IFA REPRESENTATION 06/21

The IFA welcomes the opportunity to provide feedback to the Call for Evidence: Timely Payment published by HMRC on 23 March 2021.

We would be happy to discuss any aspect of our comments and to take part in all further consultations in this area.

Institute of Financial Accountants
Member of the IPA Group
CS111, Clerkenwell Workshops
27-31 Clerkenwell Close
Farringdon, London EC1R 0AT
T: +44 (0)20 3567 5999
E: mail@ifa.org.uk
www.ifa.org.uk

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium sized enterprises or in micro and small to medium sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME-focused accountancy group, with over 40,000 members and students in over 80 countries.

The IFA is a full member of the International Federation of Accountants (IFAC) the global accounting standard-setter and regulator. We are also recognised by HM Treasury and the Financial Services Authority in the Isle of Man to regulate our members for the purposes of compliance with the Money Laundering Regulations.

For more information, please contact the IFA mail@ifa.org.uk

www.ifa.org.uk

1. Purpose

The views contained in this report are those of the IFA as a body and do not represent the views of any one person. Feedback was taken from a number of IFA members and supporters to form the basis of this report.

2. Approach

The IFA consulted its members concerning the Call for Evidence: Timely payment. This response reflects the views of around 40 IFA members who took part in an IFA members' survey.

We have not formed a response to every question in the Call for Evidence, instead we have concentrated on the key questions of interest to our members. We have referenced those responses using the original question numbers from the consultation paper.

3. Executive summary

As this consultation is a broad Call for Evidence the IFA is presenting a range of views from its members.

Our members are particularly focused on their role as tax agents to help taxpayers understand their tax liabilities, and to pay their tax on time.

IFA members want to be supported by HMRC to provide the best possible service to their clients, and to do that tax agents need to see exactly the same information that the client sees as a taxpayer, i.e. the data presented in their personal tax account and business tax account.

From a legislative and policy development perspective, the IFA is concerned that this call for evidence is running in parallel to the Call for Evidence on The Tax Administration Framework Review. We are of the view that the outcomes from the Call for Evidence on The Tax Administration Framework Review may influence this call for evidence, particularly identification of taxpayers, improving the way tax liabilities are calculated and payments and repayments. Furthermore, we do not understand why the government has chosen to prioritise the area of timely payments over the other areas included in the Call for Evidence on The Tax Administration Framework Review.

We are also concerned about the economic impact on individuals and SMEs of earlier payments of income and corporation tax. Covid-19 has resulted in individuals and small businesses being financially fragile as well as causing significant disruptions to ways of working.

From member feedback, there is limited support to increase the frequency of payments to monthly payments. Feedback also indicated that some businesses have problems paying tax on a quarterly basis based on MTD quarterly updates, for example, those businesses which have cyclical or seasonal trading patterns or those businesses where working capital is tied up. Therefore, it is imperative that any increases in the frequency of payments are only considered if there is a reliable method and information for calculating earlier payments which is not currently the case for some businesses.

Given the above, the IFA recommends that other methods for timely payments are explored such as paying by instalments. However, given the financial fragility of many smaller businesses, any changes encouraging early payments should be voluntary.

Our final key point relates to timing. Implementing changes to tax payments at a time when many individuals and small businesses are struggling is likely not to be welcome if mandatory and may also be a distraction on other government policy priorities such as the review of the tax administration framework, implementation of MTD roadmap and further reduction of HMRC's assessment of the tax gap.

4. Detailed response

Q1. Do you have any comments on the benefits and challenges of timely payment outlined above?

Taxpayers currently have to cope with many differing payment periods for different taxes. It may help taxpayers if payment periods were similar for all business taxes.

Taxpayers sometimes use the wrong reference number when making a tax payment. It would help if the taxpayer did not have to deal with multiple tax accounts when paying one body: HMRC.

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.

IFA members feel some taxpayers are confused by tax year end and accounting year ends on different dates. Comments include:

- Clients get confused with all the different dates e.g: 5th April end of personal tax year - this should be aligned to a month end e.g. 31 March or 5 April.
- There should be a big push towards encouraging people to submit their self-assessment tax return asap after the tax year end and not wait until January of the following year.
- Most people do not understand the complexities of the UK tax code and are horrified to find that they have to pay payments on account following their first tax year ending towards the following year. Most feel this is unfair.

Q6. What are the advantages of the current payment timings?

Tax Agents see it as part of the service they provide to clients to explain what tax is payable, and by what dates. Once most clients are through the start-up stage of their businesses, they understand the payment system.

