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TIMELY PAYMENTS IN INCOME TAX SELF ASSESSMENT

Response by the Association of Taxation Technicians

1 Introduction

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HMRC consultation on *Timely Payments in Income Tax Self Assessment (ITSA)* ('the Consultation') issued on 23 June 2026[1].

1.2 The primary charitable objective of the ATT is to promote education and the study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations. This response is written with that background.

1.3 Our response to the Consultation is long and detailed, reflecting the breadth and potential impact of the proposals, but also the range of complexities and issues we foresee if these changes go ahead.

1.4 **Our recommendation is not to proceed with the reforms in this manner**, either for taxpayers with PAYE income as well as ITSA sources, or for those where it is not possible to collect tax via PAYE. The latter consist both of taxpayers with purely ITSA income sources (no PAYE) and those with insufficient income to collect ITSA tax via PAYE. For ease of reference in this response, we refer to this group as *ITSA-only* taxpayers, but this should be read as also including those with PAYE incomes too low to enable collection.

We have summarised our suggested alternatives to meet the Government's stated goal of more timely payments at paragraph 1.13.

1.5 We question whether the anticipated improvement in timely payment justifies the complexity and administrative burden of introducing the proposed changes.

Based on figures in the Consultation, it appears that any potential benefits of making in-year payments in reducing bill shock for taxpayers and failure to pay on time could be restricted to just 6% of the total ITSA population of 12 million taxpayers, with potential significant drawbacks and complexities for the remaining 94%.

1.6 We are concerned that the proposals will impose unrealistic expectations and administrative burdens on taxpayers, PAYE operators, agents, HMRC and tax charities – not least in the volume of queries they

[1] https://www.gov.uk/government/consultations/timely-payments-in-income-tax-self-assessment/timely-payments-in-income-tax-self-assessment-itsa

will generate due to confusion surrounding PAYE coding adjustments or possible alternative methods of collecting tax in-year from ITSA-only taxpayers.

1.7 Collecting ITSA liabilities via PAYE deductions breaks down the ability for taxpayers to keep private income sources confidential from their employers and PAYE operators. We fear this breach of confidentiality could have unintended consequences such as employers discriminating against employees with ITSA income, for instance when considering remuneration arrangements. We propose a solution at paragraph 1.10.

1.8 The fact that in-year collections would be based on a two-year old tax position presents real risk of amounts collected being outdated and inaccurate.

The expectation that taxpayers or agents will update tax forecasts as necessary to improve the accuracy of in-year collection implies an overestimation by HMRC of taxpayers' ability to understand the proposed arrangements, and to reliably update their tax forecasts when needed.

1.9 It is disappointing that the decision to require in-year collection of ITSA liabilities from taxpayers with PAYE income appears to have largely been made before publication of the Consultation, despite the reservations expressed in a previous Call for Evidence[2] not having been addressed.

1.10 Should the Government decide to go ahead with the proposals for those with ITSA and PAYE income, we would urge an alternative method of in-year collection of tax being made available (eg Direct Debit).

Consideration should also be given to offering a choice between either monthly collection or continuing with the current system of Payments on Account (POAs) being due in January and July.

1.11 In the interests of equality, if the proposals go ahead for those with ITSA and PAYE income, we believe in-year payments should also be required from those with ITSA income sources only, and that such payments should also be monthly. Not extending the requirements to ITSA-only taxpayers would discriminate against those with PAYE income as well as ITSA sources, going against HMRC's Charter standard of fairness.

1.12 The ATT's ten principles for the tax system[3] set out how we believe the tax system should be designed and operated.

We believe the proposals in the Consultation fail to meet the following five principles:

i) Simple – the proposals are complex, both on an ongoing basis but especially when considering the transition year.
ii) Fair – as proposed, it appears taxpayers with ITSA and PAYE income may be treated differently to those with ITSA income only.
iii) Practical – the proposals may be too confusing for taxpayers to fully understand. Failure to update tax forecasts could result in overpayments, restricted cashflow and financial hardship. They will also create pressure on HMRC to repay in-year overpayments promptly and securely.
iv) Efficient – additional administrative burdens would arise for taxpayers, agents, PAYE operators and HMRC. It appears any benefits appear would be limited to a very small proportion of taxpayers who struggle to budget for tax payments under current rules.

[2] https://assets.publishing.service.gov.uk/media/61a4e487e90e070446653c6b/Timely_payment_-_summary_of_responses.pdf
[3] https://www.att.org.uk/technical/atts-principles-tax-system

v) Consultative – as above, the Consultation has been condensed into just six weeks, and previous stakeholder concerns have not been adequately addressed.

1.13 In response to Question 2, we put forward alternative strategies for consideration, which could achieve the policy objectives of improving timely payment for ITSA taxpayers and reducing the risk of them falling into debt.

Options include:

- Consulting on moving the ITSA filing deadline closer to the end of the tax year, and basing POAs on the previous tax year ('CY-1') rather than a two-year old liability, as proposed ('CY-2').
- Retaining the existing POA requirements for all ITSA taxpayers, but move to more frequent payments – we suggest quarterly, and with the option to automate payment.
- Improving awareness of and incentives to use HMRC's Budget Payment Plan.
- Increasing the £3,000 cap on collecting ITSA tax liabilities via PAYE.
- Considering a new requirement to withhold basic rate tax from investment income and property income.

These are explored in more detail under Question 2.

1.14 We were disappointed by the unrealistically short timescale for the Consultation – just six weeks, spanning the start of the summer holiday period. This allows very limited time for stakeholders to give full and proper consideration to a significant consultation, which potentially has considerable impact on 12 million Self-Assessment (ITSA) taxpayers.

The Consultation was first announced at Budget 2025 and we understood from subsequent engagement with HMRC that it was due to be issued in 'Spring' 2026, so the delayed publication is regrettable. Whilst we understand the need to leave sufficient lead-in time ahead of any changes, a longer consultation period would have allowed more comprehensive stakeholder engagement.

We urge HMRC to consider responses carefully, engaging further with stakeholders as necessary, even if this means pushing back any reforms beyond the proposed April 2029 implementation date.

We also urge HMRC to allow a longer consultation period in future, particularly for such significant issues.

2 Question 1: What are the benefits of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

2.1 We note that question 21 explores potential changes to the current 'threshold test' for making POAs – ie currently they are due only where a taxpayer owes more than £1,000 in income tax and Class 4 NIC for a tax year *and* less than 80% of their total tax liability was collected at source.

We comment further on this threshold under Question 21, but otherwise assume for the purposes of this question that the current threshold will be retained.

2.2 Current ITSA payment arrangements result in a delay of up to 22 months between income being earned and HMRC receiving the resulting tax. The current requirements for some ITSA taxpayers to make two POAs are conceptually hard to grasp for new ITSA taxpayers.

Members dealing with these issues on a daily basis described the current payment arrangements as "nonsensical" and "ripe for change".

2.3 We agree that the time delay between income being earned and tax being payable, in some cases along with an additional 50% POA for the following year, can cause budgeting issues for taxpayers and 'bill shock'.

This is commonly encountered[4] in the first year in ITSA, but can also apply later where losses are experienced to begin with, or once relief for capital allowances in respect of equipment bought on startup have been exhausted.

Members report that clients often struggle to reserve part of their earnings for a January payment/balancing payment of tax, whilst others simply forget to do so – particularly in their first SA cycle, where a large balancing payment can be due at the same time as a further 50% POA.

2.4 Setting aside the transition year, paying 1/12th of the forecast liability each month could reduce these budgeting problems for some taxpayers.

