



HM Revenue  
& Customs

# Timely payment: summary of responses

30 November 2021

# Contents

1. Executive Summary .....	3
2. Introduction .....	5
3. Responses .....	5
Responses to Chapter 2: Principles	
Responses to Chapter 3: Overview of Current Regimes	
Responses to Chapter 4: Handling More Regular Payment	
Responses to Chapter 5: Cash-Flow Impacts	
Responses to Chapter 6: Wider Questions	
4. Government Response and Next steps.....	12
Annexe A: List of stakeholders consulted.....	155

# 1. Executive Summary

- 1.1 Timely payment of tax is a key part of delivering on the government's 10-year tax administration strategy – '[Building a trusted, modern tax administration system](#)'. The strategy sets out how HMRC 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.
- 1.2 We are 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. 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.
- 1.3 The current payment timetable was designed for a paper-based world, where it could take businesses a long time to collect and review all the relevant records and do the relevant computations. But in an increasing digitised world, where businesses are now better able to keep track of expenses and payments closer to real time, and in keeping with HMRC's ambition to become one of the most digitally advanced tax authorities, it is logical to look at whether the current approach – with its often extensive time lags – remains the right one. We are already moving to more frequent reporting (via Making Tax Digital), and consulting on [Income Tax Self-Assessment registration for the self-employed and landlords](#) - exploring the timing of tax payments complements these developments.
- 1.4 Timely payment refers to bringing the calculation and payment of tax closer to the point where the income or profit arises, paying tax based on the taxpayers' current year position using, where possible, up to date data. Published in March 2021, the [call for evidence \(CfE\) on timely payment](#) opened the debate on the opportunities and challenges of more frequent payment of Income Tax under Self-Assessment (ITSA) and Corporation Tax under Self-Assessment (CTSA) by smaller companies outside of the existing quarterly instalment regime. The CfE closed on 13th July, and the government is grateful to all those who responded.
- 1.5 As set out in the CfE, calculating and paying tax 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. It could also help prevent taxpayers getting into tax debt, reducing the associated stress and difficulties that debt can bring. A more regular calculation and payment system would enable people and businesses to pay the right tax as they live their lives and bring tax closer into line with the increasingly real-time nature of tax reporting and other customer services.
- 1.6 There are also benefits for the government. By helping to prevent taxpayers falling behind with their tax payments, timely payment will reduce the cost of chasing and collecting tax debt. Additionally, it will help tackle the non-payment tax gap which is currently £4bn<sup>1</sup>, increasing available funds to invest in vital public services.
- 1.7 Most respondents recognised the challenges and the benefits of timely payment as outlined in the CfE. Most agreed with the broad principles set out, recognising that paying in smaller, more frequent instalments could be potentially beneficial for some taxpayers, particularly those on lower income and the newly self-employed. Respondents agreed timely payment would allow for better planning and budgeting and could also be beneficial for those whose

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<sup>1</sup> [Measuring tax gaps 2021 edition: Tax gap estimates for 2019 to 2020](#)

income fluctuates, as liabilities would be based on current liability rather than being based on a previous (potentially more successful) year.

1.8 On balance the majority of respondents felt the challenges of more timely payment of tax currently outweighed the benefits. Broadly, respondents were concerned with a 'one size fits all' approach to calculating and collecting tax payments sooner and/or more regularly, which would not recognise the variations across business models or sectors. Most were concerned about the potential additional administrative burden, the complexity of accurately calculating tax liability in-year and the impact on cashflow (particularly when considering the transition to timely payment, and for those taxpayers with fluctuating or seasonal income).

1.9 Recognising these challenges, in the CfE the government committed that no changes to payment timings will be implemented within this Parliament and reiterated that this is a long-term ambition which will be developed in close collaboration with external stakeholders. The government wants to explore further how to mitigate the challenges, and working closely with external stakeholders, HMRC will:

- Explore the best approach to achieving more accurate in-year tax calculations via a voluntary in-year calculation proof-of-concept pilot. The pilot will increase HMRC's understanding of how in-year calculation processes and systems could be designed. The outcomes of the pilot will help formulate future policy development and system design of timely payment; the government will not proceed with an in-year calculation until it is confident it can do so accurately and reliably.
- Form a working group with external stakeholders to explore how best to support taxpayers and help understand the implications and impacts of timely payment for different types of business and sectors. Recognising the particular challenges to the CfE for vulnerable or low-income taxpayers, the group will include representative bodies of those groups, alongside wider government, such as the Department of Work and Pensions (DWP). This working group will be influential in the shaping of policy and system design (including the in-year calculation pilot).
- Continue to make improvements to HMRC's Budget Payment Plan, a voluntary tool for ITSA taxpayers who are up to date with their self-assessment payments and wish to make regular weekly or monthly payments (of any amount they choose) towards their next tax bill. At Spring Budget 2021, the government funded improvements to the Budget Payment Plan over the course of 2021-22. Improvements include:
  - raising the Budget Payment Plans prominence online making it easier for customers to find and sign up;
  - increasing payment flexibility to better support taxpayers to manage their tax affairs in a way that suits their business model;
  - improving supporting guidance; and
  - using customer insight to market the Budget Payment Plan at key points in the customer journey, as well as to taxpayer groups who are most likely to benefit.

HMRC received additional funding through the Autumn 2021 Spending Review to further enhance the functionality of the Budget Payment Plan. These enhancements include using broader data inputs to calculate customer liabilities now, and to forecast their liabilities to the end of the tax year; improving the taxpayer view of their liabilities and in-year payments made via the Budget Payment Plan; and offering alternative payment options, for example a 'Pay Now' button.

1.10 The government will carry out further public consultations in the future on any subsequent proposals.

## 2. Introduction

### Background

2.1 Currently there is a significant delay between the point of taxable income or profit and the point of tax payment for Income Tax under Self-Assessment (ITSA) and Corporation Tax under Self-Assessment (CTSA). Those under ITSA pay their liability in two or three instalments, the first falling 10 months into their tax year, the second four months after their tax year is over, and the last 10 months after their tax year end. 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. Under CTSA, small companies (broadly those with profits less than £1.5m) pay nine months and one day after their accounting year end. These timings are in stark contrast to those ~30 million individuals who pay tax monthly or more frequently under PAYE. VAT is also generally paid on a quarterly basis.

### Details of the call for evidence

2.2 In Spring 2021, the government published a call for evidence (CfE) on timely payment to open the debate on the opportunities and challenges of more frequent payment of ITSA and CTSA by smaller companies outside of the existing quarterly instalment regime. The CfE closed on 13th July.

2.3 The CfE explored the benefits and challenges of timely payment, and was structured as detailed below:

- Chapter 2 set out an overview of the potential proposed changes and outlined 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 considered best practice from other tax authorities.
- Chapter 3 gave a simplified summary of the current payment regimes for ITSA and CTSA and explored the benefits and challenges of the existing systems.
- Chapter 4 explored some of the potential methods of moving to more regular payment, and the opportunities and challenges specific to those options.
- Chapter 5 focussed on cash-flow impacts of changes to payment deadlines.
- Chapter 6 sought 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.

This document summarises the responses to the CfE and sets out the government response and next steps.

## 3. Responses

3.1 There were 48 written responses to the consultation. These were from a variety of stakeholders, including professional representative bodies, large advisory firms, and the major taxpayer organisations. Responses were also received from those representing civil society and vulnerable or lower income populations, as well as from individual taxpayers and software developers. Annex A provides a list of all respondents. Alongside the written responses, HMRC held discussions with some external stakeholders over the consultation period.

3.2 HMRC are grateful to those who submitted responses and engaged in discussions, and recognise the time and effort dedicated to providing responses.

3.3 The following sections set out the questions asked in the CfE and provides an overarching summary of the responses received in each chapter. The government response and the next steps are detailed in section 4.

## Chapter 2: Principles

3.4 This chapter set out the drivers, challenges, and other considerations for more frequent payment of tax. It also explored international examples of tax payment timings and sought views on what lessons the UK can learn from other tax authorities.

3.5 The questions were:

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?

### **Summary of Responses for Chapter 2:**

3.6 Most respondents recognised the challenges and the benefits outlined in the CfE. Most agreed with the broad principle of timely payment and recognised that paying in smaller, more frequent instalments could be potentially beneficial for some taxpayers particularly for lower income taxpayers and the newly self-employed. Timely payment would allow for better planning and budgeting. It may also be beneficial for those whose income fluctuates from year to year, as their tax liability would be based on current in-year income rather than being based on the previous (potentially more successful) tax year.

