IFA REPRESENTATION 02/26

# Open Consultation – Requiring payment of VAT and PAYE return liabilities by Direct Debit)

The IFA welcomes the opportunity to comment on this open consultation published on 23 June 2026.

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

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Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME focused accountancy group, with more than 49,000 members and students in 100 countries.

The IFA is a full member of the International Federation of Accountants (IFAC), the global accounting standard-setter. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies.

The IFA have been approved by:

HM Treasury to supervise our members for the purposes of compliance with the Money Laundering Regulations, and by the Financial Services Authority in the Isle of Man.

The Charity Commission in England and Wales, for conducting independent reviews of charity accounts below the audit threshold;

The Scottish Charity Regulator, for providing independent examination of Scottish charity accounts; and

The Civil Aviation Authority (CAA) for IFA practising members to join the ATOL Reporting Accountants (ARA) scheme.

The IFA is represented on several UK Government committees and forums alongside other IFAC members, including the HMRC Agent Support Group, HMRC Compliance Reform Forum, HMRC Guidance Strategy Forum, HMRC Charter Stakeholder Group and Companies House Stakeholder group.

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

www.ifa.org.uk

## General comments

1. This response is provided by the Institute of Financial Accountants after consulting with an expert panel made up of IFA members engaged in Public Practice, as well as responses received from members after publicising the consultation.

2. For context, the majority of IFA firms are sole practitioners or small entities who provide services to local small business.

3. The IFA welcomes the opportunity to comment on HMRC's proposals. As a professional body whose membership largely comprises sole practitioners and small-to-medium practices (SMPs), our members represent the micro-businesses and small enterprises that form the backbone of the UK economy.

4. While the IFA broadly supports HMRC's strategic goals to reduce administrative errors, streamline tax collections, and minimise late payments, we hold critical reservations regarding the mandatory imposition of Direct Debits. We must ensure that the voices of smaller practitioners and their clients—particularly those who face digital exclusion, cash-flow volatility, or banking barriers—are fully protected under any new framework.

5. We also believe this aligns with one of the pillars set out in HMRCs Debt Strategy to help 'Prevent Tax Debt' by ensuring payment is as simple as possible.

6. We provide the following responses as a representative body and therefore have entered 'not applicable' where we feel responses directly from agents would be more appropriate.

## Responses to consultation questions

## About you

**Q1: Are you responding to this survey as:**

- **a business**
- **a representative body**
- **an organisation**
- **an individual**
- **other (please provide details)**

7. Representative Body – the Institute of Financial Accountants (IFA)

**Q2: Are you UK based?**

- **yes**
- **no (please provide details)**

8. UK

**Q3: Are the views offered in your responses:**

- **your own views**
- **your organisation's views**
- **your members' views**

9. These are the views of the organisation with input from an expert panel made up of IFA members engaged in public practice.

**If you are responding to this survey as a business**

**Q4: Where does your business operate? (please select all that apply)**

- **England**
- **Scotland**
- **Wales**
- **Northern Ireland**
- **Isle of Man**
- **EU — please state which country**
- **Non-EU — please state which country**

10. Not applicable. IFA members are engaged in public practice throughout the United Kingdom and crown dependencies.

**Q5: What is your industry sector? (select the relevant option)**

- **accounting**
- **construction**
- **finance**
- **hospitality and leisure**
- **motor vehicles (repair and selling)**
- **production and manufacturing**
- **retail**
- **science and technology**
- **wholesale trade**
- **other (please provide details)**

11. Not applicable as the IFA is an accountancy sector membership body.

**Q6: To help us determine business size, please provide details on:**
**number of employees in your business (select the relevant option)**

- **Less than 20**
- **20 - 249**
- **250 or more**

**annual turnover: (select the relevant option)**

- **less than £90,000**
- **£90,000 to £499,999**
- **£500,000 to £999.999**
- **£10million to £9million**
- **£10million to £200million**
- **more than £200million**

