HM Revenue & Customs

Timely payment

Call for evidence

Publication date: 23 March 2021

Closing date for comments: 13 July 2021

Summary

Subject of this consultation

Early engagement on the opportunities and challenges of bringing payment under Income Tax Self-Assessment (ITSA), and Corporation Tax (CT) for small companies, closer to the point where the income or profit arises.

Scope of this consultation

In July 2020, the government published a 10-year strategy to build a trusted, modern tax administration system. As part of this strategy, this document seeks views on the benefits and challenges of both the current tax payment timings and of moving to more frequent calculation and payment based on current year information. It focuses on the ITSA regime and CT outside of Quarterly Instalments. There is also an opportunity to provide feedback on other taxes.

Who should read this

This discussion document will be of interest to everyone paying tax under ITSA with income not already subject to deduction at source, and those in the Corporation Tax Self-Assessment (CTSA) regime who are not paying under the Quarterly Instalment Payment regime. It will also be of interest to advisers and representative bodies of such taxpayers. The government is interested in hearing the views of wider stakeholders including finance professionals, software providers, charities and other voluntary organisations and civil society.

Duration

The call for evidence will run for 16 weeks from 23 March 2021 to 13 July 2021

Lead official

Caroline Eele, HM Revenue & Customs

How to respond or enquire about this consultation

Responses, request for hard copies, meeting arrangements, and general queries can be sent by email to timelypayment@hmrc.gov.uk

Additional ways to be involved

HMRC will be happy to host or attend meetings with interested parties to discuss these proposals, bearing in mind current restrictions.

After the consultation

The government will publish a response document after the call for evidence closes.

Getting to this stage

In July 2020, the government published a 10-year strategy to build a trusted, modern tax administration system which included a commitment to explore options for the timely payment of tax.

Previous engagement

A consultation on Voluntary Pay as You Go was held from August to November 2016 to look at options for customers to make and manage voluntary tax payments. HMRC officials have spoken with stakeholder groups over summer/autumn 2020 to seek views on the key issues to be addressed.

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Foreword

In the March 2020 Budget, the Chancellor highlighted the government's intention to create 'a tax system fit for the challenges and opportunities of the 21st century'.

In July 2020 I set out the government's vision for building a trusted, modern tax administration system; designed to improve its resilience, effectiveness and support for taxpayers. This document is part of that 10-year vision, and looks to start an open, collaborative and transparent conversation about the digital future of the UK's tax administration system.

At the heart of the government's vision is a tax system that works closer to real time, allowing people and businesses to pay the right tax with ease as they live their lives and go about their business; one that is adaptable, resilient and responsive, not merely collecting tax due but enabling targeted support to be provided to people and businesses in the face of future national crises. Where possible, the government will seek to use digitisation and modernisation to simplify processes and ease impacts on taxpayers.

The delays that are at present inherent in the UK tax system can make it hard for people to manage their cash flow, particularly for the newly self-employed, whose first tax bill could be up to 22 months after they start trading. They can thus lead to taxpayers getting into debt, which causes stress and difficulties for them, creates additional cost for HM Revenue and Customs to manage, and contributes to the non-payment tax gap, taking away revenues needed to support public services.

Many countries are already operating with, or considering the introduction of, modern, digital tax regimes that bring tax payment closer to earning the income, and it is important that the UK keeps pace. The OECD Forum on Tax Administration predicts that tax administration processes will become increasingly real-time or close to real-time, as required to stay synchronized with daily life and business transactions and events.

However, the government recognises that alteration to the timing of tax payments would be a major change. It also recognises that many businesses are struggling at the moment due to the economic impact of the coronavirus outbreak. For that reason, it has no intention to make significant changes to the timing of Income Tax or Corporation Tax payments within the present parliament. If change happens it will be reforming and not revolutionary: gradual, structured over the longer term, and carried out in close collaboration with stakeholders.

Today, the government has published a call for evidence on reform of the tax administration framework. This is designed to explore how the legislative framework can be simplified and modernised to support a 21st century tax system. It is important to read this document alongside the government's other call for evidence on the tax administration framework; where wider questions on payment are considered, as well as a host of other relevant considerations about how to simplify and update the legislative framework on which the UK tax system is based.

It is of cardinal importance that there should be a collaborative, open and transparent discussion between government and a wide range of stakeholders on the opportunities and challenges of more timely payment of tax, so that the impacts on different groups of taxpayers can be fully understood and accommodated.

I hope this call for evidence will be the start of that discussion.

Rt Hon Jesse Norman
Financial Secretary to the Treasury

1. Introduction

Background

1.1. Tax administration needs to keep pace with rapid change in society, the economy and technology. A modern system should allow people and businesses to understand how much tax they owe, and why, and to pay the right tax with ease. COVID-19 has further reinforced the need for a more flexible, resilient and responsive tax system.

1.2. As part of its 10-year Tax Administration Strategy published in July 2020, the government has published a call for evidence on reform of the tax administration framework to explore how the legislative framework can be simplified and modernised to support a 21st century tax system.[1] Chapter 6 of the call for evidence on the Tax Administration Framework Review looks at the wider payment landscape, including variations across different taxes and duties, and how the experience of payment of multiple taxes can be improved.

1.3. Alongside this, the government is interested in exploring the appropriate frequency and timing of tax payments in more detail, and this document seeks views on the opportunities and challenges of bringing the payment of tax closer into line with the increasingly real-time nature of tax reporting and other services.

1.4. For the purposes of this document, Timely Payment is defined as bringing the calculation and payment of tax closer to the point where the income or profit arises, paying tax based on the taxpayer's current year position using, where possible, up-to-date data. Chapter 4 begins to explore the options for how this could be approached.

1.5. The government recognises that it is essential to work collaboratively with stakeholders on this, and the questions throughout this document seek to gather responses across the wide and varied population of taxpayers within the scope of the Income Tax Self-Assessment (ITSA) and Corporation Tax Self-Assessment (CTSA) regimes, and from their advisers, representative bodies, civil society, and more widely.

1.6. The government also recognises that many businesses are currently experiencing tough economic conditions. No decisions have been made on changing payment timings and any such changes would be introduced gradually, in close collaboration with stakeholders, and not within this parliament.

Building a Trusted, Modern Tax Administration System

1.7. This call for evidence is a key part of delivering on the government's 10-year tax administration strategy 'Building a trusted, modern tax administration system'.[2] The

[1] Tax Administration Framework Review Call for Evidence; GOV.UK, March 2021.
[2] Building a Trusted, Modern Tax Administration System; GOV.UK, July 2020.

strategy sets out how the government will make sure tax administration keeps up with the rapid changes taking place in society, the economy and technology to deliver the flexible, resilient and responsive tax system the UK will need in the years ahead. The strategy focuses on delivering a fully digital tax system that works closer to real time, is fair and builds trust.

1.8. The government is committed to having an open dialogue throughout the delivery of the 10-year tax administration strategy. This approach will ensure we can design the UK tax administration system with customers and stakeholders, working with them to help shape solutions that meet the needs of service users and taxpayers. We welcome your contributions as the timely payment of tax is an important part of delivering a trusted, modern tax administration system as it allows people and business to pay the right tax with ease in a way that more readily fits with how they live their lives and go about their business.

Enhancing voluntary options

1.9. HMRC already offers a Budget Payment Plan for ITSA taxpayers who are up-to-date with their self-assessment payments and wish to make regular weekly or monthly payments (of an amount they choose) towards their next tax bill via their HMRC online account.

1.10. It is helpful to distinguish between the Budget Payment Plan which budgets for future tax payments and ‘Time to Pay’ arrangements where tax already due is paid over a longer period.

1.11. HMRC customer insight shows that, although there is a demand for this type of facility, the existing Budget Payment Plan is not easy to find, set up or manage.[3] Understandably, this means that customer experience is poor, and the resulting uptake is low. This is in stark contrast to how customers pay their other regular bills, e.g. electricity bills where around 66% of bills are paid monthly via direct debit.[4]

1.12. In its 2019 report into simplifying the tax reporting and payment obligations for the self-employed and landlords, the Office of Tax Simplification (OTS) set out the limitations with the current Budget Payment Plan and recommended that the government consider making it easier for those taxpayers who wish to pay their Income Tax and National Insurance Contributions (NICs) more regularly.[5]

1.13. At Budget 2021, the government announced investment in HMRC systems to improve the Budget Payment Plan offer over the course of 2021-22.[6] HMRC will use customer insight to make the plan easier to find and sign-up to, increase payment flexibility, and provide customers with guidance and a view of their plan they can understand.

1.14. In addition, HMRC will look to market the enhanced Budget Payment Plan at key points in the customer journey through the customer’s tax account, and to taxpayer

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3 ‘Supporting customers to pay their tax on time’; GOV.UK, Aug 2018.
4 Annual domestic energy bills: GOV.UK, Jan 2021.
5 ‘Tax Reporting & Payment: Simplifying tax for self-employed people and landlords’, OTS; GOV.UK, Oct 2019.
6 Budget 2021; GOV.UK, March 2021.

groups who are most likely to benefit such as those at the end of a Time to Pay arrangement or at first registration.

1.15. Providing (and signposting to) this straightforward means of budgeting will respond to customer feedback[7], provide better support to taxpayers trying to comply and reduce the worry and stress around tax payments, enabling taxpayers to focus on their business activities. Increasing payment flexibility will help the growing numbers with fluctuating or irregular incomes to manage their tax affairs in a way that works for them.

1.16. Enhancing the Budget Payment Plan will also offer new insight and evidence, which can be used alongside the responses from this call for evidence to develop the future approach to the timing and frequency of tax payments.

Scope of Call for Evidence

1.17. This call for evidence will focus on Income Tax and NICs (outside of existing regular payment regimes such as Pay As You Earn, PAYE) as this is the most significant example of a delay between the point of taxable income and the point of tax payment.

1.18. The document also seeks to explore options for more timely payment of CT by companies outside of the Quarterly Instalment Payments (QIPs) regime (broadly those with profits below £1.5m). In many cases, there are few practical differences between an incorporated and a non-incorporated business and any changes to payment timings for Income Tax, without a corresponding change to the timings for CT, would risk increasing distortions and the incentives for tax motivated incorporation.