3.7 However, the majority felt that the challenges of timely payment currently outweighed the benefits. Broadly, the overarching concern was around a 'one size fits all' approach, which would not recognise the variations across business models or sectors. Most were concerned about the potential additional administrative burden, the complexity of accurately calculating tax liability in-year and the impact on cashflow (particularly when considering the transition to timely payment, and for those taxpayers with fluctuating or seasonal income)

3.8 Whilst recognising that the government had committed to not making changes to payment timings in this Parliament, many were concerned about the timing of implementation, particularly when many businesses are still recovering from the impact of Covid-19 and acclimatising to EU transition. Related to this were also concerns about the impact of any transition period from one payment regime to another.

3.9 Some respondents also highlighted the need to ensure interactions with wider government reforms and existing systems are carefully assessed and considered. For example, timely payment will need to align with Universal Credit to ensure there is a link between systems and data being uploaded by taxpayers. Another example is the interaction with Making Tax Digital for ITSA (MTD), which is covered in further detail in 'Chapter 4: Handling More Regular Payment' below.

3.10 Some respondents thought more work needs to be done to work through the challenges before timely payment is developed further, and broadly suggested the short- to medium-term focus should be on:

- Improving and promoting awareness of the HMRC Budget Payment Plan, an existing voluntary system which allows payments towards tax liabilities in instalments.
- Exploring the best approach to accurately or near accurately calculate tax in-year. Many respondents wanted to know how this would work in practice, particularly when considering how to reconcile accurately aspects such as multiple income sources (including from overseas), reliefs, multiple basis periods, dividends, and fluctuating income.
- Assessing populations or sectors timely payment would be of most benefit to. One respondent stated that it is particularly important that the needs of low income and vulnerable taxpayers are central to any changes to the current system.

3.11 The majority of respondents thought that comparisons could not be made with other countries as whilst the examples provided in the CfE involved more regular payment of tax, they were predominantly based on the previous year's tax liabilities. Respondents thought the strongest comparable regimes were those in Australia and New Zealand as there were different options available for taxpayers, including farmers, but there was concern that this added a layer of complexity. One respondent also provided additional examples of the payment systems in the Netherlands, Germany, and Belgium.

### Chapter 3: Overview of Current Regimes

3.12 This chapter set out the current payment regimes for Income Tax and NICs (outside of existing regular payment regimes such as PAYE) and Corporation Tax (outside of the quarterly instalment payment (QIPs) regime), and invited views on the benefits and challenges of the current regimes.

3.13 The questions were:

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?

#### **Summary of Responses for Chapter 3:**

3.14 The majority of respondents thought both the ITSA and CTSA regimes were well understood and worked well for the majority (including the digitally excluded). The time lag between receiving taxable income or profit and the point of tax payment was seen as a key benefit of the current system as it allows business to retain cashflow to invest and grow; allows new business to settle in; is beneficial for those with fluctuating income and enables accurate end of year reconciliation of tax due. However, some thought this time lag was a disadvantage, particularly for new businesses, those with a fluctuating income and those who struggle to budget.

- 3.15 Whilst the majority felt the current regimes are well understood, most respondents also highlighted that awareness and understanding of payment timings and amounts is challenging. For example, one representative body found just over half of their members felt their clients have some problems in understanding what tax payments they need to make and when. Many respondents thought the different payment deadlines for different taxes exacerbated this problem, as well as the challenge of the payment on account system, particularly as the first payment on account is due at the same time as the balancing payment; both of which are due on 31st January which can be particularly challenging following the Christmas period.
- 3.16 Some respondents also highlighted that the challenge of understanding payment timings/amounts for vulnerable taxpayers or those on a low income can be exacerbated by the likelihood that they may have more barriers to accessing and engaging with professional agents or accountants to assist with or advise on their affairs. Some respondents thought this also has consequences when considering expenses and reliefs, with those unrepresented unaware of what they can or cannot claim, and the steps they could take to reduce or adjust their tax obligations. A few respondents highlighted that this also has an impact on claiming refunds, stating that some engaged the services of a High-Volume Repayment Agent, at a cost, to secure refunds.
- 3.17 The majority of respondents thought some vulnerable taxpayers or those on a low income may struggle to budget for tax as it is unlikely to be their main concern amid other budgeting priorities. Some respondents also highlighted the links these groups may have with other vulnerabilities such as poor health, mental health issues and disability. Many also highlighted that this group are more likely to be in the sort of employment where income fluctuates or have multiple income strands.
- 3.18 The majority of respondents agreed that the time lag, budgeting and the payment of potentially 18 months' worth of tax in one lump sum are the main challenges of the current system for the newly self-employed. One representative body found nearly 78% of their members report that clients have difficulty in budgeting for paying tax in the first two years of the business, and members mentioned that clients are confused by having to make payments on account of income tax due. Some respondents thought the issues for the newly self-employed should be the focus of any future reform. Some respondents also thought that this group needed extra support and guidance; and tools such as the Budget Payment Plan, an existing voluntary system which allows taxpayers to pay toward their tax liability in instalments, should be more accessible.