**an approximate summary of how your sales are split (enter an estimated percentage for each option or 0% where not applicable)**

- **business to consumer**
- **business to business**
- **business to government**

12. Not applicable.

**Q7: How long has your business been operating? (select the relevant option)**

- **less than 12 months**
- **1 to 5 years**
- **5 to 10 years**
- **more than 10 years**

13. Not applicable.

**Q8: Do you use an accountant for your business? (select the relevant option)**

- **yes**
- **no**
- **other**

14. Not applicable.

**Q9: Please share any further information about your organisation or its activities that could help us better understand your responses.**

15. The majority of IFA members are sole practitioners. Our firms and sole practitioners provide bookkeeping, accounts preparation, tax compliance, tax advice, and payroll as well as small volumes of trust and company services and assurance services.

16. To indicate the size and scale of our supervised population: 94% of our firms just have one office, 5% have two offices, and 1% have more than two offices. The average number of clients within our supervised population is 172 (80 clients median as the average is skewed by outliers at the top and bottom of the scale). The average turnover is £226k (median £70k).

## Direct Debit for VAT

If you are not currently required to pay your VAT electronically, proceed to question 16. Payment on Account payers, should proceed to question 20.

**Q10: Prior to this consultation, were you aware that you could make VAT payments by Direct Debit?**

17. Not applicable

**Q11: If you currently pay by Direct Debit or previously have done, what benefits or drawbacks, if any, have you experienced?**

18. Not applicable

**Q12: If If you were aware of the facility to pay by Direct Debit but have chosen not to use this payment method, could you explain why?**

19. Not applicable

**Q13: The government expects that making payment of VAT by Direct Debit mandatory could deliver benefits for businesses, including greater automation and reduced administrative burden. What benefits, if any, do you expect this change could bring to your accounting processes or wider business operations?**

20. While it may reduce the administration for businesses with predictable cash reserves, it shifts an intense administrative burden onto micro-businesses and sole traders. They must now constantly monitor their bank balances against unpredictable VAT/PAYE liabilities to prevent overdraft fees or bounced transactions.

**Q14: What barriers or impacts, if any, might making payment of VAT mandatory by Direct Debit have on your accounting processes or wider business operations?**

21. Small businesses frequently rely on the flexibility of "pushing" payments manually. This allows them to time their tax outflows exactly around late-paying customers or seasonal dips. Forcing an automated "pull" system eliminates this micro-management capability, increasing the risk of insolvency or severe working capital shortages.

**Q15: If you do have chosen to use methods of electronic payment other than Direct Debit, are there particular benefits in your chosen method of payment that informed a decision to use these instead of Direct Debit?**

22. Some firms generally use Faster Payments/BACS rather than Direct Debit for certain tax payments. The main benefits of these payment methods are control, flexibility and cash flow management.

23. A manual electronic payment allows the business to determine the exact timing and amount of the payment before funds leave the account. This can be particularly important for small businesses and

their advisers where cash flow is closely monitored, and payment decisions may need to take account of other short-term financial commitments.

24. Electronic bank transfers also provide an immediate payment confirmation and a clear audit trail, which can assist with internal controls, reconciliation processes and client record keeping. Where advisers are supporting multiple clients, payment references can be reviewed and verified before a payment is made, reducing concerns about incorrect amounts being collected.

25. Seasonal and trade-based sectors such as hospitality, agriculture, construction, and retail experience intense fluctuations in revenue. A high-turnover quarter followed by a sudden cash dry-spell means a mandatory Direct Debit pull could leave a business unable to pay staff or suppliers.

26. In addition, some businesses prefer payment methods that require a positive action before funds are released, as this aligns with established financial governance procedures, including authorisation requirements and segregation of duties.

27. While we recognise the administrative benefits that Direct Debit may provide for many taxpayers, a significant reason some businesses choose alternative electronic payment methods is the greater visibility and control over the timing of payments and cash flow, particularly where liabilities may be under review, subject to adjustment, or where funding is managed carefully around key payment dates.