2.5 For taxpayers potentially having to make ITSA payments through PAYE, the extent to which they might benefit from the proposed reforms will vary depending on the balance of ITSA income compared with PAYE income – those with proportionally more ITSA income would generally benefit more, subject to the 50% of gross pay limit on PAYE deductions.

If regular payments are extended to ITSA-only taxpayers, this group are likely to benefit to a greater extent from staggered payments than those with partial PAYE income, since their entire tax liability is currently payable via 6-monthly POAs and a balancing payment/repayment. In that sense it is surprising that the Consultation presents extending in-year payments to ITSA-only taxpayers as less certain than applying the requirements to those with ITSA and PAYE income.

3 Question 2: What are the challenges of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

3.1 *Expected impact*

The Consultation states that "Approximately 30% of individuals who file an ITSA tax return make POAs", and that under current payment arrangements, four out of five ITSA payments are made on time (including balancing payments)[4].

In respect of the wider ITSA population (including taxpayers with ITSA income only), and assuming no change to the threshold for making POAs, 8.4m taxpayers (70% of the total ITSA population of 12m) would be unaffected by these proposals, resulting in no benefit to the taxpayer in budgeting for tax liabilities, and no change for HMRC/HMT in the reliability of timely payment. The envisaged improvements in reliability of payments being made on time would be restricted to just 0.72m taxpayers (the one in five who pay late out of the 30% of 12m total population). That equates to just 6% of the

[4] https://www.gov.uk/government/consultations/timely-payments-in-income-tax-self-assessment/timely-payments-in-income-tax-self-assessment-itsa#:~:text=Around%20one%2Din%2Dfive%20payments%20(inclusive%20of%20Balancing%20Payments)%20are%20not%20paid%20on%20time

total ITSA population – a very small potential benefit, with significant potential drawbacks and complexities for the remaining 94%.

Making in-year collection mandatory therefore seems heavy-handed given it will only affect a minority of the overall ITSA population, and we question whether the financial impact of the proposed changes justifies the complexity and administrative burden of introducing them.

Also, no indication is given in the Consultation of attempts to establish *why* one in five ITSA payments are late – *is* failure to budget the problem, so does this Consultation tackle the relevant issue?

3.2 *Changes in circumstance*

3.3 The proposal would result in monthly payments for the current year (CY) being based on a tax liability which is two years old (CY-2). This creates a more outdated basis for POAs than the current January/July instalment system.

Whilst we agree with the statement in the Consultation that CY-2 is "a crystallised or complete picture of liability", it will be common for ITSA income sources to have changed during the intervening two year period. Common changes of circumstance might include growth or decline of the business, new self-employments, side-hustles, rental or investment sources etc or the cessation of existing ones.

But, in the absence of the taxpayer or their agent updating the forecast liability for CY, collections will continue based on the position in CY-2, resulting in over/under-payments of tax, undermining some of the anticipated benefits of the proposed changes.

3.4 Even in the unlikely event that ITSA income sources remain constant, changes in PAYE circumstances will complicate the proposed changes. Individuals moving jobs, losing jobs, taking on additional employment, changing hours, commission-based pay, overtime and changes in hourly rate of pay will all complicate the coding out of forecast ITSA liabilities.

If ITSA liabilities are included in PAYE codes, changes in PAYE circumstances could affect the available pay, potentially affecting the ability to deduct ITSA liabilities within the 50% deduction cap discussed under Question 5.

3.5 Members report particular difficulties in getting HMRC to correctly allocate PAYE coding adjustments where taxpayers have more than one tax code. Requiring PAYE code adjustments in respect of forecast SA tax liabilities adds additional importance to allocating coding entries appropriately. We understand that HMRC is working towards allowing agents to submit changes to PAYE codes online, and it will be vital to ensure that amendments to reflect tax collections are included as part of this.

3.6 *Events near or after 5 April*

3.7 Significant events close to or even after 5 April can dramatically influence the tax liability for that year.

For instance, a sole trader with a 31 March year-end making a large equipment purchase which is eligible for capital allowances on 25 March 2031 would drastically reduce their tax liability for the 2030/31 tax year. Equally, making a large Gift Aid donation in May 2031 but electing to carry back the resulting tax relief to the 2030/31 tax year would alter the tax liability for that year even after the year-end.

Either event would significantly reduce the tax liability for 2030/31, resulting in an overpayment arising if amounts had been paid in-year which did not factor in the capital purchase or donation. Because of the timing, there would be no scope to update their tax forecast to reflect the event.

Not only does this harm the taxpayer's cashflow, but the fact they have to make in-year payments of tax during 2030/31 could mean they do not have cash available to invest in that capital equipment or make that donation. Having to pay estimated tax in-year which would ultimately not be due risks skewing their behaviour and restricting their freedom to invest their cash as they see fit.

By contrast, under current POA rules, by 25 March 2031 or 1 May 2031 the taxpayer would have paid their first payment on account for 2030/31, but not their second. They would therefore only have paid 6/12ths of their forecast liability for 2030/31 rather than all of it as would be required under monthly deductions, leaving cash available for the capital purchase or donation.

3.8 *Practicalities*

3.9 Members frequently report that their clients have limited understanding of PAYE codes, often either being unable to interpret them or simply not checking them. Even among taxpayers who do engage with their PAYE codes, members report a lack of confidence or ability to make necessary updates via the Personal Tax Account.

We have real concerns over the likelihood of taxpayers:

- i) understanding coding adjustments resulting from the proposals in this Consultation;
- ii) remembering to monitor their PAYE codes, which will be more complex as a result;
- iii) having the knowledge, confidence and ability to reliably and accurately update forecasts based on CY-2 data to reflect changes in their circumstances; and
- iv) checking and accurately interpreting the resulting updates in their PAYE codes.

The absence of any of these factors will erode the potential effectiveness of the proposed changes, whilst still creating additional administrative burdens for HMRC, PAYE operators, taxpayers and agents.

3.10 Members also tell us that HMRC's ability to provide accurate PAYE codes leaves significant room for improvement. For instance, incorrect coding adjustments (eg for benefits in kind) can be carried forward from one tax year to another despite a submission to HMRC making clear the position has changed (eg P11D reports medical benefit has ceased, but the PAYE coding adjustment continues).

We therefore have concerns that reliably translating CY-2 ITSA liabilities into PAYE coding adjustments would create additional complexity in PAYE codes, and further scope for errors either by HMRC, or by PAYE operators not keeping up with an increased volume of new codes arriving.

Expecting taxpayers to spot such issues is unrealistic, as explained in paragraph 3.9.

We consider the role of agents under Question 23.

3.11 Taxpayers may struggle to recall the basis on which their tax estimate for in-year collections was made. Using a two year old tax estimate requires the taxpayer to recall or review their circumstances in CY-2 before they can consider whether anything has changed by the current year that might mean they need to update their forecast tax liability.

We doubt whether taxpayers will reliably make the necessary adjustments to their forecast tax liabilities, even before considering the wider concerns around understanding of PAYE codes covered in paragraph 3.9.

More fundamentally, many taxpayers will lack the time and inclination to update tax forecasts on anything approaching a regular basis.

The current system of January and July POAs is simpler to manage, not least because the amounts due are determined by the tax return for CY-1, which is easier to recall than CY-2. Also, where POAs could prove excessive, there is an opportunity to pay the first POA in January then file the ITSA return before 31 July, so that the exact amount of tax required can be paid via the second POA. Unlike the proposed reforms, this can be done without requiring any forecasting or estimates.

3.12 By April 2029, tax rates on both savings and property income will differ to those applicable to PAYE income. As explained in the ATT Briefing for Finance Bill 2024-25[5] in respect of savings income, this will complicate the collection via PAYE of ITSA liabilities which relate to savings income. By April 2029 this complication will also apply to property income, further exacerbating the issues in paragraph 3.9.

