the case across the board.

6.15.2 If the personal tax account/single digital tax account can be developed further so that payments can be made through them, then as these are secure accounts, some protection against fraud is already in place (in the sense that the taxpayer should have been identified and the account is accessed via two-step verification). Payments made via these accounts can then be allocated by either HMRC or by the taxpayer against whatever liabilities are becoming due. They can also be used to claim and process in year refunds.

6.15.3 HMRC might find it helpful to research the banking sector's approach to identification of fraudulent activity. For example, we believe that systems might be set to flag up potential fraudulent activity, at which point the customer is asked to make contact so that additional checks can be made before payments are processed. If the customer fails to get in touch, their account might be blocked temporarily until the issue is resolved. Of course, if HMRC put similar processes in place, they will need to ensure that they have sufficient helpline capacity to deal with the additional verification.

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

6.16.1 Any change to a more real time payment system for the self-employed which involves changing the basis of assessment will need more detailed consideration, but taxpayers cannot be expected to pay two years' tax in one year.

6.16.2 It might be useful to revisit how the change from the old 'previous year basis' of assessment to the current year basis was managed when Self Assessment was introduced in 1996/17 when considering transitional provisions. A similar averaging method could perhaps be used. There could also be an option to spread any additional taxable income (or maybe the tax due on the additional income) over a period of a few years. There is a precedent for this with the six-year spreading adjustment available on the change from the cash basis to the accruals basis.

7 Call for evidence questions: CASH FLOW IMPACTS (Chapter 5)

7.1 *Q 34. What methods do taxpayers use to budget for their tax bill?*

7.1.1 The main methods that we come across for budgeting for tax are covered in paragraph 5.4 of the call for evidence document so we do not have anything to add on this.

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

7.2.1 HMRC need to issue clear, regular statements to taxpayers to let them know what their tax position is at a particular time. This should cover all types of tax payments (income tax, PAYE, VAT etc) on one statement and it should clearly show what is coming due for payment and what (if any) is overdue. These should be provided in paper form as well as in electronic form within personal tax accounts/single digital tax account if requested.

7.2.2 HMRC's decision to withdraw regular statements and payslips relating to Self Assessment payments a few years ago means that some people do not pay on time as they do not get the prompt they expect to receive to ensure they deal with it by the due date.

7.2.3 HMRC also need to make it as easy as possible to make payment, so offer as many different payment options as possible and, as discussed earlier, publicise the budget payment plan more widely and make them easier to set up.

7.3 *Q36-41*

7.3.1 Many points relating to the impact of these proposals on cash flow have already been made throughout this response. We have nothing further to add in this section.

8 Wider questions (Chapter 6)

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

8.1.1 PAYE is generally considered to be a relatively successful way of collecting tax because it is withheld at source, although it places a large administrative burden on employers, especially the smallest employers with no in-house administrative support. One consideration in furtherance of this policy must surely be for HMRC to make sure that those who are required by law to operate PAYE do so.

8.1.2 The law says that 'employees' should be taxed under PAYE operated by their employers. The problem is that this law isn't always followed – either because it is too confusing or unclear, or because people choose to ignore it. So more could be done to clarify where the borderline is (either by making it less subjective or by improving guidance) and more should be done by HMRC to ensure engagers are meeting their PAYE obligations where there is an employment.

8.1.3 By taking action to ensure that those who need to pay their taxes via PAYE can do so, HMRC could 'cleanse' the number of people paying their taxes through Self Assessment, as this would eliminate those who should be taxed under PAYE but are being treated as self-employed from Self Assessment, leaving just those who are genuinely self-employed within the Self Assessment system.

8.1.4 Furthermore, consideration should be given to other ways in which tax can be withheld at source by third parties which would improve collection and be more real time payments. This might include DWP withholding tax from state pension and taxable benefits such as carers allowance (and the equivalent in the devolved administrations).

8.1.5 It might also include certain digital platforms who could potentially operate a construction industry scheme (CIS) type deduction arrangement for gig economy workers (so a type of simplified PAYE), given the difficulties and complexities that can exist as a matter of economic reality for them.

8.1.6 As we have explained in our response to the 2018 consultation on online platforms[1], for those treated as self-employed for tax purposes in the gig economy (whether workers or self-employed for employment law purposes), there is often an element of difficulty in meeting their tax obligations. They may be involved in providing services such as food delivery, couriers, taxiing, etc, but they may not have a good grasp of UK tax and may not have the confidence they need to navigate the system. They may not realise they need to register for tax in the first place, given the irregular and often 'on demand' nature of the income. Even if they register successfully, many will not have had to fill in a tax return before and are unlikely to engage an accountant or tax adviser.

8.1.7 As a consequence, many individuals will try and do things themselves and get things wrong, which may well result in under-reporting or over-reporting. If they can complete and file their tax return properly, often they won't have budgeted for their tax bill – particularly if there is also a first payment on account to pay and they owe more money than expected. If they can't afford to pay their tax bill, then some people mistakenly think they would be better not to file their tax return at all. This course of action can then snowball very quickly and the taxpayer can find themselves in significant amounts of debt with HMRC.

8.1.8 If there was withholding like CIS, many of these problems would be significantly reduced. It could provide clear benefits to government (stop leakage) and taxpayers (lift burdens) alike. Final adjustments could be made by means of a simple reconciliation process at the end of the year.

8.1.9 In short, a withholding tax would improve compliance and reduce the stress and anxiety that must go hand in hand with tax compliance in the gig economy, as there would be no need to budget for taxes during the year. The most significant consideration in designing a withholding tax is the proper withholding rate. Although a flat rate of 20% may be too much in some instances, in our experience

[1] https://www.litrg.org.uk/sites/default/files/180608-LITRG-response-online-platforms-FINAL.pdf

of dealing with CIS workers, many like the feeling of being in 'credit' to HMRC and of getting a lump sum refund at the end of the tax year.

8.1.10 For those with large expenses there could be cash flow difficulties. One option to deal with this would be a straight withholding at a particular rate – perhaps with different percentages for different sectors (a bit like flat rate VAT scheme).

8.1.11 A flat rate is probably more practical from both the perspective of HMRC and the online platform. It would be easier for HMRC to monitor it more straightforward for the platform to apply and therefore cheaper for them.

8.1.12 Further research is required to fully understand the impact of withholding on those concerned and the feasibility of implementing the requirement on online platforms. Thought should be given as to how withholding may interact with a person's UC position, given that UC is based on their net (after tax) income. A way needs to be found to tax those in the gig economy without so much reliance on Self Assessment and we therefore suggest the government consult further.

LITRG

12 July 2021