1.19. Whilst for individuals, chargeable gains are handled discretely from Income Tax under the Capital Gains Tax (CGT) regime, companies pay CT on total profits including chargeable gains. Therefore, any changes to the timings for payment of CT would also affect when companies must estimate their chargeable gains. Chargeable gains are already embedded in the QIPs regime for larger companies, but the government is interested in exploring whether there are any specific problems in applying a similar treatment to both the income and gains of smaller companies.

1.20. In principle, the government also welcomes views on whether more timely payment options should be explored for CGT outside of the existing regime for UK property; however, this document does not cover CGT in detail. The government may explore the opportunities and challenges of more timely payment of CGT in more detail in the future, and Chapter 6 invites initial views.

1.21. VAT is generally, but not always, paid on a quarterly basis and large VAT payers, those who owe more than £2.3m in any period of 12 months or less, are required to make more frequent payments on account. As announced at Budget 2018, the government is already looking at real-time tax payment, facilitated by an intermediary, for the payment of VAT. This more timely approach to VAT payment is being explored with the intermediaries that process retail payments for traders via a Government-Industry Working Group. Therefore, we do not intend to cover VAT in

[7] 'Supporting customers to pay their tax on time'; GOV.UK, Aug 2018.

this call for evidence. However, HMRC will look to build on existing relationships and progress with members of the Working Group to explore, among other things, the technological aspects of how more regular calculation and payment could work.

1.22. Chapter 6 also seeks views on whether there are other taxes administered by HMRC, outside of the main tax heads, for which options for more timely payment of tax should be explored.

1.23. The wider tax payment landscape, including the variations in payment processes across different taxes and potential benefits of a reduced set of payment rules, is explored in the call for evidence on the Tax Administration Framework Review.

1.24. The nature of this document is to outline the issue in broad terms to generate initial discussion and establish the key issues to focus on in future engagement. When addressing questions, if you have concerns over the precise nature of how any potential future policy may work, or can see several options, please feel free to note any uncertainty and/or assumptions and how they influence your answer.

Interaction between Making Tax Digital and Timely Payment

1.25. VAT-registered businesses with turnover above the VAT registration threshold (£85,000) have been required to use Making Tax Digital (MTD) to submit their VAT returns since 2019. As part of its tax administration strategy, the government has already announced the next steps for MTD. VAT-registered businesses with turnover below the VAT registration threshold will need to start using MTD for their VAT returns from 2022, while self-employed businesses and landlords will need to use MTD for their Income Tax from 2023. The government has also recently consulted on how MTD should be extended to CT.

1.26. MTD requires taxpayers to keep records digitally, typically using accounting software and/or a smartphone app, although they can continue to use spreadsheets if they prefer. They will use software that then automatically prepares a quarterly summary of their income and expenses (for Income and Corporation tax) or their VAT return, directly from their business records, and updates HMRC.

1.27. VAT is already generally paid quarterly, based on the VAT return. For Income Tax, the MTD reforms already announced do not change payment dates or amounts and more regular reporting under MTD need not lead to more frequent payment. However, MTD will enable taxpayers to view an estimate of their tax liability for the year based on their update information, which presents the possibility of using MTD quarterly update information to inform more regular calculation and payment of Income Tax in the future. This is discussed further alongside other options in Chapter 4.

1.28. The government is conscious of the need to ensure that MTD is progressed and delivered successfully. Any potential changes to payment timings would be as a long-term reform, and would need to take time to take full account of the breadth and variety of the populations involved in both ITSA and amongst small companies.

Content of the Call for Evidence

1.29. Chapter 2 sets out an overview of the potential proposed changes and outlines some of the opportunities and challenges of bringing the payment of tax closer to the point at which the income or profit arises. It also considers best practice from other tax authorities.

1.30. Chapter 3 gives a simplified summary of the current payment regimes for Income Tax and Corporation Tax and explores the benefits and challenges of the existing systems.

1.31. Chapter 4 explores some of the potential methods of moving to more regular payment, and the opportunities and challenges specific to those options.

1.32. Chapter 5 focusses on cash-flow impacts of changes to payment deadlines.

1.33. Chapter 6 seeks views on the payment timings and frequency of other taxes administered by HMRC and on alternatives for facilitating more regular payment, including exploring best practice from the private sector.

1.34. Annex A sets out some examples of tax payment timings in place in other countries. Annexes B and C list the relevant legislation for the current payment regimes, and simplified explanations of how they work. Annex D provides a brief overview of payment timings for other taxes administered by HMRC.

2. Principles

Overview of Chapter

2.1. This Chapter recognises and seeks to explore some of the benefits and challenges of more timely payment of tax. It also explores international examples of tax payment timings and seeks views on what lessons the UK can learn from other tax authorities.

Overview of timely payment

2.2. There are currently approximately 30 million taxpayers within PAYE, and 11.5 million who are required to report and pay tax through ITSA. There are 1.5 million companies liable for CT of which 99% are outside of QIPs requirements.

2.3. This document seeks views on a broadly defined proposal to increase the frequency and accelerate the timing of calculation and payment of Income Tax outside of existing regular payment regimes such as PAYE, and of CTSA for companies outside of QIPs requirements. The current law relating to payment is outlined in Annexes B and C for Income Tax and Corporation Tax respectively.

2.4. The government has not made any decisions on increasing the frequency of ITSA or CTSA tax payments or on the design of a more timely payment system were one to be introduced. Chapter 4 explores some of the potential methods of moving to more regular payment. These are not formal proposals, they are examples to give a framework for responses; and the government is interested in views on the benefits and challenges of different approaches.

2.5. This is not just about businesses or taxpayers in scope of MTD. Taxpayers may be within the ITSA regime for a variety of reasons; for example, because they are entitled to Child Benefit but earn over the threshold and are liable to pay the High Income Child Benefit Charge, or have predominantly PAYE income but also receive investment income.

2.6. It also covers those paying Income Tax through Simple Assessment such as State Pensioners who receive income over their Personal Allowance or PAYE taxpayers who have underpaid tax but cannot have their tax collected through their tax code. Responses to questions should be clear on the characteristics of the party or parties referred to.

Benefits of timely payment

2.7. Paying tax closer to the point at which the income arises would mean that the taxpayer would be more likely to have access to the funds to pay it when it became due.

2.8. The majority of people in the UK pay their tax monthly or weekly under PAYE. But for income taxable under the Income Tax Self-Assessment or Simple Assessment regimes, there is a delay between the point of taxable income or profit and the point of tax payment. Taxpayers are then required to pay their liability in large lump sums at set times of the year. For the newly self-employed, their first tax bill could be up to

22 months after they have started trading and cover the whole of the first year plus half towards the second. Similarly, for incorporated businesses, those companies outside of the QIPs regime will pay tax nine months and one day after the end of their accounting period.

2.9. External and internal HMRC research has found that some taxpayers struggle with the current time lag. A report published by the OTS[8] found that many of the self-employed, particularly those with lower incomes, would welcome paying tax more regularly, in order to help them budget and to prevent surprise bills. Customer research by Ipsos Mori[9] for HMRC found that those who had been in debt had a strong preference for paying tax in instalments in order to help budgeting and to give them a greater sense of control over their tax affairs.

2.10. Calculating and paying based on in-year information could provide taxpayers with greater certainty about their tax liability and, by spreading out the payments, could help taxpayers better manage their tax affairs, reducing the risk that they would be faced with an unexpectedly large tax bill at the end of the payment dates.

2.11. Research commissioned by HMRC[10] noted that some small businesses report increased certainty and cash-flow by apportioning tax into bite-size chunks and smoothing out peaks created by unpredictable tax liabilities. Many of the SMEs interviewed, particularly newer businesses and those with variable or seasonal income, could see that paying smaller amounts more frequently could enable them to better plan their finances and avoid 'shocks'. In addition, there are wider benefits to be gleaned from more regular tax planning as this can support wider business planning and productivity gains.

2.12. The HMRC research also suggested that current payment cycles can encourage taxpayers to dip into money set aside to pay the taxes due, potentially pushing them into a debt relationship with HMRC.

2.13. Tax debt can cause stress and other pressures and can lead to taxpayers incurring additional interest charges and late payment penalties. ITSA and CT make up approximately 34% of all outstanding debts to HMRC.[11] The time lag between income and payment can cause particular difficulties during challenging economic times, as tax bills are based on income earned in previous, more profitable years, or at times when taxpayers may no longer have the funds to pay them.

2.14. Research from the University of Gothenburg using data from Swedish taxpayers[12] suggests that people up-to-date with their tax payments in year, are less likely to incorrectly claim allowances or deductions at the end of the year; possibly as they feel less inclined to take risks because they are not seeing their liability as a loss or

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[8] 'Tax Reporting & Payment: Simplifying tax for self-employed people and landlords', OTS; GOV.UK, Oct 2019.
[9] 'Supporting customers to pay their tax on time'; GOV.UK, Aug 2018.
[10] Understanding the impact of taxation cycles on business experience and compliance behaviour of SMEs; GOV.UK; March 2015.
[11] HMRC research taking the average figure from HMRC debt balance for April 2018, March 2019, and March 2020.
[12] Engström, Per & Nordblom, Katarina & Ohlsson, Henry & Persson, Annika, 2011. "**Loss evasion and tax aversion**," Working Papers in Economics 518, University of Gothenburg, Department of Economics.

because they have greater confidence in, and control over their tax affairs more generally.

2.15. A more regular calculation and payment system would enable people and businesses to pay the right tax as they live their lives and go about their business and bring the payment of tax closer into line with the with the increasingly real-time nature of tax reporting and other customer services.

2.16. While, in the past, taxpayers may have required significant time for the manual preparation of accounts and returns, new technology and the introduction of MTD provides the opportunity to consider whether this is still relevant and whether the differences between PAYE and ITSA are still justified.

2.17. The introduction of MTD also means that, without payment changes, taxpayers could be seeing more current estimates of emerging tax liability in-year, but their tax payments on account would actually be due in January and July. Although taxpayers can choose to request amendments, the payments would generally be based entirely on how their business was performing around one to two years earlier.

2.18. Making budgeting easier could lead to reductions in tax debt which is costly for HMRC to manage and diverts resources from providing other support. Some of this tax debt is never paid, contributing to the non-payment tax gap and taking revenues away from our vital public services. As the Self-Assessment population grows[13], these risks are likely to increase.

2.19. Timely payments would also enable taxpayers to feel the impact of any changes to tax rates, reliefs, allowances, or other reforms more immediately, enabling the government's fiscal policy to be more responsive and adaptable. This could be particularly important during challenging or volatile periods.