3.13 Where PAYE coding entries in respect of estimated ITSA tax liabilities need to be adjusted, consideration should be given to the available methods of doing so.

We assume digital access via the Personal Tax Account and/or HMRC App will be HMRC's preference, but we would encourage HMRC to consider whether adjustments made by the taxpayer should be subject to any limits or checks – for instance, should a taxpayer be able to completely remove an estimate ITSA liability entry from their tax code? This might be necessary where eg rental income was received in CY-2, but has since ceased.

Such freedom to completely remove a PAYE code entry could be subject to either mistake or abuse, but this could be dealt with via an appropriate penalty system (as currently applies to fraudulent or negligent POA reductions) as well as late payment interest. We would therefore encourage complete freedom to be allowed in updating tax forecasts, perhaps with checks after the event by HMRC where adjustments appear excessive. Interest and penalty issues are explored further under Question 27.

Agents' ability to update forecast tax liabilities is considered further under Question 23, but consideration should also be given to whether agents should be subject to reduced scrutiny in the adjustments they can make to clients' PAYE codes to reflect their expected better understanding of tax codes and the implications of altering them. Under Mandatory Agent Registration, HMRC set out the standard of behaviour expected from agents, which should increase HMRC's confidence in agents.

3.14 Members commonly report long delays (including up to six weeks) in PAYE codes being updated following a request to alter them. Combined with potential delays in the new code being applied to the next payroll run, this will undermine the timeliness of changes to the forecast tax position for the year being reflected in the amount collected via PAYE.

The flexibility to alter the amount of tax collected in-year would be handicapped by such delays. Members' experience generally indicates that the PAYE system is currently not sufficiently flexible and responsive to achieve the policy goals.

3.15 We assume entries in PAYE codes to collect ITSA liabilities would be shown as a separate line, with clear narrative. Where taxpayers elect to code out their balancing payment for a year (CY-2) and are also required to pay POAs for the current year, the resulting coding adjustments should be shown as two separate lines for clarity and ease of checking.

[5] https://www.att.org.uk/sites/default/files/2026-01/ATT_FB25-26_briefing%20_savings_rates.pdf

3.16 *Separation of ITSA & PAYE liabilities*

3.17 Members report that ITSA clients with PAYE income commonly prefer to keep tax payments in respect of their ITSA income sources separate to their PAYE deductions. Box 2 on Page TR6 of the SA100 allows this separation.

If POA payments via PAYE deduction were made mandatory, this option would be removed. This not only reduces choice for taxpayers, it could also create confusion and drive additional queries to PAYE operators and to HMRC.

3.18 Additionally, some taxpayers have income taxable under ITSA but which is not known to their employer or pension provider. Collecting estimated tax on such income sources in-year via PAYE would remove this separation, potentially raising concerns over data protection.

For instance, an employee may not wish their employer to know that they are also a landlord. Coding out tax payable on their rental profits via the employee's PAYE code could reveal the existence of ITSA income to their employer, against the employee's wishes but beyond their control. Similar concerns would apply to income from side hustles or investments.

Although PAYE operators do not have access to the full breakdown of what constitutes an individual's PAYE code, the fact that a restriction in the code exists (particularly where there is a large change, eg from a 1257L code to a large K-code) could be sufficient indication of other income sources to cause problems. Members indicate this would be especially true with smaller employers where there is commonly less separation of the payroll function. A significantly amended code could lead those employers to make inappropriate and irrelevant inferences about an employee's wider tax position.

3.19 *Impact of Foreign Income and Gains (FIG) Regime claims*

3.20 Qualifying new arrivers into the UK may be eligible for to claim FIG relief. FIG claims can be made in any or all of their first four years as a UK resident, and can vary from year to year.

Basing in-year tax collections on the tax position in CY-2 could be completely misrepresentative of the CY tax position where FIG claims can be made. In some cases, new residents may not know whether they plan to claim FIG relief until close to or even after the end of the tax year, limiting taxpayers' or agents' ability to update the tax forecast on which their in-year payments are based.

3.21 *Fairness*

For ITSA taxpayers with sufficient PAYE income to be covered by the proposal, their PAYE income would in effect suffer double deductions at the point of payment – tax due on the PAYE source itself, as well as estimated tax payable on their ITSA income. The marginal tax rate on their PAYE income could therefore *appear to be* higher than any of the income tax rates in force.

We question the fairness of this measure, particularly as the Consultation suggests that the requirement for more regular payment of ITSA liabilities from taxpayers without PAYE income is at an earlier stage – "proposed design of reforms for ITSA taxpayers with PAYE income" but "potential for more timely payment for other ITSA taxpayers"[6].

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[6] https://www.gov.uk/government/consultations/timely-payments-in-income-tax-self-assessment/timely-payments-in-income-tax-self-assessment-itsa#summary-of-consultation-questions:~:text=ITSA%C2%A0taxpayers.-,Scope%20of%20this%20consultation,-This%20consultation%20sets

Consider two landlords – Landlord A has £20,000 of annual rental profits and is employed earning £80,000, Landlord B's income consists purely of £20,000 of rental profits. Subject to expansion of the proposals in the Consultation to ITSA-only taxpayers, Landlord B would continue under the current payment arrangements of January and July payments on account. But from April 2029, Landlord A would see their take-home pay reduced by the forecast tax payable on their rental income, paying tax more frequently than Landlord B on the same amount of rental profits – whilst losing both the ability to ringfence their rental profits from salary, and some degree of privacy with their employer.

Under the HMRC Charter, HMRC have a legal obligation to treat taxpayers fairly, making sure "everyone pays the right amount of tax"[7]. Whilst Landlords A and B above would both ultimately pay the right amount of tax, Landlord A would see their net monthly income reduced, whilst Landlord B would be unaffected. Landlord A appears to be a 'soft target' because they have an existing source of from which tax is already being deducted.

3.22 *Cashflow impact for HMRC*

Whilst the proposals may help a small number of taxpayers budget for tax payments, reducing the risk of late payment and subsequent costs for HMRC in pursuing debts, the impact on HMRC overall appears to be to slow down inflows of tax revenue.

Say a taxpayer's 2029/30 tax return reports an income tax liability of £12,000 and POAs are due for 2030/31. Assuming they have sufficient PAYE income to be in scope of the proposed measure, that all payments are made on the payment deadline day, and ignoring amounts due in respect of their PAYE income:

Under current rules, they would pay £6,000 for 2030/31 on 31 January 2031, and a further £6,000 on 31 July 2031.

Under the proposed changes, they would pay £1,000 each month from April 2031 up to and including March 2032.

As shown in the Appendix to this response, total receipts for HMRC under the proposed system would not catch up with current rules until March 2032 (£12,000 paid) – nine months after the equivalent tax is payable under current rules. Note: this example looks at constant income and considers cashflow only, not the tax year in respect of which the POAs are made.

3.23 Given there appears to be a negative impact on HMRC in terms of cashflow, combined with the complexities for taxpayers already outlined, there may be an argument to make monthly payments optional – taxpayers could then choose to use this option if they believe it would help them budget for tax liabilities. However, the BPP discussed in paragraph 3.31 already offers this facility without introducing additional complexity.

3.24 *Public awareness*

3.25 The current POA system is conceptually difficult for many new ITSA taxpayers to grasp, but well established for those it already affects. Moving to new systems of in-year payment, with potentially different payment methods and frequencies across taxpayers with and without PAYE income sources would be a complex message.

[7] https://www.gov.uk/government/publications/hmrc-charter/the-hmrc-charter#:~:text=a%20complaint.-,Treating%20you%20fairly,-We%E2%80%99ll%20work%20within

Members commonly report a lack of awareness among prospective clients and the wider public of tax responsibilities such as 60 day CGT reporting and the Trust Registration Service. These requirements have existed for around six and nine years respectively, but are still not widely known.