## Chapter 4: Handling More Regular Payment

- 3.19 This chapter explored some of the potential methods of moving to more regular payment, and the opportunities and challenges specific to those options. Specifically, it explored the following:

- Calculation of tax payments in-year, including how to deal with expenses
- Timing of payments
- Handling over and under payments
- Transition to any new regime

- 3.20 The questions were:

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?

#### **Summary of Responses for Chapter 4:**

3.21 Most respondents agreed that in an 'ideal world', payments should be based on the current year liability. But the majority recognised this would be complex, and subsequently there was a split between those who thought it should be based on the current year or previous year liability: a survey carried out by a representative body found a near 50/50 split.

- 3.22 Alongside the complexity, many queried the accuracy of calculating tax in-year. If liabilities were to be based on the current year, many thought it would have to be based on rough estimates and questioned what constitutes a 'good enough' estimate. If estimates were based on MTD quarterly updates, respondents highlighted the importance of improving the repayment system as they considered it likely to result in an increase in over or under payments; repayment would have to be quick and efficient.
- 3.23 Most thought that having different calculation options available to meet diverse taxpayer needs would, in theory, create the most fair and flexible system for taxpayers but the reality of this may bring additional administrative burdens for taxpayers. Broadly, having different calculation options ensures flexibility so the taxpayer can decide on the best option for them (along with the suggestion that taxpayers should be able to move between different payment schemes). This would be of particular benefit to some populations/sectors, such as those who have seasonal or fluctuating income.
- 3.24 The majority of respondents agreed that digital is the only way to do in-year calculations, but it would need to be supported with clear guidance as it will only ever be as good or as accurate as the information provided by the people using it (and their understanding). The predominant concern with using a digital system was around the provisions for the digitally excluded. This is not just in terms of taxpayers' ability to confidently use a digital system, but also whether taxpayers have access to the right technology and reliable broadband. A representative body of the rural and farming community highlighted that 16% of rural premises do not have broadband.
- 3.25 Most respondents recognised both the benefits and disadvantages of flat rate expenses and were balanced in their view of flat rate versus actual expenses. Overall, the majority of respondents thought that flat rate expenses should act as a proxy for in-year calculation, but flat rate expenses should also be voluntary (with one respondent giving the current VAT flat rate scheme as an example of this). The majority of respondents stated that flat rate expenses should be restricted to smaller business. Smaller businesses would benefit the most from reduced administrative burdens, with larger businesses most likely to have the necessary resource/capacity to calculate actual expenses.
- 3.26 The majority of respondents thought that reconciling reliefs, allowances etc. in-year would be challenging, with additional complexities for large partnerships. Basis periods also add complexity, and reform is needed before a timely payment system can be accurate. Respondents thought that these complexities, as well as the interaction with Making Tax Digital (MTD) and Universal Credit, need to be carefully worked through. Some respondents also highlighted the importance of the Single Customer Account, where all liabilities and payments can be viewed in one place, to help manage these complexities. Some respondents noted that transition to timely payment should only be considered after these reforms have been bedded in.
- 3.27 Overall, a flexible, voluntary system was proposed by respondents, where payments can easily be reduced or increased and paid at a frequency of taxpayers' choosing. This system would allow taxpayers to assess and have control over what payment system is best for their business model and circumstances. Some respondents stated that this could be incentivised to increase its attractiveness to the taxpayer; incentives could include interest on payments received or quicker repayments of overpaid amounts.

## Responses to Chapter 5: Cash-Flow Impacts

3.28 This chapter explored the methods taxpayers currently use to budget for their tax bill and the potential cash-flow impacts of more timely payment of tax and sought views on which groups would be most affected.

3.29 The questions were:

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?