## Scope and exceptions

**Q16: Are you currently excepted from submitting VAT returns electronically?**

28. Not applicable.

**Q17: What barriers or impacts might you face by making VAT payments by Direct Debit?**

29. We see the main barriers relating to digital access and literacy**.** Many micro-businesses operated by older or digitally disengaged individuals struggle with the complexities of the Government Gateway. Additionally, setting up online mandates often fails if the business account requires multiple signatures.

**Q18: If you have set up a Direct Debit using VATC9 form or on your online VAT account and currently pay VAT by Direct Debit**

- **comment on benefits of this method, if any, you have experienced**
- **comment on drawbacks, if any, you have experienced**

30. Many small partnerships, family businesses, and community organisations require two physical or digital signatures to authorise mandates. Current online setups do not seamlessly accommodate dual-authorisation, causing automated rejections and accidental non-compliance.

**Q19: Are there any particular customer groups (such as disabled people, people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion or people with or without dependents) likely to be disproportionally affected? If so, please explain how.**

31. While the policy is intended to be universal, its practical application creates severe structural disadvantages for several specific groups within the micro-business and sole-trader community:

   a. **Age (Elderly Taxpayers):** Older micro-business owners are statistically much more likely to be digitally excluded or face low digital literacy. Navigating the complex online setup for Direct Debit mandates via the Government Gateway is a significant barrier. Many rely entirely on traditional "push" payments via telephone banking or physical bank branches, which this mandate effectively penalises.

   b. **Disabled People:** Taxpayers with cognitive difficulties, severe visual impairments, or neurodivergent conditions face immense friction when managing online accounts. Furthermore, disabled business owners often experience unpredictable health-related disruptions to their trading income. Removing their ability to manually time "push" payments to match their erratic cash flow risks triggering failed direct debit fees and compounding financial distress.

c. **Religion (Faith-Based Banking Barriers):** Certain religious groups, particularly those practicing Islamic finance, adhere to strict rules regarding interest and debt. Automated Direct Debit systems carry an inherent risk of account overdrawing, which triggers unauthorised overdraft interest or automated bank penalty fees. Forcing these business owners into a system that risks exposing them to interest-bearing penalties violates their ethical and religious financial practices.

d. **People with Dependents (Socio-Economic Vulnerability):** Micro-business owners with children or dependent adults operate on razor-thin financial margins. They often manage cash flow daily, sometimes delaying a tax payment by a few days to prioritise immediate, essential family needs (e.g., food, utilities, care costs). An automated "pull" system completely removes this vital emergency flexibility, potentially draining a family's primary bank account at a critical moment.

32. HMRC must introduce a robust, accessible, and non-stigmatising exemption framework. Any taxpayer who falls into these vulnerable categories must be permitted to continue using manual "push" payment methods without facing financial or administrative penalties.

## Extending mandatory payment by Direct Debit to Payments on Account

**Q20: What, if any, barriers might you face or impacts might you experience on your accounting processes/business if POA instalments were collected by Direct Debit?**

33. Whilst we recognise that collecting Payments on Account (POA) by Direct Debit could reduce the risk of missed payments for some taxpayers, there are a number of practical barriers and impacts that should be considered.

34. POA liabilities are often reviewed shortly before the payment due date, particularly where income levels have changed, profits have fallen, or a claim to reduce POA is being considered. A Direct Debit model could reduce flexibility for taxpayers and agents who need to amend liabilities before payment is taken.

35. Many small businesses and self-employed individuals manage cash flow carefully and may prefer to retain control over the exact timing of payments. Manual electronic payments allow taxpayers to ensure sufficient funds are available and to coordinate tax payments alongside other business commitments. Automatic collection could increase the risk of failed collections, bank charges, or financial pressure where cash flow is tight.