Comments from IFA members in favour of the current system include:

- The payment dates are well known by self-employed traders, and money can be set aside. However, many traders do not put sufficient money aside to pay their tax.
- It does give time to get the figures together and discuss with clients.
- It's fair as its half in advance of year end half after.

- Taxpayers are able to split their tax bill over two instalments and they have a good understanding of this system.

Q7. What are the challenges with the current payment timings?

A slim majority of IFA members (55%) felt that their clients have some problems in understanding what tax payments they need to make and when.

Comments from IFA members include:

- Neither the 31 January or 31 July payments on account (POA) amounts are ever 'final' as there is always an element of guesswork. There is no clear cut-off between fiscal years.
- Many self-employed traders do not have consistent income levels year on year, so making on-account payments based on the previous year's profit level can be seen as unfair. However, if this is properly managed by the accountant the POA can be managed effectively with the current system.
- Many traders do not realise they may still have to make the 31 July payment in cases where their tax returns are filed early in the tax year.
- Disadvantage of the POA system is these payments are often estimated and eventually do not bear resemblance to the final tax position.
- Tax is paid much later than to when the income is generated.
- Taxpayers are generally confused with payments on account and when tax is due.
- Where the final tax calculation shows reduced tax for the following year then the payments on account made in January and July means that more tax has been paid on account than required and a repayment is due. This repayment does not happen with any urgency and tax reclaims can sometimes take months.

Q8. Do you have any comments on the specific challenges faced by non-business ITSA taxpayers?

IFA members had the following comments for non-business taxpayers:

- Those who receive the state pension cannot understand why it is taxable
- Directors who receive large dividends find it difficult to budget for tax payments

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

Nearly 78% of IFA members report that clients have difficulty in budgeting for paying tax in the first two years of the business, and members mentioned that clients are confused by having to make payments on account of income tax due.

Comments from IFA members include:

- Newly self-employed individuals may have a more variable income stream and can be surprised that after a bumper first year, that they are faced with large payments on account, even though those POA can be reduced.
- The first year's payment makes it seem as though the taxpayer is paying double tax in year one of the business.

- It can be difficult to explain to taxpayers why they have to pay tax twice a year, especially when historical figures are used to estimate their taxes.
- Paying two instalments in advance and a balancing payment is confusing especially for those entering self-assessment for the first time.

Q11. What are the benefits of the existing payment timings for CT?

The following reasons were cited by IFA members as benefits of the current once per year (9 months after accounting period end) timing of corporation tax payments:

- Planning of capital expenditure to reduce liabilities. The capital allowance regime is a big advantage but can cause later problems if the full 100% FYA is taken in one year and there is no continual replacement of capital assets.
- Ability to use loss reliefs where applicable to reduce overall liability
- Businesses have time to pay their corporation tax. In theory they should be saving during the year but in practice this is not always possible.
- New companies benefit the most at the current nine month delay allows some breathing space on cash flow in the first "set up" period.

Q12. What are the challenges with the current payment timings for CT?

IFA members had the following comments on difficulties with current corporation tax payment dates:

- Unless cash is set aside then a large sum can fall due.
- HMRC's refusal to issue reminders so people then forget to pay.
- Clients do sometimes forget to pay the Corporation Tax even when reminders are issued.
- Some property developers potentially struggle to have the remaining cashflow to finish ongoing projects after paying CT.

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?

The IFA members are not enthusiastic about accelerating payment dates for Corporation Tax or ITSA. Some 45% of members believe a more frequent tax regime should be based on the current year liability and 55% of members believe it should be based on the immediate prior year liability.

On the timing of Corporation Tax payments IFA members comment:

- Bringing forward tax payments would speed closure of the vast number of companies no longer viable.
- The existing timings in respect of Corporation Tax work well. If it’s not broken don't try and fix it.
- Why not bring the filing date for the CT600 back to 9 months after the year end?
- Limited Company accounts take more time to prepare than Sole Trader accounts, time is needed to sort out overdrawn director’s loan accounts before payment is due.

- A lot of businesses do not get paid within 30 days and therefore unless the law is changed in regard to paying on time these smaller businesses will find it hard at best to pay their taxes, simply due to cash flow and the bigger business being slow to pay the smaller ones.

On the other hand there is some support for small companies to pay corporation tax quarterly or after 6 or 7 months:

- Small owner-managed companies would, for cashflow purposes, benefit from paying in four instalments based on the immediate prior year liability.
- Bring the payment deadline to 6-7 months after year end.

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

IFA members are almost evenly split over whether ITSA payments should be made on four dates in the year (55%) or retain the current two dates (45%).