2.20. Taken together with MTD and wider reform of the tax administration framework, more regular calculation, payment, and repayment could help facilitate better support to taxpayers, in a targeted manner, during future crises.

Main challenges of timely payment

Cash-Flow

2.21. The most obvious challenging effect of more frequent payment is on taxpayers' cash-flow, through a reduction in the funds available to them in-year. Aside from the impact on personal saving and spending, this could affect business' working capital and could have a knock-on effect for those who use, or in some cases require, funds to invest in their business to generate more income.

2.22. While businesses in some sectors might adapt to the cash-flow impact of more regular payments, the change for others would be harder. A shopkeeper, for example, may have a period between purchasing stock and receiving the income from the sales during which they rely on access to their tax to retain liquidity.

[13] The number of self-employed increased from 3.3m (12.0% of the labour force) in 2001 to 4.8m (15.1%) in 2017 Trends in self -employment in the UK, Office of National Statistics; ons.gov.uk, Feb 2018.

2.23. HMRC research[14] found that some businesses were concerned that paying tax more frequently would deprive them of the flexibility to dip into the money set aside for tax bills if needed and would mean they would lose out on interest accrued from the funds.

2.24. The reduction in funds available in-year could have wider economic impacts as it could reduce the ability of some to pay other creditors or to purchase goods or services from other businesses.

2.25. Many businesses, particularly companies (which are required to report under GAAP) will keep records and maintain their finances under accounting principles, using the accruals rather than cash basis. The government is committed to encouraging a culture of prompt payment between companies but recognises that late payment of invoices could cause a business operating under the accruals system particular cash-flow issues under a more frequent tax payment system.

Transition between regimes

2.26. Any transition from the current to a new regime would also need to be carefully managed to avoid significant adverse effects on business cash-flow during the first year, where, without intervention, there would be tax due from both the current and previous tax years. Ahead of any implementation, the government would engage in consultation to design transitional arrangements to manage this carefully, and avoid significant adverse effects for taxpayers.

Administrative burdens

2.27. The government also recognises that more frequent reporting, calculation and payment could increase administrative burdens on businesses and will carefully consider how to mitigate these. This is considered in more detail in Chapter 4.

Calculation of payments in-year

2.28. The government believes that to realise the customer experience benefits of Timely Payment any in-year payments should be based on an as up-to-date view of the taxpayer's position as possible. This could mean tax payments tracking the income and expenses and increasing or decreasing when profits rise or fall.

2.29. The government recognises that both Income Tax and Corporation Tax are annual taxes, and there will be challenges with how to calculate the taxpayer's emerging liability in-year. Particularly it will be necessary to recognise allowances, reliefs, and expenses which work on an annual basis (for example, capital allowances or the expense of an annual insurance premium).

2.30. More frequent calculation could also create a burden on taxpayers who might not otherwise need to report income to HMRC with such regularity (for example, for VAT, PAYE or under MTD). Without regular updates, the payments may be too high or too low, and the end of year reconciliation could be significant.

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[14] Understanding the impact of taxation cycles on business experience and compliance behaviour of SMEs; GOV.UK; March 2015.

2.31. The ability of those who need help with digital services and the timing and submission of data from third parties will also need to be considered carefully.

2.32. For those outside the scope of MTD, it may be possible to have less frequent reporting where the income is steady (and can be based on prior periods), or ad-hoc reporting where the taxpayer is comfortable that the ongoing liability can be based on prior reporting, with reports made to adjust as needed.

2.33. Chapter 5 looks at cash-flow in more detail and contains some case studies of different taxpayer groups to generate discussion, and Chapter 4 looks at transition and in-year calculation.

Question 1 Do you have any comments on the benefits and challenges of timely payment outlined above?

Question 2 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.

International Comparators

2.34. The OECD Forum on Tax Administration's discussion paper on 'Tax Administration 3.0' set out a vision where tax administration processes will be increasingly real-time or close to real-time in order to stay synchronized with daily life and business transactions and events.[15] It outlines how integrating more frequent payment into taxpayer systems and business cycles, alongside other advances such as real-time reporting and greater use of third party data, is a key enabler of 'tax just happening' and will help unlock a wide range of customer benefits such as: ease of use, time savings, reduced administration burdens as well as facilitating a more transparent relationship between taxpayer and tax authority.

2.35. The majority of other states similar to the UK require the self-employed to make some form of advanced payments towards their tax bill. The International Survey of Revenue Administration (ISORA)[16] collects national-level information and data on tax administration in advanced and emerging economies. The 2018 ISORA survey[17], based on data from 2016 and 2017, shows that quarterly or monthly payments are the most common.

2.36. Among others, Australia, the United States, and Norway, require self-employed taxpayers to pay their tax bills in quarterly instalments. Other tax authorities, including Sweden, require self-employed taxpayers to pay tax in advance via monthly instalments.

2.37. The default option for calculating these instalments is to base them on the previous year's tax bill, with the option to assess a lower bill.

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[15] Tax Administration 3.0: Digital Transformation of Tax Administration, Dec 2020.
[16] ISORA is governed by the IMF, OECD, Inter-American Center of Tax Administrations (CIAT), and Intra-European Organisation of Tax Administrations (IOTA).
[17] OECD (2019), Tax Administration 2019: Comparative Information on OECD and Advanced and Emerging Economies, OECD Publishing, Paris.

2.38. France has recently moved to closer to real time payment of tax for both employees and the self-employed with tax collected on a monthly or quarterly basis since January 2019.

Case study: France

In 2019, France moved to closer to real time payment of tax for both employees and the self-employed.

Previously, French tax residents filed an annual income tax return and paid their income tax the year after the income was received. Since January 2019, employers must withhold tax on employment income at source (similar to the UK's PAYE system) and the tax authority collects tax on other income (e.g. business profits, rental income) from the taxpayer's bank account via direct debit on either a monthly or quarterly basis.

The direct debit is based on the taxpayer's last tax bill but can be modified during the year by the taxpayer (for instance a self-employed taxpayer who ceases trading can stop paying instalments).

2.39. A number of countries have also introduced voluntary systems to make it easier for taxpayers to pay tax on a monthly basis if they wish. Further examples of tax payment timings in other tax authorities are set out in Annex A.

2.40. The government is keen to ensure the UK learns lessons from other tax authorities and is interested in the views of businesses and wider stakeholders who have experience of other systems and of changes to tax payment timings.

Question 3 What are the relative merits and disadvantages of tax payment regimes in other countries compared to the UK?

Question 4 Are there examples of tax payment timings from other states or territories which the UK should consider?

Question 5 Where people have experience or data of timing changes in other countries (e.g. recently in France), what have been the impacts and what should have happened differently?

Council Tax and Business Rates

2.41. The annual bills for business rates and council tax are usually paid over a 10-month period, although ratepayers and residents can generally request that payments are spread over 12 months or choose to pay upfront.

3. Overview of Current Regimes

Overview of Chapter

3.1. This Chapter gives a simplified summary of the current payment regimes for Income Tax and NICs (outside of existing regular payment regimes such as PAYE), and Corporation Tax (outside of the QIPs regime). There are more details of the rules and underlying legislation in Annexes A and B.

3.2. The purpose of the Chapter is to invite questions on the benefits and challenges of the current regimes, with a view to distinguishing whether there are particular winners and losers.

Income tax and National Insurance Contributions

3.3. The 30 million employees in the UK in PAYE already pay their tax and NICs monthly or weekly, with tax deducted at source when they are paid by their employer. The coding system enables, in the vast majority of cases, those deductions to be responsive to the actual income received; meaning that at the end of the tax year there is little or nothing to do.

3.4. The 11.5 million taxpayers in the ITSA regime are required to report and pay any tax and NICs dealt with in that regime by 31 January following the end of the tax year in question (10 months after the tax year end on 5 April). A taxpayer may be subject to the ITSA regime for a variety of reasons, including self-employment or being predominantly within PAYE but subject to the High Income Child Benefit Charge.

3.5. ITSA taxpayers who owe tax over £1,000 and have not already paid over 80 per cent of the tax owed (e.g. through their tax code) must make:

- a first payment on account on 31 January (10 months into the tax year);
- a second payment on account on 31 July (four months after the tax year end); and
- a balancing payment on the following 31 January (10 months after the tax year end) when their tax return is finalised.

3.6. The payments on account are based on the Income Tax liability for the previous year.

3.7. Around 500,000 taxpayers are in Simple Assessment, including State Pensioners who receive income over their Personal Allowance, and PAYE taxpayers who have underpaid tax but cannot have their tax collected through their tax code. Those in Simple Assessment would also pay their tax bill by 31 January.

Question 6 What are the advantages of the current payment timings? Are there any groups who rely more heavily on these than others?

Question 7 What are the challenges with the current payment timings? Are there any groups who are challenged or disadvantaged more than others?

Question 8 Do you have any comments on the specific challenges faced by non-business ITSA taxpayers (i.e. those in ITSA other than the self-employed, landlords, or large partnerships)?

Question 9 Do you have any comments on specific challenges faced by low income or vulnerable taxpayers?

Figure 1: Payment timings for ITSA

The graphic shows that the first payment on account falls ten months into the tax year in question, the second four months after the tax year end, and the balancing payment ten months after the tax year end.

New ITSA Taxpayers

3.8. The government is aware that the current payment timings can cause difficulties for taxpayers coming into ITSA for the first time - particularly for the newly self-employed and new landlords. In 2019, 390,000 new businesses were created.[18]

3.9. Taxpayers in their first year of self-assessment do not pay tax until the 31 January following the end of their first tax year. At this point, their bill covers the whole of their first tax year and their first payment on account.

3.10. For instance, a taxpayer who started a business in April 2018, would not be required to pay their first tax bill until January 2020 – 22 months after they had started trading. They would then be required to effectively pay tax on 18 months' worth of profits in one lump sum.

3.11. HMRC customer insight has found that taxpayers who are new to self-assessment can lack the knowledge and understanding of their tax obligations to enable them to know how much to budget for their tax.[19]

Question 10 Do you have any comments on the specific challenges faced by new ITSA taxpayers?

[18] ONS: Business Demography, UK: 2019; ONS, Nov 2020.
[19] Supporting customers to pay their tax on time'; GOV.UK, Aug 2018.