HMRC will face an uphill battle in educating taxpayers about a move to in-year collection of tax, and we would recommend a soft touch approach to enforcement activities (interest, penalties etc) during the transition.

3.26 *Employer insolvency*

3.27 Making employers responsible for in-year collection of ITSA liabilities will present an additional risk if an employer becomes insolvent and ceases trading. Not only would 'ordinary' PAYE deductions cease, but cashflow to HMRC in the form of in-year collection of ITSA liabilities from employees affected by the proposals in the Consultation would also stop.

Additionally, the affected employees would find themselves in a confusing position of having their ITSA liabilities collected partly via PAYE, with (we assume) the remainder either due as a balancing payment after filing their tax return, collected from any subsequent employment secured during the same tax year (subject to the 50% PAYE deduction cap), or a combination of both.

3.28 *Alternatives*

3.29 The Consultation refers several times to delays between income being earned and tax becoming due, identifying this is one cause of failures to pay tax on time.

An alternative solution would be to move the payment deadline and ITSA tax return filing deadline closer to the end of each tax year, rather than allowing the current delay of up to 22 months before payment of tax is due.

A precedent exists, albeit on a smaller scale, in measures introduced to require Capital Gains Tax reporting and payment on the disposal of residential properties within 60 days of completion, reducing the time gap between receipt of funds and payment of tax. Members report that narrowing the time between receipt of sale proceeds and payment of tax has improved the reliability of clients budgeting for tax and making timely payment.

International comparators are mentioned in the Consultation, but not explored in any detail. Of the countries mentioned, Canada, the USA and France all have tax return filing deadlines much closer to the year-end than the UK – ranging from 3.5 to 5 months. A similar move for UK ITSA filing and payment would bring tax payment closer to the point when income is generated, which should reduce the risk of late payments or taxpayers failing to budget for future tax liabilities.

This proposal would bring its own complexities and transitional issues, and would need to be consulted on.

Whilst all international comparators referred to in the Consultation require some form of POAs on taxable income, at least from certain taxpayers, basing these instalments on the previous year (rather than CY-2) seems most common. Moving the ITSA tax return filing deadline closer to the tax year end could also enable POAs to be based on the previous year's tax position, rather than CY-2 as proposed, which should make them more accurate.

3.30 The current system of January and July POAs could be updated to require eg quarterly rather than six-monthly instalments.

This could achieve the policy objectives of helping taxpayers budget for future tax liabilities and reduce the risk of them falling into debt, but without the complexity and transition year issues associated with the proposals in the Consultation. It would work equally well for ITSA-only taxpayers.

Automated payment methods such as Direct Debit could be explored to ease the administrative burden on taxpayers and reduce the risk of more frequent payment deadlines being missed. Feedback in response to the ongoing consultation[8] on mandating Direct Debit payments for PAYE and VAT may be relevant here.

3.31 The Consultation references the HMRC Budget Payment Plan (BPP) as an existing method of spreading ITSA payments.

We believe awareness of BPPs is low, both among taxpayers and agents advising their clients. Better promotion and publicity of BPPs by HMRC could improve take up.

One disadvantage with BPPs is that payments made under them in advance of a tax liability becoming due do not earn interest. This is a disincentive to using a BPP compared with eg budgeting for a tax bill by regularly saving into an interest-bearing bank account in the taxpayer's name. It also contrasts with credit balances left on a taxpayer's HMRC account.

Extending credit interest to BPP balances may incentivise their use, increasing taxpayer take up and helping to reduce late payments without the need for the complex payment reforms proposed in the Consultation.

Increasing the speed of repayment where overpayments are made would also be welcome. We understand that members can be reluctant to recommend BPP compared to saving into a separate account given the difficulties in recovering overpayments from HMRC.

3.32 The ITSA tax return already offers a facility to collect unpaid tax of up to £3,000 via PAYE from the April following that return's ITSA filing deadline where the return is filed before 31 October (on paper) or 30 December (online).

A simple solution to improving the reliability and timeliness of balancing payments being received would be to increase that £3,000 limit (subject to the 50% PAYE deductions cap covered in Question 5).

3.33 Before 6 April 2016, basic rate tax was withheld from UK bank interest, and UK dividends carried a notional tax credit equivalent to the basic rate of dividend tax, enabling tax to be collected at source from many taxpayers and reducing the need for separate tax payments. Both were scrapped to simplify the position for non-taxpayers and to save HMRC from having to issue repayments of basic rate tax on savings interest where it was not due.

The number of taxpayers with taxable savings interest has been increasing in recent years[9] and 11.5 million basic rate taxpayers were expected to have tax to pay in their savings in 2025/26. Combined with ongoing freezes in the personal allowance, personal savings allowance and tax bands, there may be an argument for reintroducing a basic rate withholding tax on investment income, to reduce the burden on

[8] https://www.gov.uk/government/consultations/requiring-paymentof-vat-and-paye-return-liabilitiesbydirect-debit
[9] https://www.ajbell.co.uk/news/are-you-one-26-million-people-paying-tax-your-savings

taxpayers in having to budget for future tax liabilities and to potentially relieve some basic rate taxpayers of any tax compliance obligations.

3.34 In the context of property income, whilst letting agents may be able to arrange withholding tax at source (as they should for landlords of UK properties who are not registered under HMRC's Non-Resident Landlord scheme), this is unlikely to be practical where landlords manage properties themselves and no letting agent is appointed.

4 Question 3: Should the government use, or give the option to use, anything else (for example, MTD quarterly updates and in the future, reputable third-party data) to inform the forecasting approach for this change?

4.1 Using CY-2 as the basis for forecasting CY liability on ITSA sources would create issues such as those identified in response to Question 2 due to the age of the data used for forecasting. However, alternatives have their own drawbacks.

4.2 *Making Tax Digital (MTD) quarterly data*

We do not support using MTD quarterly data as the basis for collecting tax in-year.

Firstly, not all ITSA taxpayers are or will be in MTD, meaning the basis of in-year collection would differ across the ITSA population. This would create inconsistency, a confusing message and potentially transitional issues when taxpayers join or leave MTD.

Secondly, MTD data does not have to be accurate at the quarterly update stage in the same way as data submitted via a tax return is expected to be – for instance, tax and accounting adjustments are not required until the MTD tax return is prepared. Neither will the information submitted provide a complete picture of all MTD taxpayers' affairs – any employment income, savings income, dividend income etc will not be reported via quarterly updates but will alter not only the amount of tax payable, but also the rate of tax applicable to MTD-income even where such income is taxed at source (eg employment income). Basing in-year tax collection on data which is incomplete and not final would lead to less accurate tax payments than using historic figures, but with the option to update and adjust them.

Thirdly, how would in-year tax payments be calculated between April and August/September for taxpayers who are in MTD? The first quarterly update is not due until 7 August each year, so PAYE deductions up until August or September each year could not be based on a current-year quarterly submission. Reliance on previous submissions (previous quarter or previous year) is hardly better than the CY-2 proposed for non-MTD taxpayers, whilst introducing significant other issues covered already. As noted under Question 10, if in-year payment is expanded to cover ITSA-only taxpayers as well, we would be in favour of a monthly tax collection cycle for that population too, so this issue would exist for all MTD taxpayers – with and without PAYE income.

Fourthly, it is not yet clear how closely HMRC will review quarterly submission data. However, given there are no specific inaccuracy penalties for quarterly updates, we are aware that individuals may incorrectly take the view that quarterly updates can effectively be submitted with incomplete data (or even with just zeros), with the position corrected via the MTD tax return. Whilst not in accordance with the standards we expect of our members, this behaviour would further erode any benefit of linking in-year payments with MTD data submitted.