IFA members also commented that better information from HMRC would help taxpayers, comments included:

- There can be confusion over what has been paid and what is owed, even in cases where payment plans have been agreed by HMRC.
- A lack of timely statements of tax owed and due issued by HMRC can add to the confusion, as they are sometimes dated many weeks or days earlier and the position has changed by the time they receive the statement from HMRC. This leaves some taxpayers unclear or they may have forgot what is owed, especially if their tax return was completed early in the annual cycle or indeed late resulting in late payment penalties accruing.

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?

Under MTD an estimated tax liability will be reflected back to the taxpayer after each MTD quarterly update. However, unless the tax payment system is changed the tax payable will be based on the profits reported in the previous year not the current year (as reported under MTD). Eighty percent of IFA members thought this mis-match of reflected tax liability and actual tax liability would confuse taxpayers.

The benefits of paying tax based on the MTD quarterly reports include:

- fewer "surprise" bills for taxpayers
- many taxpayers may prefer regular payments
- discharging the tax liability quickly will be seen as a benefit by some taxpayers.

The disadvantages of paying tax based on MTD quarterly reports include:

- Paying tax and reporting to HMRC on a quarterly basis adds further complexity and increased potential for confusion for taxpayers
- Losses carried forward or back will distort the amount of tax due.

- The taxpayer will need to make five returns a year to HMRC under MTD instead of one.
- Clash of income tax liability with VAT payments due may strain the cash reserves.
- Significant administrative burdens in terms of maintaining books more frequently.

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?

The following businesses may have problems with paying tax on a quarterly basis based on MTD quarterly updates:

- Those which have cyclical or seasonal trading patterns may have cash flow issues as they need to purchase large amounts of seasonable stock in advance.
- Those which do not use the cash basis to draw up accounts could suffer cash flow problems.
- Those with long work-in-progress or working capital tied up in receivables that are outstanding or on extended payments terms may not actually have received the income upon which they are allegedly being taxed.
- Letting agents who inform HMRC of the rental income of landlords (as a third party) may not know the exact ownership split of the property between different taxpayers (e.g married couple).
- Those which claim significant capital allowances will make adjustments for those allowances once a year and hence pay too much tax on a quarterly basis.
- Those with poor IT skills may make inaccurate quarterly updates as it won't be economical for an adviser to check each submission.

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?

IFA members are generally not in favour of expanding the number of ITSA payments on account from two to four in the year, (55% are against this idea).

If tax payments are to be more frequent, 55% of IFA members say these payments should be based on the profits of the immediate prior year rather than the current year's liability.

Q26. If there were flat-rate expenses, should they replace the actual expenses or only act as a proxy for in-year calculation?

A majority of IFA members (67.5%) feel that flat-rate expenses should be restricted to smaller businesses.

Also a large majority (80%) are against flat-rate expenses replacing actual costs.

On balance IFA members (54%) felt that flat rate expenses should only act as a proxy for in-year calculations, with the actual expenses used to determine the final amount of tax due.

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

Monthly payment

There was limited support among IFA members to increase the payment frequency, but some favour taxpayers being able to make monthly payments by direct debit.
Other suggestions included:

- Set monthly instalment with a balance to pay or be refunded or adjusted for the coming period.
- Allow tax payers to pay monthly - they find it easier to budget monthly and we regularly have clients asking why can't they.
- Offer monthly instalment payment plans, so tax is paid on a monthly basis.

Annual payment

A proportion of IFA members felt it was more important to pay the correct amount of tax after the year end, when the calculations are finalised. Members' comments included:

- Speed is not the issue. Paying the correct amount of tax according to tax legislation is the issue. Once the correct amount of tax is determined then tax payments/repayments follow.
- Paying an estimated amount in-year can create apparent overpayments. This can lead to the taxpayer requesting a tax repayment only for other circumstances later in the year to result in a tax liability which would not have occurred had the overpayment not been refunded.
- Tax payments should be based on the end of the tax year as it is now. Once a self-assessed individual or company have had their tax calculated then this should be paid to HMRC. Payments on account should be stopped.
- The self-employed and partnerships should pay tax like limited companies that is 9 months after the year end.

Q30. Do you have any comments about how over-payments or under-payments of tax could be resolved in-year?

In reply to this question the IFA members focused on the quality and efficiency of the service provided by HMRC.