Corporation Tax

3.12. The normal payment date for Corporation Tax is nine months and one day after the end of the company's accounting period. Accounting Periods cannot be longer than 12 months. This timing applies to 99% of the population of businesses liable to Corporation Tax.[20]

3.13. 'Large Companies' (broadly those with profits between £1.5m and £20m) generally pay tax in quarterly instalments, known as QIPs, with two falling during the accounting period, and two after. 'Very Large Companies' (broadly profits over £20m) are required to pay their quarterly instalments during the accounting period.

3.14. QIPs for Large and Very Large Companies are based on the company's own estimate of its CT liability. HMRC pays or charges interest once the liability has been calculated if the company has over- or under- paid its advance instalments. The late payment interest on late or insufficient instalments is charged at a lower rate than late payment interest for tax due on the normal due date to take into account the estimated nature of the instalments.

3.15. Companies are set up for a wide variety of reasons, and the way they are run and the owners and officers manage the affairs may be very different. Paying and calculating tax as a trading company will be handled differently to a personal service company, and different again for a company used as an investment or asset holding vehicle.

3.16. Details on current CT legislation are set out at Annex C.

Question 11 What are the benefits of the existing payment timings for CT? Are there any types of company, sectors, or other distinctions which rely more heavily on the long payment window than others?

Question 12 What are the challenges with the current payment timings? Are there any types of company, sectors, or other distinctions which make the current payment timings challenging or disadvantageous?

[20] HMRC Corporation Tax statistics commentary; GOV.UK, Sep 2020.

4. Handling More Regular Payment

Overview of Chapter

4.1. This Chapter explores the specific benefits and challenges of more frequent calculation and payment of Income Tax and Corporation Tax outside of existing regular payment regimes. It picks up points made in previous chapters to explore some of the potential methods of moving to more regular payment, and the opportunities and challenges specific to those options.

4.2. It explores the following policy questions:

- Calculation of tax payments in-year (para 4.8-4.42), including how to deal with expenses (para 4.24-4.37)
- Timing of Payments (para 4.49-4.51)
- Handling over- and under- payments (para 4.52-4.55)
- Transition to any new regime (para 4.56-4.58)

4.3. These policy questions and options are not a proposal of design, but intended to open the dialogue on potential impacts and opportunities. No decisions have been made on changes to payment timings, and the government welcomes responses that will help direct what the next steps should be.

4.4. The government recognises the important role that tax agents and accountants play in supporting taxpayers and, as well as understanding the potential impacts and opportunities for taxpayers, is keen to hear views on how the following policy options could affect the work of tax advisers.

4.5. Payment and calculation reform would need to take full account of the breadth and variety of the ITSA and small company populations, not least in terms of the different trades, business models, and special treatments and rules why taxpayers need to self-assess. It is fully envisaged that there is likely to be a need for variety in the rules to address these differences appropriately; while as far as possible avoiding creating or adding complexity.

4.6. Wider reforms to simplify and update the legislative framework for the UK's tax system are explored in the call for evidence on the Tax Administration Framework Review. Chapter 6 of that call for evidence looks at the wider payment landscape, including variations across different taxes and duties, and how the experience of payment of multiple taxes can be improved, such as through a reduced set of payment rules. Even within Income Tax itself, there may be ways in which the self-employed and employed might have a common experience even where the underlying rules differ; particularly given the increasing number of taxpayers with income falling in both regimes.

4.7. Cash-flow is covered in detail in Chapter 5.

Calculation of payments in-year

4.8. The Tax Administration Framework Review call for evidence (at Chapter 4) explores the current assessment procedures and interactions between taxpayers and HMRC, which can drive complexity in calculation. Comments are welcome in response to this or that document as to how these may affect the in-year calculation of liability.

4.9. Initial feedback from stakeholders following the publication of the Tax Administration Strategy in July 2020 was strongly of the opinion that, in order to be beneficial to businesses, more frequent tax payments should be based on an up-to-date view of the taxpayer's in-year position so that the payments quickly reflect any up or down turn in profits rather than continue to be based on a historic position.

4.10. To enable tax payments to calculate a taxpayer's up-to-date liability, the calculation would need to be based on information that was similarly as up-to-date as possible and be able to project the likely annual liability. HMRC and the taxpayer (or their agent, if they act across all of a taxpayers' affairs) are likely to be the only parties who would be able to take a view of the taxpayer's entire liability across a potential range of different sources of income (and gains) and any claims and elections to which the taxpayer is entitled in order to correctly calculate that liability.

4.11. Further sections below explore several issues that would need to be considered in order to allow for the in-year tax calculation to be as accurate as possible, to help get the amounts right and to reduce or eliminate any need for an end-of-year reconciliation. The government recognises that different systems might work better for different groups of taxpayers and is interested in exploring the benefits and challenges of introducing more than one calculation option to meet diverse taxpayer needs.

4.12. The government agrees with the initial feedback that understanding and paying current-year liability offers a benefit to the taxpayer. In order to minimise the burden on taxpayers of more regular calculation a digital solution offers the most help. However, views are welcome on the challenges of facilitating that; particularly in terms of the digitally excluded and others for whom digital solutions are challenging or not available. The government recognises that any digital service would need to be accompanied by alternative solutions for the digitally excluded.

4.13. A new regime could instead be based on the taxpayer's previous year liability - effectively an accelerated version of the current ITSA payments on account regime; potentially with a similar estimation by smaller companies in CTSA to allow them to use estimated figures for quarterly payments.

4.14. This would be simple, minimise any additional reporting requirements on the taxpayer and replicate the current, well understood ITSA payments on account system. However, the government does not believe that this would provide the best customer experience as it would not reflect the taxpayer's in-year position and track whether their profit had increased or decreased.

4.15. Alternatively, the payments could be based on estimates of the taxpayer's liability for that year, similarly to how most people pay for gas or electricity by direct debit. For these bills, the amount is calculated by suppliers, who estimate the consumer's annual usage and spread it across twelve months (or four quarters if the consumer is paying quarterly). The amount consumers pay may not reflect the amount of energy they have used during that period due to fluctuations in energy usage (e.g. using more central heating during winter months). Therefore, consumers can build up credits or debits on their account; if consumers regularly under- or over-pay the provider could increase or decrease the payments to better reflect the usage.

4.16. If this system were introduced for tax payments, it would be simple, minimise reporting requirements and, for those with steady income, could provide a relatively accurate picture of a taxpayer's liability. However, the government recognises that many businesses experience fluctuating income and therefore this could lead to under- or over- payments of tax which would need to be reconciled at the end of year.

Question 13 Do you agree that if there is to be a more frequent tax payment regime, it should generally be based on current year liability?

Question 14 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?

Question 15 What are your views on using digital solutions to facilitate in-year calculation, and what and how could specific groups be affected negatively by this?

Question 16 Do you have any comments on how the needs of taxpayers for whom digital solutions are unavailable or challenging could be met when considering calculating tax liability in-year?

Question 17 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?

4.17. The government is keen to engage on other alternatives to bring payment closer to the point of transaction, and welcomes discussion on these.

4.18. The government is aware that basis periods could add complexity to calculating tax liability in-year. The opportunities for broader changes to simplify assessment processes, such as the way in which profits are allocated to a tax year, are explored in more detail in the Tax Administration Framework Review but the government is interested here in any specific comments on the impacts basis periods might have on more timely payment.

Question 18 Do you have any initial comments specifically on the impact of basis periods on more timely payment of ITSA?

Question 19 Do you have any initial comments on other reforms that could support bringing tax payment closer to the point of transaction?

Making Tax Digital for ITSA

4.19. As announced in July 2020, from April 2023, MTD will be extended to ITSA for businesses and landlords with income over £10,000. Those within scope will be required to keep digital records and make quarterly reports of income and expenses (by one month after the end of each quarterly period). Although the government recognises that more regular reporting under MTD need not lead to more frequent payment, that regular reporting could enable taxpayers to have a more up-to-date view of their tax affairs, and provide options for in-year tax payments to be based on the current year liability.

4.20. This would enable tax payments to better track income, increasing or decreasing when income rises or falls, making it easier for some taxpayers to manage their cash-flow and reduce the likelihood that tax bills for a period of higher earnings will arise when funds are limited. This can be a particular issue for those with irregular or fluctuating income, such as seasonal workers; or when circumstances unexpectedly change, such as during challenging economic periods.

4.21. As noted above, the government would carefully consider the needs of those outside the scope of MTD and the digitally excluded to make sure the process for determining in-year payments is as simple as possible.

4.22. MTD quarterly updates do not need to include tax and accounting adjustments so the government would also need to carefully consider how basing payment instalments on MTD updates would work for those businesses whose final position for the tax year is significantly changed when adjustments are made at the end of the year, or when corrections are made to records.

Making Tax Digital for CT

4.23. In November 2020, the government published a consultation exploring how the principles established for MTD could be implemented for CT.[21] The government will not mandate MTD for CT until 2026 at the earliest.

Question 20 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?

Question 21 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?

Dealing with expenses under a more frequent payment regime

4.24. Companies and individuals running businesses will commonly have regular and annual expenses allowable against their profits.

4.25. A system where tax is collected in-year will need to include a process for taxpayers to report their expenses in-year to avoid distorting cash-flow further by only allowing those expenses at the year end. However, there is a trade-off between how accurate the calculations need to be, and the effort required to provide regular updates.

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[21] Making Tax Digital: Corporation Tax; GOV.UK, Nov 2020.

4.26. As set out above, businesses and landlords within the scope of MTD will be required to send updates of their income and expenses on a quarterly basis from April 2023. Taxpayers with gross income from those sources under £10,000 a year are not required to use MTD for ITSA (although they are encouraged to do so voluntarily).

4.27. There are also some employees, whose income is taxed at source under PAYE, but who are then entitled to reclaim certain expenses via a self-assessment tax return or bespoke claim form. For example, for cleaning work uniform. Where these claims offset against other tax due through a self-assessment return, there would be options for how these should be reflected (if at all) in timely payment estimates, or whether they should be reclaimed separately or as part of a periodic (e.g. annual) reconciliation.

4.28. The government is interested in exploring how payments could be calculated in-year for taxpayers outside the scope of MTD. For example, they could update HMRC through their digital tax account if HMRC's calculations based on previous periods had ceased to be reflective.