Finally, HMRC has consistently pushed back against suggestions that MTD is a route to more regular collection of tax. Any differential treatment for MTD taxpayers from the wider ITSA population is likely to attract negative publicity that HMRC has gone back on its previous position in this respect, or that there was a lack of joined-up thinking in policy design.

4.3 Paragraph 4.2 lists reasons why in-year collection of tax should not be based on MTD quarterly submissions.

However, using CY-2 as the basis for in-year collection of tax would create a confusing outcome for taxpayers in MTD as they would be filing current-year data for quarterly updates and potentially receiving tax forecasts in their MTD software based on that current year data, but paying (either via PAYE or other means) an estimated amount based on their tax return from two years ago. This creates a nonsensical position, which taxpayers are likely to find more confusing than the current POA system.

By April 2029, some taxpayers will have been filing quarterly data and potentially reviewing in-year forecasts via MTD software for three years. Introducing a CY-2 basis for in-year payment goes against what will by then be an established regime for some taxpayers.

4.4 *Third party data*

In-year data submitted by third parties could help to improve timely and reliable collection of tax in-year.

However, the number of potential sources needed is considerable – banks, short- and long-term letting agents, investment managers, private investments, private companies etc. In-year data sources for self-employment, 'side hustles' and self-managed property income would also need to be considered. MTD quarterly data cannot be a solution to this challenge, partly for the reasons in paragraph 4.2 but, more fundamentally, because some of this population will remain outside MTD even beyond April 2029.

4.5 Based on experience with savings interest data provided to HMRC by banks, we would also have serious concerns about HMRC's ability to reliably match third party data sources to individual taxpayers. This covers not only matching errors, but also HMRC misinterpreting data where they have an incomplete picture – for instance with bare trust accounts, the account holder is nominee only but HMRC commonly assume they are liable for any tax due on interest from that account.

Any matching errors affecting automated in-year collection of tax (for instance via PAYE or Direct Debit) would impact taxpayers' disposable income and ability to meet their costs of living.

We comment further in paragraph 10.2 on the increased importance of prompt repayments by HMRC where in-year overpayments arise.

4.6 *Options to use different basis of estimating tax liabilities for collection in-year*

Providing choice as to how amounts due for in-year tax collection are calculated may seem appealing to accommodate different taxpayer circumstances. However, introducing choice will inevitably complicate the system both from the perspective of HMRC having to administer it, but also from the messaging perspective of helping taxpayers to understand how their tax is calculated. We would therefore be reluctant to offer any amount of choice in this matter, unless it leads to much more accurate collection of tax.

Instead, it will be important to allow taxpayers adequate flexibility to update their forecast tax position – see paragraph 3.13.

4.7 Under the proposals explored in the Consultation, a degree of choice would, in practice, exist in how in-year collection is calculated, albeit informally. If taxpayers and agents have freedom to adjust the CY-2 basis of forecasting their CY liability to reflect changes in circumstances since CY-2, they could do so seemingly at their discretion.

A taxpayer or their agent could therefore update the base forecast to reflect in-year data available to them. Our concern is that many will not make use of this facility, some will not understand their actions fully, and others may abuse the option (for instance by reducing the forecast ITSA liability to zero in order to increase their monthly disposable income). We consider related interest and penalty implications under Question 27.

4.8 *International comparators*

The Consultation refers to a range of countries which operate more timely payment arrangements than the UK and we assume HMRC have explored the basis on which in-year estimates are calculated in those countries, and others?

4.9 We are not experts in international tax systems, but the USA, for instance, appears to commonly base in-year collection on the tax position in CY-1[10], rather than the CY-2 basis proposed in the Consultation. This would reduce the risk of inaccuracies due to changes in circumstances, but requires a much earlier tax return filing deadline.

In the USA we understand the tax year runs to 31 December, with personal tax returns generally due by 15 April[11]. 15 April is also the due date for the first in-year payment[12], meaning it can be based on the previous year's return, rather than having to use CY-2 as proposed in the Consultation.

Again, this suggests a better solution may be to move the ITSA filing deadline closer to the end of the tax year, to improve not only the timeliness of payment for each year, but also the reliability of using that return as a basis for estimated in-year payment. However, any such change would itself need to be the subject of careful consideration and consultation.

4.10 *Alternative sources of data*

The government should consider the longer-term direction of travel for data sources which might improve the accuracy of in-year payments of tax.

Mandatory e-invoicing is scheduled to apply to VAT-registered businesses from April 2029. Although the mandate will apply only to VAT-registered businesses, the requirement to both issue and receive e-invoices is likely to encourage wider adoption by other businesses if customers or suppliers prefer to deal only through e-invoicing, and to avoid the need to operate two different invoicing systems.

Although real-time reporting is not expected to form part of the initial e-invoicing rollout, it has not been ruled out in the future. The teams responsible for these projects should work closely together so that the future direction of travel is aligned, and scope for e-invoicing data to feed into ITSA forecasts is designed-in.

[10] https://www.irs.gov/businesses/small-businesses-self-employed/estimated-taxes
[11] https://www.irs.gov/filing/individuals/when-to-file
[12] https://www.irs.gov/faqs/estimated-tax/individuals/individuals-2

5 Question 4: What other safeguards should the government consider?

5.1 The Consultation notes that the cap on PAYE deductions at 50% of gross pay is to “protect individuals’ net income”. Whilst its existence may not be widely known, this cap is of vital importance, particularly given the ongoing cost of living crisis.

5.2 In particular, members tell us that pensioners rely on consistent income to manage their finances. Any increase in the 50% cap to allow greater collection of ITSA liabilities via PAYE would have an adverse impact on lower income taxpayers, which commonly includes pensioners.

5.3 *Alternative suggestion*

5.4 If the proposals for in-year collection of estimated ITSA tax from PAYE taxpayers go ahead, the issues identified in response to Question 2 could be addressed by offering an alternative regular payment method, rather than by altering the 50% cap on PAYE deductions. Doing so would be welcomed by taxpayers who prefer to segregate their ITSA liabilities from their PAYE record (paragraphs 3.17-3.18).

Questions 10 and 11 deal with possible in-year payment arrangements for ITSA-only taxpayers, and Question 22 considers the potential to extend these payment methods to PAYE taxpayers as an alternative to monthly deductions from their salary/pension.

In outline, we would support alternative regular payment methods being made available to taxpayers with PAYE income as way of addressing many of our concerns noted in response to Question 3. We comment further under Question 22 and recommend suitable supporting guidance in paragraph 6.2.

6 Question 5: Which groups of taxpayers would find a different threshold helpful?

6.1 The Consultation refers in several places to PAYE taxpayers with “sufficient” income. This does not appear to be defined, but we assume “sufficient” means enough PAYE income to enable their ITSA liabilities to be collected within the 50% deduction cap.

6.2 It is hard to envisage circumstances in which a different (presumably higher) threshold would be beneficial. Whilst increasing the 50% cap could save some taxpayers from having to file ITSA returns, we suggest exceeding 50% deductions should only be available via opting-in to a higher cap. However, we have concerns as to whether taxpayers would understand the implications that opting-in to a higher cap could have for their take-home pay. Guidance from HMRC would be needed, possibly including an interactive tool to demonstrate the impact of opting in to PAYE deductions exceeding the normal 50% cap. HMRC should have data on the proportion of taxpayers ticking Box 2 on Page TR6 of the SA100, and whether income level and the split of PAYE/ITSA income has any bearing on tendency to tick that box.

As noted under Question 3, members report a common preference from clients to have their ITSA and PAYE liabilities kept separate (or at least the option to do so).