36. From an agent perspective, there may also be additional administrative burdens during implementation. Practices would need to ensure clients understand the new requirements, assist with Direct Debit setup, manage client queries regarding collection amounts and dates, and handle situations where clients change bank accounts or withdraw mandates.

37. We are also concerned about situations where HMRC records are incorrect, returns are amended close to the payment date, or taxpayers are in discussions with HMRC regarding time-to-pay arrangements. In these circumstances, an automated collection process may create uncertainty and additional work for both taxpayers and agents.

38. Some taxpayers deliberately use Faster Payments or online banking because these methods provide immediate visibility and confirmation of the payment amount, date and reference used. Any move to compulsory Direct Debit should ensure taxpayers continue to have clear advance notification of collection dates and amounts, together with straightforward mechanisms for correcting errors or disputing liabilities before funds are collected.

39. The principal impacts for small practitioners and their clients would be reduced flexibility around payment management, increased client support requirements during transition, and potential difficulties for clients whose cash flow or tax position changes between the calculation of POA and the payment due date.

**Q21: What benefits, if any, do you foresee if POA instalments and the balancing payments were collected by Direct Debit?**

40. While the IFA has some reservations regarding the mandatory nature of this proposal, we acknowledge that a voluntary or well-implemented Direct Debit system for Payments on Account (POA) and balancing payments offers several theoretical and operational benefits:

    a. **Mitigation of Late Payment Penalties:** For stable, well-capitalised micro-businesses, automating both the fixed POA instalments and the final balancing payment removes the risk of human error. It ensures deadlines are never missed due to administrative oversight, thereby eliminating accidental late-payment penalties and interest charges.

    b. **Reduced Administrative Burden for Capable Businesses:** Business owners who do not experience volatile cash flow will benefit from a "set-and-forget" model. They will no longer need to manually log into banking apps or the Government Gateway multiple times a year to execute individual "push" payments.

    c. **Smoother Audit Trails for Digital Practices:** For sole practitioners managing clients with stable finances, automated pulls create a predictable, recurring transaction history. This consistency can simplify automated bank feeds in cloud accounting software, making quarterly reconciliations cleaner and reducing the time spent chasing clients for payment confirmations.

    d. **Macro-Economic Tax Predictability:** Streamlining the collection of balancing payments alongside instalments ensures a more predictable flow of revenue into the Exchequer, which can ultimately lead to better-funded public services and more stable tax administration.

41. These benefits only manifest if the taxpayer has a predictable cash surplus. For the majority of micro-entities represented by sole practitioners, the stress of an automated "pull" system outbalances these efficiencies unless robust balance-capping and advanced notification safeguards are guaranteed.

**Q22: If your VAT liability fluctuates above and below £20million within a tax year please explain the typical range, frequency of fluctuation under and over £20million and why this varies?**

42. Not applicable due to the general size of clients supported by IFA firms.

**Direct Debit for PAYE**

**Q23: Prior to this consultation, were you aware that payments of PAYE could be made automatically by Direct Debit, following an RTI return?**

43. Not applicable

**Q24: How do you currently make payments of PAYE to HMRC?**

44. Not applicable

**Q25: If you have previously not paid on time, or paid with an incorrect reference, can you explain why this happened and would Direct Debit would have help prevent this?**

45. Not applicable

**Q26: If you were aware of the option to use Direct Debit but haven't done so, please could you explain why?**

46. Not applicable

**Q27: If you have used Direct Debit to make payments of PAYE to HMRC could you:**

- **comment on any benefits of this method**
- **comment on any drawbacks of this method**

- **indicate whether this remains your chosen payment method and, if not, what prompted this change**

47. IFA members have observed both advantages and disadvantages with clients using Direct Debit to pay PAYE liabilities.

48. **Advantages**
    a. Direct Debit can help reduce the risk of missed payment deadlines, particularly for businesses with established payroll processes and stable cash flows. Once set up, it removes the need to manually initiate payments each month.
    b. It can reduce administrative effort by automating the payment process and lowering the risk of payment reference errors that can occur when using manual bank transfers.
    c. Businesses benefit from greater certainty that HMRC will receive payment through an approved payment mechanism, which may help avoid late payment interest and penalty issues arising from oversight.