4.29. Depending on the design of any system for more timely payment of tax, it may be helpful for some taxpayers within the scope of MTD to provide more frequent updates than required under MTD. For instance, if payments were made on a monthly basis (see paras 4.49-4.51), some taxpayers within MTD might wish to send monthly updates of income and expenses to make sure that their monthly instalments were based on the very latest view of their tax position. Others, particularly those with steady incomes, could choose for their monthly instalments to be based on their previous quarterly update and to only report more frequently when their position had significantly changed within that quarter.

4.30. Self-employed taxpayers claiming Universal Credit must report payments in and out of their business to the Department of Work and Pensions at the end of each monthly assessment period. The reporting requirements for tax and benefits purposes differ but the government is interested in comments on the potential interactions.

Question 22 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?

Question 23 Do you have any comments on potential interactions between reporting for Universal Credit and reporting for more timely payment of tax?

Flat rate expense schemes

4.31. For those who would not already need to record and report their expenses on a regular basis, the process could be simplified by allowing flat rate expenses, where the government sets a standard rate based on relevant factors (e.g. trade classification or sector). The tax rate could then be adjusted, or an amount set against gross income, instead of the taxpayer needing to report their actual expenses. The flat-rate amount would fully replace the actual expenses for the purpose of the final tax liability.

4.32. There are existing income tax examples of flat-rate schemes, such as mileage allowance; and VAT allows businesses with a turnover of £150,000 or less (excluding VAT) to apply a fixed flat rate percentage (dependent on the sector) to their gross turnover to arrive at the VAT due. Similarly, employees in some sectors can claim a flat amount as expenses for the repair and maintenance of work equipment. Police Officers can claim £140 a year in tax relief for cleaning their work uniform.

4.33. It is likely that flat rate expenses would need to apply only to businesses below a certain size - as in VAT. It would also not be suitable or necessary for businesses keeping and reporting their records digitally on a regular basis, for example under MTD.

4.34. Flat rate expenses could facilitate simpler, regular calculation for taxpayers who would not otherwise need to report expenses or keep records with any regularity, and reduce the challenge of working out what costs are allowable for tax.

4.35. However, using one standard rate of expense for Income or Corporation Tax, even if split by sector or trade, could create unfairness. For example, two plumbers fitting new taps will incur significantly different expenses if one sources the taps themselves and the other uses new taps purchased by the end customer; yet under a flat rate scheme both may be allowed the expense.

4.36. For some businesses using a standard amount would also create a significant gap between the business' tax and actual position. And should there be a threshold, when a business needed to transition into claiming actual expenses the learning curve would be steep.

4.37. When considering whether to introduce flat rate expenses, the government would need to cautiously weigh up the trade-offs between simplicity and other benefits on one hand, and costs to both the taxpayer and the Exchequer on the other.

Question 24 Do you have any comments on the benefits and disadvantages of flat rate expenses?

Question 25 What examples are there that work well and would be appropriate for Income Tax expenses that would not be captured through any MTD updates?

Question 26 If there were flat-rate expenses, should they replace the actual expenses or only act as a proxy for in-year calculation?

Question 27 If flat-rate expenses were introduced, should they be restricted to smaller businesses?

Annual basis of Income Tax and Corporation Tax

4.38. Income tax and Corporation Tax are designed to be calculated on an annual basis, with reliefs, allowances, adjustments, and certain deductions factored in at the year-end or intended to apply to the full year. Without adaptation or accommodation for this, it would be challenging to accurately calculate tax bills in-year. Allowable expenses and allowances need to be offset before the taxpayer's liability is determined and the tax rate can only be definitively calculated once the taxpayer's total annual income from all sources is known.

4.39. Similarly, where the taxpayer has losses or debits (from the current or another year), they will need to be able to factor those into the calculation to significantly prevent in-year overpayment.

4.40. Annual factors are handled in PAYE through regular reporting and adjustments, with the employer and HMRC doing the majority of the work to help reflect the current situation in-year, and estimation playing a part. However, those in ITSA will generally have more complex affairs, variable incomes, and are more likely to have annual expenses and allowances that need to be recognised.

4.41. In order to recognise annual adjustments any system would need to both anticipate them, and smooth them over the year. In an ongoing trade with a relatively stable income and expense profile, this could be anticipated with greater accuracy than one with a highly variable nature; this is inherently the way that the current ITSA payment on account regime works.

Question 28 Do you have comments on the impact and challenges of recognising annual reliefs, allowances, deductions, and other amounts?

Other reforms

4.42. A number of other reforms are being introduced for the ITSA population. The government is mindful of the cumulative impact of these changes.

Third-party data

4.43. There may be instances when HMRC could receive information from third parties that provides an indication of taxpayers' income. Depending on the source, this might not reflect their expenses.

4.44. The OTS is currently undertaking a review into the smarter use of third-party personal tax data.[22] This follows its 2019 review on Tax Reporting and Payment[23], where it found that, in some sectors, third party data in relation to self-employment and rental income could support the self-employed and landlords to manage their tax affairs.

4.45. The better use of third-party data is explored in more detail in the call for evidence on the Tax Administration Framework Review.

Registration

4.46. Currently taxpayers are only required to register for ITSA by 5 October in their business' second tax year – although many do register earlier. Thus, a taxpayer who starts a business in April, would not need to inform HMRC until 17 months after they have started trading.

4.47. If the government were to introduce timely payment, in order to help new ITSA taxpayers to budget it would be beneficial for HMRC to be notified about them earlier so they could pay tax in closer to real time from the start. One option would be to move registration closer to the start of the relevant taxable activity. This could have additional resilience benefits as, in the event of a future crisis like COVID-19, it could enable the government to provide support to those who have recently set up in business without exposing the scheme to fraud or organised criminal attack.

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[22] OTS to review smarter ways to use third party personal tax data; OTS; GOV.UK; Dec 2020.
[23] Tax Reporting & Payment: Simplifying tax for self-employed people and landlords', OTS; GOV.UK, Oct 2019.

4.48. However, the government recognises that there will be trade-offs and that there will be a variety of customer needs and experiences. Opportunities for reform to the registration processes for taxes are explored as part of the call for evidence on the Tax Administration Framework Review.

Timing of payments

4.49. More frequent calculation and payment could mean paying on a quarterly or monthly basis, or some other frequency. It may be appropriate for different trades, sectors, or taxpayer types (i.e. the reason they are in ITSA) to pay with different timings; although this may bring complications and challenges of its own.

4.50. Monthly payments would bring payment closer to the point at which income is earned and available to pay, aligns with PAYE and many benefit calculations, and fits how people manage their other expenses (e.g. rent) and track their earnings.

4.51. Quarterly payments would have a reduced impact on cash-flow, and reduce the reporting frequency. Quarterly would also align with the reporting obligations under MTD for ITSA meaning that the population who report under MTD would already be entering much (albeit not necessarily all) of the detail needed for a quarterly tax calculation.

Question 29 Do you have any initial views on the benefits and challenges of monthly, quarterly, or other, payment frequency?

Over-payment

4.52. Personal income, particularly for the self-employed, can fluctuate between one quarter, or even one month, and the next, meaning that a projected annual tax liability which factors in annual allowances (such as the personal allowance) can change from one calculation point to the next. In a more frequent payment system, this could result in over- or under-payments of tax. This would be particularly the case for those in the gig and sharing economies, where income sources commonly start, stop, and change, and income can be highly variable.

4.53. Under existing regimes where tax payments are made in-year, such as PAYE and the Construction Industry Scheme, an end-of-year reconciliation process takes place to handle any over- or under-payments of tax.

4.54. This could be replicated for a timely payment system for ITSA taxpayers. However, in trades with a high reliance on cash-flow, waiting until the end of the year for a repayment would exacerbate the cash-flow impacts of more frequent payment, and it is likely that having paid more frequently taxpayers will want to resolve overpayments of tax in-year.

4.55. Any repayment system would need to be easy and quick, whilst also being mindful of the need to protect against the risk of fraud.

Question 30 Do you have any comments about how over- or under- payments of tax could be resolved in-year?

Question 31 What systems and processes exist that would help to ensure protection against fraud and organised crime, whilst also allowing quick and easy repayment?

Transition to any new regime

4.56. The government recognises that any move to more timely payment of tax would be a significant change which would need to be introduced carefully.

4.57. Any transition would also need to be carefully managed to avoid significant adverse effects on business cash-flow in the first year. Without intervention, businesses could be required to pay tax for the current year under the new system, at the same time as continuing to pay tax for the previous year under the former system.

4.58. Transitional issues could be mitigated by introducing a staged move where taxpayers transition to the new system over a number of years. For example, they could move to the new system at a point in time, but have a number of years to finish paying tax liabilities from previous years. The length of the period could be means-tested. Whatever method is used, it would need to be simple to understand so that taxpayers are clear on what they are paying and why.

Question 32 How could more frequent payment based on current year liability be phased in?

Large Partnerships in ITSA

4.59. The government recognises that more frequent calculation and payment of tax could have specific impacts for large partnerships and is keen to understand any particular issues they might experience in relation to any potential reform.

Question 33 Do you have any comments on any specific impacts that more frequent payment of tax could have on large partnerships and how these might be mitigated?

5. Cash-Flow Impacts

Overview of Chapter

5.1. The government recognises that any change to tax payment deadlines would have an impact on cash-flow. The impact on individual businesses will vary depending on a multitude of factors including sector, business models and the regularity and levels of income and expenses.

5.2. This Chapter explores the methods taxpayers currently use to budget for their tax bill and the potential cash-flow impacts of more timely payment of tax and seeks views on which groups would be most affected. Chapter 4 considers potential cash-flow impacts during any transition period.

Current Tax Budgeting Methods

5.3. HMRC offers the Budget Payment Plan – a voluntary tool to enable taxpayers to pay in advance towards their next ITSA tax bill via direct debit. As set out in Chapter 1, at Budget 2021, the government announced investment in HMRC systems to improve the existing Budget Payment Plan to make it easier for taxpayers to manage their finances.

5.4. The government is aware that many taxpayers use other methods to budget for tax. Research for HMRC[24] found that most SMEs kept money aside throughout the year for their taxes, but some acknowledged that they had to dip into this if needed such as to cover unexpected costs. Some businesses made adjustments to their business cycles to fit with their tax payments including timing payment arrangements with clients or negotiating suppliers' payment frequency to help them make tax payments. Research also indicates that some will take on extra work near to the payment on account dates in order to make the money to pay their tax bill.