6.3 The balance of PAYE income compared to ITSA income does not appear to be considered in the Consultation, but is an important factor.

Taxpayers with high PAYE income compared to their ITSA sources will be more likely to be affected by the proposed measures if the 50% cap is retained than those with relatively low PAYE income compared to ITSA sources, for whom the 50% cap would prevent collection of tax on ITSA income via PAYE.

6.4 For a constant level of ITSA income, taxpayers with high PAYE income may be able to better afford additional deductions in respect of ITSA liabilities, but this should not be assumed as they may have proportionally higher monthly outgoings, whilst budgeting for ITSA tax via other means. Deducting estimated ITSA tax via PAYE would reduce their ability to fund their existing monthly outgoings, whilst taking away flexibility as to how they budget for ITSA tax payments.

Taxpayers with identical ITSA income but lower PAYE income are less likely to be able to afford higher monthly PAYE deductions if the 50% cap were increased.

6.5 We therefore suggest the 50% cap on PAYE deductions should be retained.

However, its existence is not widely known and deductions up to the maximum 50% limit are likely to be a more common occurrence if forecast ITSA liabilities are collected via PAYE. HMRC should be prepared for negative media coverage concerning an apparent 50% rate of tax, especially where lower earners are subject to the maximum 50% PAYE deductions.

7 Question 6: Do employers and other payroll operators need additional safeguards for these changes?

7.1 The Consultation notes that more employers would exceed the £1,500 PAYE deductions limit below which payroll operators can make PAYE payments to HMRC quarterly rather than monthly.

Whilst we do not expect any impact on medium-large scale payroll operators to be of particular concern, having to pay HMRC more frequently may create cashflow problems for smaller employers. These may be amplified by proposals outlined for mandating payment of PAYE liabilities for Direct Debit[13]. The impact on smaller employers' cashflow would be determined by their employees' other sources of income, which is beyond the employer's control. This may discourage smaller employers from engaging staff with ITSA income sources.

7.2 As noted in paragraph 3.22, the proposal already delays receipt of tax by HMRC. Any increase in the £1,500 threshold would result in employees/pensioners paying more tax monthly, but with those additional amounts being retained by PAYE operators until the relevant quarterly payment deadline. This would further delay HMRC receiving amounts paid in respect of estimated ITSA liabilities in-year.

8 Question 7: What support or guidance might employers benefit from?

8.1 Payroll operators will need as much lead-in time as possible if the proposals go ahead.

8.2 Once implemented, collection of SA tax via PAYE would increase the volume of queries faced by payroll operators from affected employees/pensioners. This burden could be reduced if affected taxpayers can self-serve. Public guidance and education campaigns will need to make clear that ITSA liabilities will be/are being collected via PAYE. Guidance will need to adequately explain complexities around the transitional year to help taxpayers understand the implications for their finances.

8.3 Digital services for taxpayers such as the Personal Tax Account and HMRC App will need to offer easy access to review and update ITSA estimates in PAYE codes, with suitable guidance signposted from within the relevant services.

[13] https://www.gov.uk/government/consultations/requiring-paymentof-vat-and-paye-return-liabilitiesbydirect-debit

We consider agents' needs under Question 23.

8.4 Tax return filing services will also need to be updated to reflect new payment arrangements, signposting guidance as necessary. This will be particularly important if choices are to be made available as to how a taxpayer wants their in-year tax liability for the relevant later year to be collected – eg via monthly PAYE, or via Direct Debit – and for any options to exceed the 50% PAYE deductions cap. See our comments under paragraph 6.2 regarding the potential benefit of interactive tools to help taxpayers understand the impact of their choices.

Tax return filing processes include not only the GOV.UK service for 'classic' ITSA taxpayers (those outside MTD), but also all software products capable of filing tax returns for taxpayers in both MTD and 'classic' ITSA.

8.5 It may help reduce the volume of queries employers are likely to face if payslips could include links to guidance explaining PAYE codes, and in particular the collection of forecast ITSA liabilities and how to update them if necessary.

9 Question 8: Are there other impacts for payroll operators that the government should consider?

9.1 As noted under Question 5, we would not support any increase in the 50% cap on PAYE deductions.

Any increase in that cap would expose greater numbers of employees and pensioners to collection of ITSA liabilities via PAYE. This would have an onward impact on payroll operators in the form of additional burdens from more employees/pensioners asking why their take home pay has changed.

Payroll operators are frequently the first port of call for queries by employees when PAYE codes change, but they have limited ability to explain PAYE coding changes where those changes relate to personal adjustments (eg Gift Aid, or pension contributions) rather than employment-related entries. Introducing ITSA liabilities into tax codes would significantly add to this problem, and affected taxpayers may resort to contacting HMRC for help with tax code queries instead.

10 Question 9: What options should the government consider to support taxpayers who might move in and out of paying their ITSA liabilities via PAYE?

10.1 In paragraph 3.4 we outlined factors which might influence the ability to collect ITSA liabilities via PAYE. In addition, the underlying ITSA liability itself rarely remains constant, as identified in paragraph 3.3.

Both factors create variability and will result in taxpayers with PAYE and ITSA income moving in and out of ITSA liabilities being collected via PAYE.

This will be particularly true if:

i) the 50% cap on PAYE deductions is retained, as we encourage in response to Question 5, or reduced. In some months, deductions via PAYE may be possible, but not in others.

ii) the current threshold for POAs being due of £1,000 of tax, less than 80% of which was collected at source is retained (as assumed in paragraph 2.1), as taxpayers with tax positions around this threshold will drop in and out of the requirement to make POAs from year to year.

10.2 Variability in PAYE & ITSA circumstances will make HMRC's responsiveness in repaying amounts deducted via PAYE in-year critical. This also applies to ITSA-only taxpayers if the extension of in-year payments to that population goes ahead.

Suppose an ITSA income source ceases or significantly reduces mid-year, or an event arises resulting in abnormal entitlement to tax reliefs. Examples of the latter might include a sole trader investing in expensive plant or machinery eligible for capital allowances, a landlord having to pay for significant repairs to a rental property, or a significant band debt arising.

Any of these circumstances could result in the in-year tax payments made to date (either via PAYE or 'freestanding', as explored in Questions 10-14 of the Consultation) becoming excessive at the time the relevant event occurs.

Whilst the Consultation suggests the taxpayer should amend their forecast to reflect the tax impact of the relevant event, it would be unfair to force them to wait until the end of the tax year to file their tax return in order to claim the amount overpaid via in-year payments. This will be particularly relevant where a sole trader's business suffers significant downturn or insolvency as they may need to recoup money overpaid to HMRC to fund their living costs until they can find alternative work.

HMRC's ITSA repayment processes are often criticised for being slow, particularly where additional security checks are involved. Where amounts are overpaid in-year, any similar delays in issuing repayments could have serious impacts on taxpayers. If the proposals go ahead, HMRC must offer prompt and effective services to reclaim amounts overpaid, which should also be accessible by authorised agents.

10.3 *Overpayments on filing the tax return*

10.4 Case Study 2 in the Consultation ("Anthony") considers the potential for in-year payments to be more than the tax due per the tax return filed after the end of the year.

Under the current system, this type of overpayment would commonly be offset against the first POA due per the tax return filed. With monthly deductions via PAYE (or 'freestanding' payments for ITSA-only taxpayers), that offset will not be possible. HMRC will therefore need to repay the in-year overpayment.

As noted above, members continue to report long delays in HMRC issuing ITSA repayments, and the need for manual intervention by both agent and HMRC in order to get repayments issued. This problem would seemingly be aggravated by the inability to offset an overpayment against the January POA.