49. **Disadvantages**
    a. Many small businesses prefer to retain direct control over the timing of payments, particularly where cash flow fluctuates during the month. Direct Debit can be perceived as reducing that flexibility.

    b. PAYE liabilities can vary significantly due to bonuses, irregular payrolls, corrections, statutory payments and employee changes. Businesses may wish to review liabilities before authorising payment rather than relying on automatic collection.

    c. Where errors arise in payroll submissions or HMRC records, businesses may be concerned about the possibility of incorrect amounts being collected and the subsequent administrative effort required to resolve the issue.

    d. Some businesses operate financial controls requiring payments to be actively reviewed and approved before funds leave the bank account. Direct Debit may not align well with these governance arrangements.

50. For some clients with predictable payroll costs and established cash flow management, Direct Debit remains a suitable and convenient payment method because it reduces administration and helps ensure timely payment.

51. However, many small businesses continue to prefer Faster Payments or other electronic bank transfer methods because these provide immediate confirmation, greater visibility of outgoing payments and more control over the exact timing of cash outflows.

52. Where clients have moved away from Direct Debit, the most common reasons have been a desire for tighter cash flow management, internal approval requirements, and the ability to review liabilities immediately before payment is made.

53. Overall, while Direct Debit can be effective for businesses seeking automation and reduced administration, alternative electronic payment methods continue to offer benefits in terms of control, flexibility and financial governance, which are particularly important for many small businesses and their advisers.

**Q28: If you currently pay PAYE by Direct Debit, to what extent does the later payment date influence your decision to use this method, compared to other factors?**

54. Not applicable

**Q29: If it is made mandatory to make payment of PAYE by Direct Debit, what impact, if any, might this have on your business?**

55. If payment of PAYE were made mandatory by Direct Debit, the impact on practitioners would be mixed. Whilst we recognise that automation may help reduce missed payment deadlines and could simplify payment administration for some employers, there are a number of operational concerns

that would affect both clients and firms. HMRC's stated objective is to reduce late payments and administrative burdens through greater automation.

56. The most significant impact would be reduced flexibility for clients in managing cash flow. Many small businesses monitor cash balances closely and currently use Faster Payments to control the exact timing of PAYE payments. Moving to mandatory Direct Debit would remove some of that control and could create challenges for seasonal businesses or those with irregular cash flows.

57. We would also expect an increase in client support requirements, particularly during the transition period. Clients would require assistance setting up Direct Debits, updating mandates when bank details change, understanding collection dates, and resolving issues where payments are not collected as expected.

58. From an accounting and governance perspective, some clients have internal financial controls that require payments to be reviewed and authorised before funds leave their bank account. Mandatory Direct Debit may not align with these processes and could require businesses to amend established approval procedures.

59. There may also be practical challenges where PAYE liabilities change unexpectedly due to payroll corrections, late submissions, benefits adjustments, or amended returns. Businesses may be concerned about the timing and accuracy of collections where liabilities are revised close to payment dates.

60. For accountancy practices acting for a large number of clients, there is a risk of increased administrative work arising from client queries, failed collections, bank account changes, and the need to monitor whether Direct Debit mandates remain active and valid.

61. To minimise negative impacts, any move to mandatory Direct Debit should include:
    a. clear advance notification of the amount and date of collection

    b. straightforward processes for cancelling or amending collections where liabilities are disputed or corrected

    c. adequate safeguards for businesses experiencing temporary cash flow difficulties

    d. exceptions where businesses are unable to operate a UK Direct Debit arrangement or have legitimate operational reasons for using alternative electronic payment methods.