Question 34 What methods do taxpayers use to budget for their tax bill?

Question 35 Do you have any comments on what more HMRC could do to help taxpayers pay their tax on time?

Cash-flow Impacts

5.5. More regular payment will enable some to more easily manage their cash-flow. Paying tax closer to the point income is earned would make it more likely that the tax bill arises when the taxpayer has access to funds to pay it. The current ITSA payments on account represent half of the overall Income Tax liability in two lump sums, and can be challenging for those with irregular or fluctuating incomes; and particularly so when circumstances unexpectedly change, such as during challenging economic periods.

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[24] Understanding the impact of taxation cycles on business experience and compliance behaviour of SMEs; GOV.UK; March 2015.

5.6. More frequent payment would better spread the liability over the year, making it easier to budget. Providing taxpayers with greater certainty that their tax payments are up-to-date and removing the worry of a large bill in the future, could give them greater confidence to invest in their business at an earlier date rather than setting aside extra funds just in case.

5.7. However, paying tax more frequently would mean that taxpayers would always have less access to funds, even though the total liability remained the same.

5.8. The millions of taxpayers who pay tax through PAYE or other regular payment regimes are already unable to make use of these funds during the year. However, the government recognises that many Income Tax and CT taxpayers outside of existing regular payment regimes make use of these funds to support and grow their businesses during the year.

5.9. More frequent tax payment could have a particular impact for those who rely on the cash-flow advantages of current payment deadlines to invest in their businesses (e.g. to purchase stock for later resale), or to handle large one-off costs (e.g. repairs to a rental property), which they expect to be able to at least partly recoup over the year. There is a risk that it could reduce the ability of some to invest in their business, ultimately reducing their profits and tax liability.

Question 36 Do you have any comments on the positive and negative cash-flow impacts for businesses of more timely payments?

Wider economic impacts

5.10. The reduction in funds available to businesses in-year could have wider economic impacts as it could make it harder for some businesses to pay other creditors in a timely manner or to purchase goods or services from other businesses.

Question 37 What wider economic impacts do you foresee from reducing the time between the income and the taxation?

Customer groups

5.11. Some taxpayers are likely to be more affected than others by a reduction in their available cash-flow from more frequent tax payment.

5.12. The government recognises that different trades have different levels of expenses. The VAT Flat Rate Scheme sets separate rates for different sectors to recognise differing input costs and expenses for different activities. For instance, the current VAT flat rate for accountancy or bookkeeping is 14.5% while the rate for Repairing Vehicles is 8.5%.

5.13. Different trades will also have different lengths of time between incurring expense and receiving the related income, which will be a factor in how affected a taxpayer would be by any changes to tax payment timings. For example, those buying stock to resell can experience a significant time lag between investment and profit, while a taxi driver whose main expense is mileage, is likely to recoup their spend quickly.

5.14. Others, such as those with seasonal trades, could be relying on the cash-flow advantages of the current payment timings to tide them over quieter periods.

5.15. The government is interested in understanding what the relative impacts are on different trades, groups, and other divisions of taxpayers and the examples and questions below are to help gather information on the variety of experiences.

5.16. Chapter 2 notes the differences in cash and accruals accounting. This can flow through to the calculation of tax, and functionally distort the relationship between the cash on hand and the tax liability. The government is committed to encouraging a culture of prompt payment between companies but recognises that late payment of invoices could cause a business operating under the accruals system particular cash-flow issues under a more frequent tax payment system.

Question 38 Which taxpayer groups will be most or least affected by the cash-flow impact of more timely payments?

Question 39 Are there particular ways in which accruals accounting might lead to greater impacts on certain groups or types of business?

Case studies

5.17. The below case studies outline some of the cash-flow impacts that specific groups may experience. These are illustrative only and the government understands that there will be significant variations within these groups.

GIG WORKER

Stuart is employed full-time, earns above the Income Tax threshold and pays tax on his full-time employment earnings via PAYE.

Recently Stuart and his family are struggling to make ends meet, so for extra income he has signed up to work via an online platform. Stuart likes the flexibility of fitting online platform work around his full-time job. Stuart does not understand tax, is unaware that he needs to register for ITSA and doesn't keep track of the expenses he incurs with his online platform work. When Stuart realises, he feels overwhelmed.

Stuart finds the idea of budgeting for two or three tax payments for his online platform earnings stressful and wonders why there isn't a way to report his earnings, expenses and pay tax against his liabilities each month as he does with his full-time employment.

TUTOR

Rupa is a supply teacher and also works as a self-employed maths tutor. Because of where she lives and the schools she works for, she has several streams of PAYE income; her self-employed income is growing. Her work peaks around exam times, so sometimes she struggles a little to catch up and keep on top of her tax affairs. She wishes she could spend less time bringing all of the different things together and just get on with teaching. She doesn't see why it all needs to be different, it's all teaching.

Rupa needs something which brings together her PAYE income in one place, which she feels is something HMRC should know and be able to do for her. Then she could put in her self-employment income and expenses and be able to see clearly how much she owes or is owed. Ideally, she wouldn't need to worry about two or three large payments, and Rupa does not want to incur additional costs.

LANDLORD

Olga owns and lets out three residential properties. Because the houses vary in age, they require different levels of maintenance and investment to ensure they are comfortable and safe for her tenants to live in. If all the properties are let, Olga has a regular level of rental income, but her expenses are variable.

Olga budgets for the two or three large tax payments she needs to make a year under the current payments on account regime by saving part of the rental income she receives each month. Sometimes Olga uses her tax savings to pay larger maintenance bills when they arise, so it can still be stressful for her to receive large tax bills. When thinking about making more regular payments towards her tax liability Olga wonders how she'd cover unexpected maintenance bills but thinks she would find it easier to understand the return she's receiving from her investment.

SHOPKEEPER

Callum runs a small, local shop selling groceries, magazines, and household essentials. His stock turnaround is varied - some takes time to sell and some sells quickly. Callum pays for all of his stock within 28 days of it being delivered to his shop, including a lot of it on delivery or in advance.

Callum finds the current payments on account regime of budgeting for two or three large tax payments very stressful, and it affects his ability to buy stock and pay other regular bills (including rent and utilities) in those months. However, thinking of making more regular payments towards his tax liability makes Callum worry that he will be left with less money to purchase stock throughout the year - particularly the stock that takes time to sell.

DIRECTOR

Martina is an IT consultant and director of her own Personal Service company.

Due to her arrangements Martina needs to file and manage PAYE and CT as director for her company, as well as monitor her own PAYE as an employee. She also files an ITSA return due to the level of her income which includes dividends as well as deductible expenses.

Martina is confident paying her company's PAYE liabilities as these are spread throughout the year. However, due to the irregular nature of her income, Martina finds ITSA and CT bills more difficult to plan for and the timing can sometimes be challenging if she is between contracts.

Martina would like her ITSA and CT to be managed in a similar manner to her PAYE as lower regular payments would make budgeting far easier.

BUSINESS PROFESSIONAL

Vikram takes pride in running his own business and the reputation he has built over the six years he's been self-employed for. Vikram has regular customers, who often refer new customers to him and advertises his business online to increase his business reach.

Vikram is confident handling his tax affairs, keeps track of his expenses and feels he knows exactly what he can claim for and what his tax obligations are. Vikram finds the ITSA process every year tedious and would prefer to spend less time managing his tax affairs. Vikram saves for his two or three large tax payments throughout the year. While he has some concerns about the cash-flow implications of making regular small payments, Vikram balances that with the idea of not spending too much time on completing his tax return at the end of the year or needing to engage his accountant to do something he can, both of which appeal to him.

STATE PENSIONER

Having reached state pension age Jane retired from her job and receives a state pension which exceeds her annual tax-free personal allowance.

To ensure Jane's tax liability is met she would previously have needed to complete an ITSA return but no longer needs to as HMRC issues a simple assessment based on the pension details shared by the DWP.

Jane understands that if her income for the year changed (for example by returning to work or making a capital gain) she'd need to inform HMRC straight away as her simple assessment would no longer be correct and she could end up with a big tax bill. Jane checks the estimated pension details from the DWP are correct, views the simplified assessment in her personal tax account and makes a payment to HMRC once a year. Jane would rather make twelve smaller payments to HMRC when she receives her pension each month.

Question 40 Do you have any comments on the cash-flow impacts on the case studies outlined above?

Question 41 Is there a better way of grouping people to consider the level and nature of impact on cash-flow, outside of trades?

Use of available cash-flow

5.18. The government would like to understand what businesses currently use the cash-flow for and therefore what the impact would be from any reduction due to a more frequent payment system. This may be an impact on available funds for personal use (such as living expenses or funds to save), or on funds for use to keep the business going, or to expand the business.

5.19. The government is particularly interested in understanding the impact of any reduction in cash-flow due to more frequent tax payment which would not be just as relevant for the millions of taxpayers who already pay tax in real time through PAYE or other regular payment systems.

Question 42 What are the common uses for the funds that will become due as tax on income during the period before it is payable? Does this differ by business, trade, or other factors? Is there research, data, examples, or other supporting evidence to build up a picture?

6. Wider Questions

Other taxes and duties

6.1. The government is interested in views on whether there are any other taxes administered by HMRC outside of those noted in this document where consideration should be given to introducing more regular or frequent payment of tax in the longer term.

6.2. As noted in Chapter 1, the government is already engaging with industry to explore the real-time payment of VAT, facilitated by an intermediary, in VAT Split Payments.

6.3. Many taxes are already generally paid on a quarterly basis, such as the Soft Drinks Industry Levy and Insurance Premium Tax; while payment must be made on a number of transaction-based taxes within days of the transaction. For instance, payments and returns for Stamp Duty Land Tax in England and Northern Ireland are due within 14 days of the 'effective' transaction date. For Land Transition Tax in Wales, payment must be made within 30 days of the day after completion or other effective date of the transaction, and for Land and Buildings Transaction Tax in Scotland within 30 days of the day after the effective date of the transaction.

6.4. An overview of current timings for other taxes administered by HMRC is set out at Annex D. This is not an exhaustive list.

Question 43 Are there other taxes administered by HMRC that the government should consider for more timely payment of tax?

Capital Gains Tax

6.5. The government welcomes any views on whether more timely payment of CGT should also be considered in the longer-term, in particular if changes of the sort discussed elsewhere in this document are progressed. The government appreciates that views might depend in part on the timing and nature of such changes.