HMRC's concerns regarding repayment security issues and potential fraud would also become a more frequent risk without the inability to offset overpayments against upcoming liabilities.

10.5 *Practical queries & guidance requirements*

10.6 Case Study 3 in the Consultation ("Lisa") appears to provide a surprising outcome where the required PAYE deductions breach the 50% cap:

"because she no longer has sufficient PAYE income to pay towards her forecast ITSA tax (without exceeding the 50% limit), her updated tax code no longer requires the forecast ITSA tax to be deducted each payday. She will be required to pay her remaining ITSA tax separately."

And:

"If Lisa's business was to take a downturn later in the year and she tells HMRC she has sufficient PAYE income to collect her forecast ITSA tax from, HMRC would update her tax code again so that she pays some of her forecast ITSA each payday"

This implies that PAYE collections will stop altogether for a year where the 50% deduction cap is breached unless or until the taxpayer informs HMRC that the required deductions have fallen to a level below the 50% cap. This differs to current practice covered in PAYE11050[14], which states:

"Tax deducted on any one day cannot exceed 50% of the gross pay for that period. The employer will collect any shortfall on a later pay day if possible"

Can the expected outcome where required deductions breach the 50% cap (even temporarily) be clarified?

For instance, if PAYE deductions cease to be possible say three months into a tax year, does that person pay the remaining ITSA tax due via a balancing payment after filing their tax return? What if they receive a payrise in month 7 such that the forecast ITSA liability could again be collected via PAYE?

10.7 The apparent outcome in Case Study 3 limits the potential benefit of the proposed change for Lisa in that it appears she will need to make a large balancing payment due to the inability to collect her ITSA liability via PAYE for part of the year.

The proposed changes appear to worsen the 'bill shock' for Lisa on filing her tax return, as she would (in our hypothetical extension to the case study) only have paid 3/12ths of her forecast ITSA liability. This is a strange outcome when she has earned more than expected, theoretically allowing her to better budget for her tax payments. Under the current system, she would have paid the full forecast liability in the form of POAs in January and July preceding the filing deadline.

In this scenario, HMRC would also be worse off in terms of tax collected in-year compared with the current system.

11 Question 10: What potential approach, including frequency of payments, would be most appropriate to achieve the policy objective, taking account of different taxpayer circumstances?

11.1 If the Government wishes ITSA-only taxpayers to make more regular payments of their tax liabilities, we suggest a monthly payment cycle would be most appropriate. However, there are arguments in favour of quarterly payments instead. Both patterns are considered in response to this question.

Anything less frequent than quarterly instalments would bring negligible benefits over the current six-monthly payments for taxpayers who struggle to budget for tax due under the January/July POA system.

11.2 *Monthly payments*

11.3 Monthly payments would align with the proposals relating to PAYE taxpayers explored in Chapter 3 of the Consultation. This consistency would bring the following benefits:

- Simplicity

[14] https://www.gov.uk/hmrc-internal-manuals/paye-manual/paye11050

- Fairness
- Ease of understanding for taxpayers switching from one group to the other

11.4 In addition, the Consultation suggests taxpayers would be able to update the tax forecasts on which in-year collections are based. A monthly collection cycle would result in smaller payments each time than quarterly, which would help reduce the financial impact if taxpayers missed an opportunity to update the forecast liability as anticipated.

Our comments under paragraph 3.9 regarding taxpayers' understanding of PAYE codes apply in a parallel sense here. Unrepresented taxpayers may struggle to understand their forecast tax liability, and so may fail to alter in-year collections as needed. For represented taxpayers, agents can only update tax forecasts for their clients if in-year information is available. Expectations should therefore be limited as to how promptly and reliably taxpayers may update the forecasts forming the basis of their in-year collections. For that reason, smaller, more regular payments would allow more opportunity for corrections to be made before tax paid in-year diverges significantly from the anticipated tax position.

11.5 Monthly payments should reduce the risk of confusion for taxpayers in MTD compared to a quarterly payment cycle.

11.6 *Quarterly payments*

11.7 Cashflow from self-employment (or, in some cases, property rental) is not constant or reliable – many ITSA taxpayers experience peaks and troughs of income. Under the current POA system where tax payments are spread at 6-monthly intervals, short term income fluctuations may average out.

But a monthly tax payment may become unaffordable where a business experiences a cashflow issue (for instance a large customer fails to pay on time), even if the overall tax position for the year remains broadly consistent with previous periods.

Quarterly payments would help mitigate short term cashflow issues – taxpayers may struggle to make a monthly payment due to fluctuating income levels, but their finances over a three-month period may be more stable.

For instance, members report that small company directors commonly declare sporadic dividends, which may not align with a monthly payment obligation. Quarterly payments would allow more flexibility for a dividend to be declared before the tax payment date. For similar reasons, taxpayers relying on investment income, where cashflow can be periodic, may also prefer a quarterly payment cycle.

Quarterly payments based on the tax position in CY-2 could bear little or no resemblance to the quarterly MTD update data being submitted at or around the same time. This would create confusion. Using different frequencies for payment compared to the MTD reporting update cycle may help separate the two concepts, reducing the misalignment between data submission and tax payment.

11.8 A quarterly payment cycle would create fewer administrative burdens, although more frequent payments could be managed via automated systems such as Direct Debit.

Members raised concerns about the burden of having to remind clients to make regular payments. An automated payment system (or at least option) would help alleviate that additional workload.

11.9 For MTD taxpayers, quarterly payments *would* make more sense if the amount payable were aligned with the quarterly update submitted – effectively paying estimated tax in real time. However, our concerns in paragraph 4.2 remain.

12 Question 11: What could the impact of more frequent payments be on taxpayers?

12.1 More frequent payments should reduce the risk of 'bill shock' and resulting failure to pay on time. Payments made in-year should also reduce the risk of taxpayers suffering late payment interest and penalties.

12.2 However, taxpayers with seasonal trades in particular may struggle to pay tax more frequently. A typical example would be an ice cream vendor, whose takings are highest during the summer season but may struggle to make regular payments during the winter months.

12.3 Fluctuating profits will also cause problems.

Assuming again that in-year payments from ITSA-only taxpayers would be based on the tax position in CY-2, profits averaging claims by farmers, authors, creative artists etc in CY-2 would skew the collections due in CY. Presumably the expectation would be that the taxpayer will update their forecast to improve the accuracy of in-year payments? We question how realistic that expectation is, especially given the difficulty in accurately forecasting profits from such businesses. We raise concerns under Question 27 around possible financial consequences where in-year payments are reduced excessively.

Equally, losses in CY-2 would presumably result in zero in-year payments being due in CY. If the business returned to profit in CY or CY-1, the onus would presumably be on the taxpayer to update their in-year forecasts as necessary if they wanted to avoid a large balancing payment. We would not support any legal obligations to update forecasts where profitability improves compared with the forecast.

Small company directors, particularly owner-managers, commonly have irregular dividend income. Receipt of abnormally high dividends in one year could result in overpayment of tax in-year two years later if they failed to update their tax forecast, or a large balancing payment if the income position were reversed.

As in paragraph 11.4, we question again whether taxpayers will have the understanding, ability and, in some cases, incentive to update their forecasts in order to pay tax during the year.

We assume if no in-year payments were due based on CY-2, then no interest or penalties would arise for failure to update the tax forecast to reflect an expected return to profit? Instead, we assume a larger balancing payment would arise at 31 January after the end of CY, but with no financial consequences for not updating the forecast tax liability. This would need to be confirmed in guidance.

13 Question 12: If these changes were introduced, what additional measures could the government consider to support taxpayers when their Self Assessment income changes during the year?

13.1 Currently taxpayers can adjust their January/July POAs via their ITSA return, online or by contacting HMRC. Authorised agents have equivalent access on behalf of their clients.