The IFA member suggestions included:

- If tax reporting is quarterly, then tax payments should be adjusted quarterly, rather like VAT.
- Use an online submission for tax refund claims, as it works well for VAT refund claims
- The taxpayers should be given the option to request for tax overpayments to be refunded or be credited to their personal tax/ business tax accounts
- HMRC should process all repayment claims faster including:
  - CIS repayments for companies
  - Corporation tax refunds from losses carried back
  - Section 455 repayments
- HMRC should be penalised for withholding repayments for an undue amount of time.

- Give tax agents access to the taxpayer's personal and business tax accounts (see Q 45 below)

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

Several IFA members raised points concerning tax statements, such as

- Current tax statements baffle taxpayers.
- HMRC need to produce bank-style statements that taxpayers might actually comprehend
- HMRC need to issue simplified timely reminders; this currently doesn't happen for ITSA taxpayers.
- HMRC should issue reminders and final reminders at least 30 days before due date.

IFA members also made the following suggestions on how HMRC could help taxpayers pay tax on time:

- Increase the HMRC guidance about the pattern of tax payments for newly self-employed.
- Allow payment of tax by credit card [this is currently permitted but only with a fee charged].
- Encourage more taxpayers to pay by direct debit as is currently the case with VAT
- The HMRC accounting system should not create a false overpayment on the account where tax is paid early, which causes the taxpayer to think they have overpaid
- Hold regular webinars to educate taxpayers and encouraging taxpayers to make payments on their accounts towards future tax liabilities whenever possible.
- Move to wider use of emails.
- Reply promptly to queries from tax agents and taxpayers
- Answer telephone calls promptly.
- Accept more flexible on account payment system
- Further streamlining of HMRC's accounting systems is required.
- Credit on taxpayers' accounts should attract some form of interest which would encourage taxpayers to pay their tax liabilities in advance.
- Sufficient time should be given to resolve all overpayments or underpayments without any financial consequences
- Allow tax agents access to someone senior within HMRC who can really help.
- Better training for HMRC staff.
- Make the government gateway easier to navigate.
- If people lose their User ID and passwords, make is easier to resolve.

See further comments under Q45 below.

Q36. Do you have any comments on the positive and negative cash-flow impacts for businesses of more timely payments?

Small businesses do have cash flow issues, especially in the early years and some IFA members feel that the tax system doesn't recognise this. Comments from members include:

- Just because it has been invoiced, the money is not in the trader's pocket to spend. This may be a good argument for using the cash basis for small businesses. Cash flow is the magic word for any business. If debtors do not pay up quickly enough, this can cause severe problems for the business.

- The payments on account payable on 31 January and 31 July towards the next year are forward payments and this does damage cash flow for most self-employed people. The reason for this is that they have to pre-pay tax that may not be due.
- The first few years of any business or activity are challenging and surrounded by uncertainty. Budgeting and cash flow forecasting are always very challenging.
- If a trader has a bumper first year, the payments on account will be high, but the second year may prove less profitable and so there may be cash flow issues when paying tax in the second year.
- Many businesses have hit hard times or are unable to generate enough working capital in the early years and pressure to use cash in the bank to keep going will sometimes be at the expense of being prudent and putting away taxes that will be come due.
- To change this system so it becomes more like a "pay as you earn" system would also damage most new businesses especially in the earlier years when investment is needed. In my opinion the payment on account system should be removed and payment of tax for the self-employed based on a PAYE structure should NOT even be considered.

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

IFA members focus on the role of tax agents to help taxpayers understand their tax liabilities, and to pay their tax on time. The members noted that advice from a tax agent will be more trusted by taxpayers than from anywhere else.

Nearly 98% of members said allowing tax agents to access the personal tax account and business tax accounts of their clients would help those taxpayers, as it would allow tax agents to explain the data presented in those accounts. Many clients do not understand their personal or business tax accounts.

Other comments included:

- Currently, it's like having our arms tied behind our backs when trying to service the needs of client's and resolve issues with HMRC. We are the client's tax agent and have authority to deal with such matters, why are we not allowed access to the personal tax and business tax accounts is a mystery and clients have approved it.
- The decision by HMRC to restrict tax agents' access to clients' personal and business tax accounts shows that HMRC are trying stop agents gaining a full picture and their clients tax position and thus a restriction on the advice they will be able to provide to their clients.
- The only logical reason why tax agents can't access their clients' online personal tax and business tax accounts is because HMRC want to try and restrict the advice an agent can give, in order to increase the tax take and/or fines and penalties due to lack of experience or knowledge on behalf of the individual taxpayer.
- HMRC should help Agents to be in a position to work with them to get things right.
- Reintroduce tax bonds (certificates of tax payment).

Contact details

Should you wish to discuss our responses further, please contact Anne Davis, Director of Professional Standards, by email at anned@ifa.org.uk