6.6. CGT differs from Income Tax and NICs because the standard process for all CGT customers is to pay their tax as a lump sum in the tax year following the year of disposal. The exception to this is disposals of UK property on which taxpayers have to pay any CGT due within 30 days of the completion of the sale. This acts as a 'payment on account' towards their annual tax bill and should be a reasonable estimate of what is due on that disposal at that point in time. The taxpayer is required to reconcile the figures in their ITSA tax return at submission of that return or via the online micro-service. Changes to the CGT payment process present specific challenges due to the wide variety of types of asset CGT is charged on.

Question 44 Do you have any initial comments on the opportunities and challenges of more timely payment of CGT?

Alternatives for facilitating more regular payment

6.7. The government is interested in hearing other ideas for how tax payments could be brought closer to the point at which the income is earned, including exploring best practice from payment and repayments for other services, such as utility bills and phone contracts. Ensuring safety, simplicity, security, and accuracy, for example.

6.8. The government is also aware of ongoing engagement with industry on how new and emerging technology could improve the customer experience of reporting and paying tax and is keen to hear from software providers, those in the fintech industry and others on potential opportunities. This could be through existing working groups, such as those involved in VAT Split Payment, or MTD; and officials will be keen to discuss the most helpful means of engaging.

Question 45 Is there anything else you would like to suggest to help progress the exploration of this policy?

7. Assessment of Impacts

Summary of impacts

Year	2021 -22	2022 -23	2023 -24	2024 -25	2025 - 2026
Exchequer impact (£m)					

Impacts	Comment
Economic impact	The economic impacts will be identified following consultation and final design of the policy.
Impact on individuals, households and families	This measure has no impact on individuals at present. We will advise on full impacts for individuals when the design has matured sufficiently. This measure is not expected to impact on family formation, stability or breakdown.
Equalities impacts	We have paid due regard to equalities impacts. The design of the policy and the populations to whom it will be applied have not been decided but groups such as the digitally excluded could be affected. We will advise on the full equalities impacts at a later date. Where impacts do occur, mitigation will be offered.
Impact on businesses and Civil Society Organisations	This measure has no impact on businesses or civil society organisations at present. We will advise on full impacts when the design has matured sufficiently.
Impact on HMRC or other public sector delivery organisations	The design of the policy is still in development so operational impacts are unknown. If taken forwards, it will require changes to IT systems and it is likely that it could drive some contact demand, at least initially.
Other impacts	There is no impact on climate and fuel poverty targets, air quality targets or OGD costs at this stage. Other impacts have been considered and none have been identified.

8. Summary of consultation questions

Chapter 2: Principles

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

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.

Q3. What are the relative merits and disadvantages of tax payment regimes in other countries compared to the UK's?

Q4. Are there examples of tax payment timings from other states or territories which the UK should consider?

Q5. Where people have experience or data of timing changes in other countries (e.g. recently in France), what have been the impacts and what should have happened differently?

Chapter 3: Overview of Current Regimes

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

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

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

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

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

Q11. What are the benefits of the existing payment timings for CT? Are there any types of company, sectors, or other distinctions which rely more heavily on the long payment window than others?

Q12. What are the challenges with the current payment timings? Are there any types of company, sectors, or other distinctions which make the current payment timings challenging or disadvantageous?

Chapter 4: Handling More Regular Payment

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?

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?

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

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

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?

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

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

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?

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?

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?

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

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 any 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 smaller businesses?

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

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

Q30. Do you have any comments about how over- or 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, whilst also allowing quick and easy repayment?

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

Q33. Do you have any comments on any specific impacts that more frequent payment of tax could have on large partnerships and how these might be mitigated?

Chapter 5: Cash-Flow Impacts

Q34. What methods do taxpayers use to budget for their tax bill?

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

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

Q37.What wider economic impacts do you foresee from reducing the time between the income and the taxation?

Q38. Which taxpayer groups will be most or least affected by the cash-flow impact of more timely payments?

Q39. Are there particular ways in which accruals accounting might lead to greater impacts on certain groups or types of business?

Q40. Do you have any comments on the cash-flow impacts on the case studies outlined above?

Q41. Is there a better way of grouping people to consider the level and nature of impact on cash-flow, outside of trades?

Q42. What are the common uses for the funds that will become due as tax on income during the period before it is payable? Does this differ by business, trade, or other factors? Is there research, data, examples, or other supporting evidence to build up a picture?

Chapter 6: Wider Questions

Q43. Are there other taxes administered by HMRC that the government should consider for more timely payment of tax?

Q44. Do you have any initial comments on the opportunities and challenges of more timely payment of CGT?

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

9. The consultation process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This call for evidence is taking place during stage 1 of the process. The purpose of the consultation is to seek views on the policy design and any suitable possible alternatives, before consulting later on a specific proposal for reform.

How to respond

A summary of the questions in this consultation is included at chapter 8.

Responses should be sent by 13 July 2021, by email to timelypayment@hmrc.gov.uk or by post to: Timely Payments Consultation, Room 3/53, 100 Parliament Street, London, SW1A 2BQ

Please do not send consultation responses to the Consultation Coordinator.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC's GOV.UK pages. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

HMRC is committed to protecting the privacy and security of your personal information. This privacy notice describes how we collect and use personal information about you in accordance with data protection law, including the UK General Data Protection Regulation (UK GDPR) and the Data Protection Act (DPA) 2018.

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018, UK General Data Protection Regulation (UK GDPR) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs.

Consultation Privacy Notice

This notice sets out how we will use your personal data, and your rights. It is made under Articles 13 and/or 14 of the UK General Data Protection Regulation.

Your data

We will process the following personal data:

Name

Email address

Postal address

Phone number

Job title

Purpose

The purpose(s) for which we are processing your personal data is Timely Payment Call for Evidence.

Legal basis of processing

The legal basis for processing your personal data is that the processing is necessary for the exercise of a function of a government department.

Recipients

Your personal data will be shared by us with HM Treasury.

Retention

Your personal data will be kept by us for six years and will then be deleted.

Your rights

- You have the right to request information about how your personal data are processed, and to request a copy of that personal data.
- You have the right to request that any inaccuracies in your personal data are rectified without delay.
- You have the right to request that any incomplete personal data are completed, including by means of a supplementary statement.

- You have the right to request that your personal data are erased if there is no longer a justification for them to be processed.
- You have the right in certain circumstances (for example, where accuracy is contested) to request that the processing of your personal data is restricted.

Complaints

If you consider that your personal data has been misused or mishandled, you may make a complaint to the Information Commissioner, who is an independent regulator. The Information Commissioner can be contacted at:

Information Commissioner's Office
Wycliffe House
Water Lane
Wilmslow
Cheshire
SK9 5AF

0303 123 1113

casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

Contact details

The data controller for your personal data is HM Revenue and Customs. The contact details for the data controller are:

HMRC
100 Parliament Street
Westminster
London SW1A 2BQ

The contact details for HMRC's Data Protection Officer are:

The Data Protection Officer
HM Revenue and Customs
14 Westfield Avenue
Stratford, London E20 1HZ

advice.dpa@hmrc.gov.uk

Consultation principles

This call for evidence is being run in accordance with the government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: Consultation Principles Guidance

If you have any comments or complaints about the consultation process, please contact the Consultation Coordinator using the following link:

Submit a comment or complaint about HMRC consultations

Please do not send responses to the consultation to this link.

Annex A: International payment examples

AUSTRALIA

If taxpayers have an income of over $4000 or a tax liability of over $1000 on their latest tax return, they must enter 'Pay as You Go instalments'. These are generally paid quarterly. Taxpayers who meet certain criteria can choose to pay annually (e.g. if at the end of the first quarter their most recent estimated tax assessment was less than $8000) or bi-annually (e.g. sportspersons and authors). Those who earn more than $20m must pay monthly.

Taxpayers can either ask the tax authority (ATO) to calculate their instalment payment for them based on their latest tax return (adjusted to take into account likely growth in income based on Australia's GDP predictions), or they can choose for the tax authority to use the amount they have entered on their quarterly 'activity statement' for that period.

Taxpayers can vary their instalment payments if they think they will pay too much or too little, but if the variation results in them paying less than 85% of the total due, they may incur an interest charge and penalties.

UNITED STATES

The self-employed are required to report annually and pay estimated tax quarterly.

Taxpayers estimate the amount of income they expect to earn for the year and can complete forms to recalculate their tax for the next quarter if they believe it is too low or high. If taxpayers have not paid enough tax throughout the year (if they have paid less than 90% of the tax due or they owe over $1000), they may have to pay a penalty for under-payment of estimated tax.

NEW ZEALAND

In New Zealand, the self-employed who are required to pay more than $2500 of Income Tax must pay provisional tax in instalments during the next tax year.

Taxpayers who are registered for Goods & Services Tax (GST) - equivalent to VAT - can choose the 'ratio option' to try to better align the advance tax payments with their business cash-flow. Under this system, the six advance tax payments are calculated by applying the 'ratio percentage' to the total amount of taxable supplies in the taxpayer’s latest GST return which must be filed either every month or every two months. The ratio percentage is calculated by dividing the tax paid for the previous year by the total GST taxable supplies for the same year.

Other options include the Standard Option (last year's tax to pay + 5% or tax to pay from two years ago plus 10%), Estimation Option (the taxpayer estimates their bill for the year) and the Accounting Income Method (a new option that works through accounting software). The frequency of the provisional tax instalments depends on the calculation option chosen.

ESTONIA

Estonia offers the Entrepreneurs’ Account as a voluntary option to minimize tax burdens. It is aimed at taxpayers who provide services and incur limited expenses such as child minders, gardeners and those undertaking repair jobs where the person engaging them supplies all the tools and materials. It automatically deducts a flat rate of tax from the taxpayer’s account each month, removing the need for the user to undertake tax reporting of actual income and expenses. Any income entering the account up to €25,000 in a calendar year is taxed at a flat rate of 20% and at 40% on anything over this amount.

Annex B: Relevant current Income Tax, NICs, and Capital Gains Tax legislation

Overview of relevant income tax provisions

Where a person is required to make a return under ss.8 or 8A of Taxes Management Act 1970 (TMA70) which is a self-assessment of their Income Tax and Capital Gains Tax liability (s.9 TMA70), they are required to make payment of any income tax, including payments on account under Part VA of TMA70.