62. Overall, while mandatory Direct Debit could deliver benefits through automation and improved payment compliance, it would reduce flexibility for many small businesses and would likely increase advisory and support obligations for small accountancy practices, particularly during implementation and in situations where payroll liabilities are subject to change.

**Scope and exceptions**

**Q30: Are you currently excepted from submitting electronic returns for PAYE?**

63. Not applicable

**Q31: Please explain any barriers or challenges, if any, that you may face in making PAYE payments by Direct Debit?**

64. The primary challenge is cash flow management. Many small businesses actively manage their monthly cash position and prefer to make PAYE payments by Faster Payment once they have reviewed available funds and upcoming commitments. Direct Debit removes some of that flexibility and may increase concerns about funds being collected automatically at a time when cash flow is under pressure.

65. A further challenge is that PAYE liabilities can change from month to month. Payroll corrections, late amendments, bonuses, directors' pay, statutory payments and adjustments can all affect the final

liability. Businesses may wish to review and confirm the amount due before payment is made rather than relying on an automated collection process.

66. From an accountancy practice perspective, we anticipate an increase in client support and administration, particularly during implementation. Clients may require assistance setting up Direct Debits, updating bank details, understanding collection dates, and resolving issues where collections fail or amounts appear incorrect.

67. Some businesses also operate formal payment authorisation procedures whereby payments are reviewed and approved before funds leave the bank account. Direct Debit arrangements may not align with these governance controls and could require changes to established internal processes.

68. There may also be practical difficulties where:
    a. a business changes its banking arrangements;

    b. multiple directors or owners are required to approve payments;

    c. PAYE liabilities are subject to ongoing queries or corrections;

    d. a Time to Pay arrangement is being discussed with HMRC; or

    e. there are concerns regarding the timing of collections relative to payroll dates and cash receipts.

69. We are also concerned that some businesses may perceive a loss of visibility and control compared with Faster Payments, which provide immediate confirmation of the amount paid, payment date and reference used.

70. Whilst Direct Debit can offer benefits through automation and reducing the risk of missed payments, any mandatory approach should include clear advance notification of collection amounts and dates, simple mechanisms to amend or suspend collections where liabilities change, and appropriate exceptions for businesses with genuine operational or banking constraints.

**Q32: Are there any impacts on particular groups of taxpayers (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) that need to be addressed? How do you suggest we can overcome these?**

71. Whilst the proposal is intended to simplify payment and improve compliance, we believe there are several taxpayer groups who could be disproportionately affected by a mandatory Direct Debit requirement and whose needs should be considered when designing any future policy. The consultation itself recognises that exceptions and safeguards may be required for certain taxpayers.

72. Some disabled taxpayers may rely on support from carers, family members or advisers to manage their finances. They may be less comfortable making changes to banking arrangements or monitoring automated collections. Any new system should be fully accessible, with alternative communication formats and clear support channels available.

73. Older business owners and employers may have established payment processes that they have used successfully for many years. Some may be less confident with digital services or online banking and may require additional guidance and support when setting up or managing Direct Debit mandates.

74. Existing legislation already recognises that some individuals may be exempt from certain online filing requirements because of religious beliefs. Consideration should be given to ensuring that any mandatory Direct Debit model provides appropriate exceptions where similar circumstances apply.

75. Although not a protected characteristic, many small businesses, including those run by individuals with caring responsibilities or fluctuating incomes, may experience greater difficulties if they lose control over the exact timing of tax payments. This could be particularly challenging for seasonal businesses or those experiencing temporary cash flow pressures.

76. Some taxpayers may have limited access to online banking, lack confidence using digital services, or face language and communication barriers. A mandatory Direct Debit requirement could increase reliance on third parties to manage tax obligations.