### **Summary of Responses for Chapter 5:**

- 3.30 Broadly most respondents highlighted that there are many variables which influence the ability and appetite to budget for tax and the level of impact timely payment may have on cash flow. These variables are largely dependent on the type and size of business, the business model, the sector the business operates in, the transition to timely payment and whether income is seasonal/fluctuating. Alongside this, the experience of vulnerable taxpayers or those on a low income may bring additional challenges. Because the impact of these variables on timely payment are unknown, respondents thought more work was needed by HMRC to consider these impacts across businesses, suggesting trials and further analysis to ascertain where/whom timely payment would be of most benefit.
- 3.31 Many thought that HMRC could do more to help support taxpayers to pay their tax on time, this included: increasing the accessibility of the existing Budget Payment Plan; using digital channels to nudge and prompt taxpayers and using the Single Customer Account to outline payments and liabilities in one place. One respondent stated that HMRC should also consider the use of withholding, where a trusted intermediary reports and withholds tax at source on behalf of the taxpayer replicating a Pay As You Earn (PAYE) type experience.
- 3.32 Most respondents thought the case studies provided were overly simplistic and did not represent the full breadth of ITSA and CTSA taxpayers. Some respondents highlighted that the case studies did not show that other options could also help resolve some of the issues. For example, in the example of Stuart, the gig economy worker, one respondent noted that it would be a bigger benefit to Stuart if instead the platform operated withholding and deducted the tax at source much like PAYE. In another example, for Rupa who received multiple incomes, one respondent noted that it would assist Rupa if there was a Single Customer Account with all her information in one place.
- 3.33 Overall, most respondents thought that any timely payment system should be flexible so business can react to and manage the impacts on cashflow and establish a payment frequency which suits the business model. This should be supported by an easily accessible, single joined up system which shows all of the taxpayer's liabilities and payments.

### **Responses to Chapter 6: Wider Questions**

3.34 This chapter asked for views on whether there are any other taxes administered by HMRC outside of those already noted where consideration should be given to introducing more regular or frequent payment of tax in the longer term.

3.35 The questions were:

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?

### **Overarching Summary of Responses for Chapter 6:**

3.36 There were few responses to this section. Broadly, respondents believe that timely payment should be considered for ITSA and CTSA before any other taxes are looked at. However, some respondents stated that any reform of payment timing should only be considered once other digital and tax administration reforms are implemented and properly bedded in (such as MTD, the Single Customer Account, and Basis Periods Reform). Consideration should also be given to other types of reforms such as exploring withholding by third parties which could help tackle some of the issues which timely payment is trying to address. All of this should be done in close consultation with external stakeholders.

## **4. Government Response and Next steps**

4.1 In the CfE the government committed that no changes to payment timings will be implemented within this Parliament and reiterated that this is a long-term ambition which will be developed in close collaboration with external stakeholders.

4.2 Respondents recognised the majority of the challenges set out in the CfE and the government is grateful for the additional detail on the likely impacts and will ensure these form part of the policy development and system design going forward. The rest of this chapter provides details of the government's response and next steps.

### **Voluntary in-year calculation proof-of-concept pilot**

4.3 There was a strong challenge in the CfE around calculating tax accurately in-year due to the complexity of the taxes, particularly for those with more complicated tax affairs, such as those with fluctuating or seasonal incomes. To work through these challenges and mitigate respondents' concerns, HMRC will conduct a voluntary in-year calculation proof of concept pilot.

4.4 The pilot will increase HMRC's understanding of how in-year calculation processes and systems could be designed. It will provide insight on how best to manage complex tax affairs, including how best to integrate reliefs, allowances, expenses etc. It will also use data and behavioural insight to stimulate the effect of potential policy decisions, providing valuable evidence and insight on the likely impact across different populations and business sectors. The outcomes of the pilot will help formulate future policy development and system design of timely payment; the government will not proceed with an in-year calculation until it is confident it can do so accurately and reliably.

4.5 It will use third party data to estimate accurately or near-accurately in-year tax liability, using machine learning and other innovative solutions to continually test and improve accuracy.

4.6 The pilot will take place over 3 years and will commence in April 2022. The first phase of the pilot will include the establishment of an external working group as detailed in paragraph 4.7

- 4.9 to provide evidence and insight to refine the scope and co-design the pilot. Once a pilot design is confirmed and the pilot is operating, the design and approach will remain iterative, and adjustments can be made to further test outcomes.