National Insurance Contributions

Class 4 National Insurance Contributions will follow the treatment for Income Tax in accordance with s.16 of the Social Security Contributions and Benefits Act 1992. References to Income Tax below should be taken to include Class 4 NICs.

Class 2 National Insurance Contributions can be paid either bi-annually in response to payment requests on dates aligned to the payment on account dates below for income tax, or by direct debit (respectively Regulations 89 and 90 of the Social Security (Contributions) Regulations 2001 (SI 2001/1004)).

Payments on account and the balancing payment

The general rules for payments are as follows:

- A first payment on account on or before the 31 January in the year of assessment (s.59A(2)(a) TMA70);
- A second payment on account on or before the 31 July following the year of assessment (s.59A(2)(b)); and if those do not cover the whole liability
- A balancing payment on or before 31 January following the year of assessment, if the amount due exceeds that already paid (s.59B)

The payments on account are based on 50% of the Income Tax paid in the previous year (s.59A(2)); where there is no previous year there are no payments on account, only the balancing payment.

Variations

No payment on account is required where the total amount of the previous year's liability was, after deduction at source:

- Less than a fixed amount (currently £1,000) (s.59A(1)(c) TMA70); or
- Less than a fixed proportion (currently 1 in 5) of the total including the tax paid at source (s.59A(1)(d) and (8).

The latter would apply for example if more than 80% of the overall assessed amount has been deducted at source under PAYE.

The above limits are set by the Income Tax (Payments on Account) Regulations 1996 (SI 1996/1654).

Sub-sections 59A(3) and (4) TMA70 allows taxpayers to make a claim to reduce payments on account if they have reason to believe they will have no liability for the year, or their liability will not exceed the tax deducted at source. Claims can also be made where they have reason to believe their liability will be less than the payments on account already made.

Capital Gains Tax

Capital Gains Tax is not included in the payments on account under s.59A.

Schedule 2 to Finance Act 2019 sets out the obligation to make a payment on account for Capital Gains Tax relating to:

- Disposals of UK residential land by UK and non-UK residents; and
- For non-UK residents, disposals of UK land, including indirect disposals of UK land (under s.1A(3)(c) of Taxation of Chargeable Gains Act 1992).

Amounts payable for both UK resident and non-UK resident taxpayers are due on or before the 30th day following the completion of the disposal.

Any balance of Capital Gains Tax is due on 31st January following the year of assessment (s.59B).

Payment of income tax and Capital Gains Tax under Simple assessments

S.59BA TMA70 applies where a person is subject to a simple assessment -for example State Pensioners who receive income over their Personal Allowance, or PAYE taxpayers who have underpaid tax but cannot have their tax collected through their tax code.

Managed Payment Plans

S.59G TMA70 provides for taxpayers to enter into voluntary payment plans with HMRC to pay their tax liabilities in instalments which are spread equally before and after the due date.

Provided payment plans are adhered to, no interest and penalties will be due on any tax paid after the normal due date. Payment plans can be entered into in respect of income tax, Capital Gains Tax, and corporation tax.

Further reading

HMRC manual: Self-Assessment: the Legal Framework: SALF300 -Payments

Self-Assessment: Understand your Self-Assessment Tax Bill

Annex C: Relevant current Corporation Tax legislation

General rules

Under s.59D of the Taxes Management Act 1970 (TMA70) the normal due date for a company to pay corporation tax is nine months and one day following its accounting period end.

S.59E of TMA70 provides for powers to make different due dates. The Corporation Tax (Instalment Payments) Regulations 1998 (SI 1998/3175)), made under s.59E, make provision for Corporation Tax to be paid in quarterly instalments for ‘Large’ and ‘Very Large’ companies.

Under regulation 3(4) there is no requirement to pay in quarterly instalments if the total liability for the accounting period is less than £10,000 (this amount is proportionately reduced for accounting periods less than 12 months).

References below are to the Corporation Tax (Instalment Payments) Regulations 1998 (SI 1998/3175).

Quarterly Instalment Payments (QIPs) for ‘Large’ Companies

‘Large’ companies are defined by regulation 3(1) as those whose taxable profits are between £1.5 and £20 million. Those amounts are reduced by proportion to the number of associated companies plus one, and proportionately for accounting periods of less than a year.

Under regulation 5, Large companies must pay their corporation tax in the following instalments:

- The first instalment, six months and 13 days after the start of the accounting period,
- The second instalment, three months after the first,
- The third instalment, three months after the second, and
- The final instalment, three months and 14 days after the end of the accounting period.

The number of quarterly instalment payments can depend on the length of the accounting period if it is shorter than 12 months.

Under regulation 3(5) a company is not a large company, so uses the normal due date, if the profits for the accounting period do not exceed £10 million and either:

- The company did not exist or did not have an accounting period at any time during the previous 12 months, or
- for any accounting period which ended in the previous 12 months, either its annual rate of profit did not exceed £1.5 million or its annual rate of tax liability did not exceed £10,000.

QIPs for ‘Very Large’ Companies

‘Very large’ companies are defined by regulation 3(2) as those whose taxable profits exceed £20 million. That amount is reduced by proportion to the number of associated companies plus one, and proportionately for accounting periods of less than a year.

Under regulation 5AZA, Very Large companies must pay their corporation tax in the following instalments:

- The first instalment, two months and 13 days after the start of the accounting period,
- The second instalment, three months after the first,
- The third instalment, three months after the second, and
- The final instalment, three months after the third.

If the accounting period is less than 12 months, then the rules in regulation 5AZA(3) apply to ensure that the payments all fall within the accounting period.

Group Payment Arrangements

Section 59F TMA 1970 provides for group payment arrangements which allows a group the facility to have one company pay tax on behalf of all of them. Broadly, the nominated company makes payments of tax on the quarterly instalment payment due dates based on the most recent forecast of all the large companies in the arrangement.

Payments are adjusted during the quarterly instalment period as the forecasts change and a balancing payment is made, including amounts due from non-large companies on the normal due date.

Managed Payment Plans

S.59G TMA70 provides for taxpayers to enter into voluntary payment plans with HMRC to pay their tax liabilities in instalments which are spread equally before and after the due date.

Provided payment plans are adhered to, no interest and penalties will be due on any tax paid after the normal due date. Payment plans can be entered into in respect of Income Tax, Capital Gains Tax, and Corporation Tax.

Further reading

HMRC Company Taxation Manual: CTM92000 -Payment

HMRC Company Taxation Manual: CTM92500 -Quarterly instalments

Paying HMRC: Pay your Corporation Tax bill

Paying HMRC: Pay Corporation Tax if you’re a large company

Annex D: Frequency of other taxes and duties administered by HMRC

Tax	Detail	Current Payment Frequency
Aggregates Levy	A tax on sand, gravel and rock that has been dug from the ground, dredged from the sea in UK waters or imported.	Unless on non-standard accounting periods, the due date is the last working day of the month (excluding any weekends or public holidays) following the end of the return period. Levy returns normally cover a three-month period.
Air Passenger Duty	A tax paid by airlines on each chargeable passenger aboard a chargeable aircraft that takes off from a UK airport.	Monthly or annually
Alcohol Duty	Made up of four individual taxes: Beer Duty, Cider Duty, Spirits Duty and Wine Duty. The precise details vary between the duties but in most cases the producer will be liable for the duty as the product leaves their premises for general sale.	Various payment points dependent on duty. Wine and Cider Duty is due by the 15th day of the month following the accounting period, Beer Duty is due by the 25th day of the month following the accounting period. Accounting periods are generally one month with other options.
Climate Change Levy	Tax on UK business energy use, charged at the time of supply. Energy use refers to electricity, gas, liquid petroleum gas and solid fuel.	HMRC will send a Climate Change Levy return form every 3 months to be filled in and sent back. The date to send it back will be shown on the return. Payment is due on the same date as the return.
Customs duties	Charged on all goods sent from outside the UK (or the UK and the EU if in Northern Ireland) if they are either excise goods or worth more than £135.	Paid by receiver of goods before they are released.
General Betting Duty, Pool Betting Duty and Remote Gaming Duty	Businesses must pay if they offer betting or gaming, or both, from outside the UK to gamblers in the UK (e.g. over the internet), betting from a UK shop, or spread betting from the UK.	A standard accounting period is 3 calendar months. The return and tax payment are due no later than 30 days from the end of the accounting period.
Inheritance Tax	A tax on the estate (the property, money and possessions) of someone who has died.	Must be paid by the end of the sixth month after the person's death, and is the responsibility of the executor of the will.

Tax	Detail	Current Payment Frequency
Insurance Premium Tax	Tax on general insurance premiums including car insurance, home insurance, and pet insurance.	HMRC will send a 'notice to file' with a deadline to send the return and pay what is owed – usually every 3 months.
Landfill Tax	Applies to waste disposed by way of landfill at a licensed landfill site in England or Northern Ireland unless the waste is specifically exempt.	Unless on non-standard accounting periods, the due date is the last working day of the month (excluding any weekends or public holidays) following the end of the return period. Returns normally cover a three-month period.
Plastic Packaging Tax	A new tax that will be introduced in April 2022, applying to plastic packaging produced in, or imported into the UK that does not contain at least 30% recycled plastic.	Businesses will need to submit a quarterly tax return online and make an electronic payment of the tax due within one month of filing the tax return.
Soft Drinks Industry Levy	A tax on soft drinks that contain over 5 grams of sugar per 100 millilitres with a higher rate for drinks with 8 grams or more per 100 millilitres.	SDIL traders declare liabilities on fixed quarterly reporting periods ending June, September, December and March, with payment due within 30 days following the period end date.
Stamp Duty Land Tax	SDLT is paid when property or land over a certain price is bought in England and Northern Ireland	SDLT payments and returns are due within 14 days of the 'effective' transaction date.
Stamp Duty Reserve tax	Tax on the transaction when buying shares	If bought electronically, tax is automatically added onto the transaction. If shares are bought using a stock transfer form, then payment is due within 30 days.
Tobacco Duty	Tobacco Products Duty is payable if you make or import cigarettes and other tobacco products.	Usually required to be paid as soon as product becomes liable for duty. Products become liable to the duty when they either enter the UK from overseas or reach a smokable condition during manufacture.

Council Tax and Business Rates

The annual bills for business rates and council tax are usually paid over a 10-month period, although ratepayers and residents can generally request that payments are spread over 12 months or choose to pay upfront.