77. To address these concerns, IFA recommend:
    a. maintaining a clear exceptions process where taxpayers cannot reasonably use Direct Debit;
    b. providing alternative payment methods in exceptional circumstances;
    c. ensuring all communications and systems meet accessibility standards;
    d. offering additional support for digitally excluded and vulnerable taxpayers;
    e. providing lengthy transition periods and comprehensive guidance;
    f. giving taxpayers advance notice of collection amounts and dates;
    g. allowing straightforward processes to amend, defer or challenge collections where legitimate issues arise.

78. Overall, we do not believe any particular protected group would necessarily be unable to comply with a Direct Debit requirement, but certain taxpayers may face greater practical difficulties than others. The policy should therefore incorporate appropriate safeguards, exceptions and support mechanisms to ensure that no group is placed at a disproportionate disadvantage.

**Q33: Have you ever made a payment of PAYE over £20million?**

79. Not applicable due to the general size of clients supported by IFA firms.

**Q34: If yes to 33, if you fluctuate above and below £20million please explain the typical range, frequency of fluctuation under and over £20million and why this varies?**

80. Not applicable

**Q35: If yes to 33, what is the lowest regular payment you have made in the past 3 years?**

81. Not applicable

**Incentives to encourage uptake and sanctions for non-compliance**

**Q36: What are your views on the use of penalties where VAT or PAYE is not paid by Direct Debit, including whether any penalty should apply on each occasion a payment is not made by Direct Debit, or if penalties should operate on a cumulative basis?**

82. The IFA strongly objects to the introduction of any financial penalties where the full tax liability has been cleared on time via an alternative electronic method (such as Faster Payments). Penalising a small business that has fulfilled its statutory financial obligation to the Exchequer simply because they chose a "push" rather than a "pull" transaction mechanism is inherently punitive, disproportionate, and counterproductive to fostering compliance.

83. We provide the following reasoning to support our objections on policy application:

    a. **Disproportionate Punishment for Compliance:** If a sole trader pays their VAT or PAYE in full by the statutory due date using a valid method like Faster Payments, no shortfall exists. Imposing a penalty under these circumstances punishes a business for a purely procedural choice, damaging the relationship between small businesses and HMRC.

    b. **Administrative Fragility for Micro-Businesses:** Forcing an "each occasion" or "cumulative" penalty regime will disproportionately penalise sole traders. These businesses frequently experience sudden cash-flow fluctuations or deal with legacy, multi-authorisation business bank accounts that fail to process online Direct Debit mandates smoothly.

84. We provide the following views on the structured penalty options:

   a. **Against "Per-Occasion" Penalties:** A transactional penalty applied each time an alternative method is used would cause severe administrative friction. For micro-businesses managing tight, daily margins, a single temporary cash deficit would trigger immediate financial penalties, worsening their working capital situation.

   b. **Against "Cumulative" Penalties:** While less aggressive initially, a cumulative system (similar to the points-based late filing regime) would quietly trap small businesses that intentionally use Faster Payments to control their cash-flow timing. Once the threshold is breached, it would generate an ongoing stream of appeals for practitioners to manage, heavily increasing the workload for sole practitioners who must process "Reasonable Excuse" claims for digitally or financially vulnerable clients.

85. Instead of implementing financial sanctions, HMRC should focus on positive reinforcement or restriction-based incentives. For example, the government could limit the extended 7-day electronic filing window exclusively to Direct Debit users, while keeping manual "push" payments on the standard calendar deadline. If financial penalties are ultimately legislated, a minimum 12-month soft-landing grace period must be enacted, and a clear, automatic exemption pathway must be provided for digitally excluded, rural, or financially distressed taxpayers.

**Q37: What challenges. If any, might arise from having different VAT or PAYE payment dates depending on the payment method used?**

86. The IFA foresees that introducing split or asymmetric payment dates based purely on the transaction method will cause significant administrative confusion, software friction, and systemic financial strain for SME and micro-businesses and the practitioners who support them.