### **External Working Group**

- 4.7 There was challenge to the CfE around a 'one size fits all' approach with concern about the different impacts of more frequent payment dependent on a number of variables such as type of business and sector.
- 4.8 Respondents also thought the impact may potentially be more challenging for vulnerable or low income groups. HMRC recognise that whilst low income or vulnerable taxpayers are most likely to experience the benefits of timely payment there is risk that these groups could experience the greatest impact. It is key that this group are central in the consideration of policy development and system design from the start.
- 4.9 To explore how best to mitigate these challenges, HMRC will establish a working group with external stakeholders. HMRC would appreciate representation at the working group from professional representative bodies, advisory firms, taxpayer organisations and software developers alongside groups representing vulnerable or low income populations and wider government, such as the DWP. This group will influence the shaping of policy and system design (including the in-year calculation pilot as detailed in paragraph 4.3 - 4.6) as well as help to explore ways to mitigate issues raised in the CfE for vulnerable or low income taxpayers, such as digital exclusion and the interaction with Universal Credit. HMRC will proactively reach out to external stakeholders and will publish a Terms of Reference on GOV.UK once established, but in the meantime if you are interested in joining the working group please email [timelypayment@hmrc.gov.uk](mailto:timelypayment@hmrc.gov.uk).

### **Improve the HMRC Budget Payment Plan**

- 4.10 As outlined in the CfE, HMRC already offers the Budget Payment Plan, a voluntary tool for ITSA taxpayers who are up to date with their self-assessment payments and wish to make regular weekly or monthly payments (of any amount they choose) towards their next tax bill. However, 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; these difficulties were echoed by respondents to the CfE.
- 4.11 At Spring Budget 2021, the government funded improvements to the Budget Payment Plan. Over the course of 2021-22, HMRC will:
- raise the prominence of Budget Payment Plans online, making it easier for customers to find and sign up;
  - increase payment flexibility to better support taxpayers to manage their tax affairs in a way that suits their business model;
  - improve supporting guidance to make it simple to understand;
  - use customer insight to market the Budget Payment Plan at key points in the customer journey, as well as to taxpayer groups who are most likely to benefit.
- 4.12 HMRC received additional funding through the Autumn 2021 Spending Review to further enhance the functionality of the Budget Payment Plan. These enhancements include:
- using data input by taxpayers, from trusted intermediaries and third parties and available from other parts of HMRC to calculate customer liabilities now, and to forecast their liabilities to the end of the tax year;
  - improving the taxpayer view of their liabilities and in-year payments made via the Budget Payment Plan;
  - offering alternative payment options, for example a 'Pay Now' button; and

- improving taxpayer's understanding of their tax affairs and the impact, for them, of making regular in-year payments.

4.13 Enhancing the Budget Payment Plan will provide valuable evidence and insight for HMRC, particularly on populations and business sectors who engage with and benefit from more frequent tax payment. This insight will help HMRC (and the external working group) to determine how best to support taxpayers through timely payment and will influence policy development going forward.

### **Conclusion**

4.14 The government remains committed to building an effective, resilient, and modern tax system through a co-creation approach to policy and design.

4.16 The government will carry out further public consultations in the future on any subsequent proposals.

## Annexe A: List of stakeholders consulted

The Government is grateful to the 10 individuals and following organisations who responded to this call for evidence:

1. HPH Chartered Accountants
2. JVCA Accountants
3. Cepha Controls Ltd
4. Association of Accounting Technicians
5. Andrew Prentice Partnership
6. Institute of Certified Practising Accountants
7. Country Land and Business Association
8. Moore Kingston Smith LLP
9. Institute of Chartered Accountants of Scotland
10. Deloitte
11. Low Incomes Tax Reform Group
12. PricewaterhouseCoopers
13. Money Advice Trust
14. Certified Public Accountants Association
15. British Universities Finance Directors Group
16. UK Finance
17. Association of Taxation Technicians
18. Access2Funding
19. Chartered Accountants Ireland
20. Law Society
21. Federation of Small Businesses
22. Institute of Chartered Accountants in England and Wales
23. KPMG
24. Institute of Certified Bookkeepers
25. Saffery Champness LLP
26. British Chambers of Commerce
27. Association of Chartered Certified Accountants
28. Binder Dijker Otte (BDO)
29. Untied
30. Tax Aid
31. RSM UK Tax and Accounting Limited
32. London Society of Chartered Accountants Taxation Committee
33. Chartered Institute of Payroll Professionals
34. National Farmers Union
35. Institute of Financial Accountants
36. Grant Thornton
37. Chartered Institute of Taxation
38. The Association of Independent Professionals and the Self Employed