87. Key challenges could include:

   a. **Asymmetric Treatment of Cash-Strapped Businesses:** If HMRC offers a later payment date exclusively for Direct Debit users while moving the manual "push" payment deadline forward, it creates an unfair, multi-tier system. Micro-businesses with highly volatile cash flows, who genuinely cannot risk automated "pulls", will be forced to pay earlier. This artificially compresses their working capital cycle and financially punishes them for maintaining necessary control over their bank accounts.

   b. **Severe Confusion and Human Error:** Having different deadlines for different payment methods undermines the principle of a simple tax system. Sole traders, who often manage their own book-keeping outside of standard working hours, will inevitably confuse the dates. This will lead to accidental late payments, triggering an influx of automated HMRC penalties and a subsequent deluge of appeals for agents to process.

   c. **Software Sync and Reconciliation Friction:** Modern cloud accounting platforms (e.g., Xero, QuickBooks, Sage) operate most efficiently when deadlines and payment dates are standardised. Splitting deadlines based on transaction methods will require software developers to build complex, variable logic into tax calculation and calendar modules. If a client changes their payment method mid-quarter, it creates a high risk of software miscalculations, leading to incorrect "late payment" warning flags.

   d. **The "Accidental Double-Payment" Trap:** If a business owner panics because they believe they are missing the earlier manual payment deadline, they may manually initiate a Faster Payment. If a Direct Debit mandate is also active for the later date, HMRC’s systems risk pulling the funds twice. For a micro-entity operating on thin margins, having the same liability extracted twice due to overlapping timeline confusion could trigger immediate operational insolvency.

88. HMRC should maintain one unified payment deadline for all electronic payment methods to preserve clarity and system integrity. If HMRC wishes to incentivise Direct Debit adoption, it should do so through positive, non-date-related mechanisms (such as small interest rewards or streamlined compliance tracking) rather than creating a fragmented, high-risk timeline that penalises the digitally or financially vulnerable.

**Q38: What other incentives or sanctions could be considered to encourage people to pay VAT and PAYE by Direct Debit.**

89. The IFA believe that incentives are likely to be more effective than sanctions in encouraging businesses to adopt Direct Debit. Many businesses currently use alternative electronic payment methods for legitimate operational and cash flow reasons, rather than because they are unwilling to comply with their tax obligations.

90. Potential incentives could include:
    a. Reduced or suspended late payment penalties for a defined period where a business has an active Direct Debit mandate and has taken reasonable steps to comply.

    b. Faster processing of repayments or corrections for businesses that pay by Direct Debit.

    c. Earlier access to future digital services or account functionality within HMRC systems.

    d. More flexible arrangements for correcting payment errors or resolving disputed amounts.

    e. Clear confirmation of upcoming collection dates and amounts, providing businesses with greater certainty and confidence in the process.

    f. A phased implementation period during which businesses choosing to adopt Direct Debit voluntarily receive additional support and guidance.

91. Any sanctions should be proportionate and targeted. Possible approaches could include:
    a. Requiring taxpayers who repeatedly fail to pay on time using manual payment methods to move to Direct Debit.

    b. Applying sanctions only where there is a persistent pattern of late payment rather than for occasional errors or genuine financial difficulties.

    c. Providing warning notices and support before any penalties are applied.

92. We would caution against introducing additional financial penalties solely because a business chooses not to pay by Direct Debit. Many businesses have valid reasons for preferring Faster Payments or other electronic methods, including cash flow management, internal approval procedures and governance requirements.

93. In our view, the most effective approach would be to make Direct Debit attractive through convenience, clear benefits and improved customer experience rather than relying heavily on sanctions. Businesses are more likely to adopt Direct Debit voluntarily if they can see tangible administrative benefits, while retaining confidence that appropriate safeguards and alternative arrangements remain available where justified.

## Contact details

Should you wish to discuss this response further, please contact Tim Pinkney, IFA Director of Professional Standards, by email at timp@ifa.org.uk.