These methods would need to be carried over if the proposals for more regular payments go ahead. In addition, taxpayers in MTD will need equivalent services, together with functionality for authorised agents to adjust payments within the Agent Services Account.

13.2 HMRC's systems would need to register the cessation of an income source, and carry the implications over to any in-year collection of tax. For instance, if a 2030/31 ITSA return reported the cessation of a sole trade, leaving a property business continuing, then in-year collections should be based on the tax forecast to be payable solely in respect of the property business.

Timing is an issue here – our understanding is that the 2030/31 return would not have any bearing on tax payments due from April 2031, which would instead be based on the 2029/30 (CY-2) return. In the absence of input from the taxpayer/their agent, this would lead to an overpayment of tax in-year during 2031/32, as the payments made would still factor in tax due on the sole trade, despite it having ceased before April 2031.

Again, we urge caution in not overestimating taxpayers' ability to track this and update the forecasts for their in-year tax collections. From an agent's perspective, in the example above the client may not inform their agent about the cessation of their sole trade in advance of monthly payments from April 2031 starting.

Furthermore, if the taxpayer files their 2030/31 tax returns promptly after 5 April 2031, they will thereby report the cessation of their trade to HMRC and could therefore reasonably expect HMRC to update their tax forecast so that they do not pay tax throughout 2031/32 on an income source which HMRC know has ceased. The onus should not be on the taxpayer to update their 2031/32 tax forecast separately, effectively telling HMRC a second time that their income for 2031/32 will be lower.

14 Question 13: How else might the government support taxpayers to manage more regular payments?

14.1 See our comments under paragraph 3.31 regarding BPPs, including raising awareness of them and incentivising taxpayers to use them.

14.2 For ITSA-only taxpayers, no payment method seems to be considered if the proposal for more regular payments goes ahead. We suggest an automated payment system such as Direct Debit would improve reliability of more frequent payments, especially if a monthly tax instalment interval were chosen.

However, automated payments bring specific concerns including the consequences of a shortage of funds to allow the payment to clear.

15 Question 14: Which groups of taxpayers might require additional support to access or use payment management tools?

15.1 Digitally excluded and digitally unwilling taxpayers are likely to require support and alternative payment methods, particularly given a general trend towards closure of high-street banks where people can get support with payments.

15.2 Taxpayers in MTD may need additional support and communications such as payment reminders given the likely confusion between potentially receiving in-year forecasts of their tax liability within their MTD software, and regular tax payments being collected based on what their tax position was in CY-2.

Given the separation of the MTD compliance processes between the PTA/BTA and one or more third party software products, taxpayers in MTD may require guidance and support on where to check and make updates to the tax forecast on which their in-year tax payments are based – presumably this would (at least initially) be via their HMRC account, rather than via any third party software.

16 Question 15: How might the government best support taxpayers to manage the transitional period?

16.1 The Consultation mentions "the possibility of spreading liability for the previous tax year over a longer time frame (for example, spreading the July POA evenly over 4, 6 or 12 months, in addition to the in-year payments for 2029 to 2030)."

Whilst we understand the intention, introducing a spreading option will build further complexity on to the issue of payments on account, and on top of the existing complexity surrounding the transitional year.

We fear this would further confuse taxpayers, and advise against offering a spreading option. Our recommended alternative is explained in paragraph 16.2.

16.2 Instead, leniency around late payment interest should be offered for a period around the transitional year.

This could be restricted to the second POA for 2028/29, due by 31 July 2030, given taxpayers would by then also be paying monthly payments (either via PAYE or, if ITSA-only taxpayers are brought in scope as well then via eg Direct Debit). However, we would encourage HMRC to extend the treatment to the first POA for 2028/29, due by January 2030, to help taxpayers budget where they are expecting to incur monthly payments from the following April.

Waiving late payment interest, with proper communication to taxpayers, would allow instalments to be made for the January and/or July 2030 POAs on an informal basis, without the need to offer complicated instalment options.

Precedent exists from July 2020[15] when HMRC offered a similar informal, interest- and penalty-free payment deferral option. We would welcome a similar arrangement during the transition year if these proposals go ahead.

17 Question 16: Would the option to make voluntary pre-payments, ahead of implementation, be helpful?

17.1 Some taxpayers may be reluctant to pay tax earlier than they legally have to, but an option to pay in advance towards the transition year may help others.

17.2 We would also encourage HMRC to informally offer greater flexibility over making 2028/29 POAs without incurring late payment interest and penalties, as suggested under paragraph 16.2.

18 Question 17: If changes were made, what transition period would be most appropriate?

18.1 A one year transition period, as outlined in Chapter 5 of the Consultation, restricts the complexity of transitioning to more regular payments to just the 2029/30 tax year.

[15] https://www.gov.uk/government/news/11-billion-boost-for-taxpayers-facing-difficulty-due-to-coronavirus-covid-19

Whilst the transition year will be complex for taxpayers and risks creating cashflow issues due to two years' worth of payments falling due in that year, on balance we would encourage minimising the period during which issues would exist.

As above, HMRC should offer leniency to taxpayers having to make POAs for 2028/29 in January and July 2030, as per paragraph 16.2, to support them with the transition period.

19 Question 18: What other support would help ITSA taxpayers during the transition period?

19.1 See paragraph 16.2.

20 Question 19: How might the government best support new or returning taxpayers to make timely payments, when they start earning ITSA income?

20.1 We foresee negative impacts on new ITSA taxpayers as a result of this proposal.

Consider a profitable new self-employment starting in May 2029, no PAYE income sources and assuming monthly ITSA payments are based on CY-2 as proposed.

The first ITSA return (2029/30) and balancing payment for that year would be due by 31 January 2031.

Under current rules, the first tax payments would be:

- 31 January 2031: full liability for 2029/30 + first payment on account for 2030/31
- 31 July 2031: second payment on account for 2030/31
- 31 January 2032: balancing payment for 2030/31 + first payment on account for 2031/32

Under the proposed move to more frequent payments, their tax liabilities would begin with:

- 31 January 2031: full liability for 2029/30
- April 2031: No monthly payments since no ITSA return filed for CY-2. We assume no January/July POAs if the new regular payment system is in effect
- 31 January 2032: full liability for 2030/31 since no POAs made
- April 2032: Monthly payments become due based on 2029/30 ITSA return (which may by this point be outdated for a growing business, requiring manual updating of the forecast to improve accuracy of in-year payments)

Under the proposed reforms, the balancing payment due on 31 January 2032 will be significantly greater than under current rules as no POAs will have been made towards it.

The proposed changes slow the inflow of tax to HMRC, make bill shock for the taxpayer much worse (two years with large balancing payments rather than one), and increase the risk of payment default.

It appears none of the intended benefits of the proposal to either the taxpayer or HMRC would emerge until up to three years after the ITSA income source first starts.

The period over which this greater bill shock arises may be deferred if capital allowance claims for equipment purchased when starting a business offset any taxable profits in the early years. So, the envisaged benefits of the proposal may not even materialise within three years of the ITSA income source starting.

21 Question 20: How might estimating appropriate liability for new or returning ITSA taxpayers be achieved?

21.1 Estimating tax liabilities is inherently complex and unreliable. We suggest any arrangements to estimate tax liabilities for the first two years in ITSA should be voluntary – ie taxpayers can opt-in to making estimated in-year payments if they wish to spread payments over the course of the year. However, there should be no obligation to make use of such a facility, and no interest or penalty consequences of getting estimates wrong. Taxpayers with agents who can work with them to forecast cashflows, capital allowance claims etc may be better placed to estimate their expected ITSA liabilities.

Picking up the example in paragraph 20.1, a facility for the taxpayer to manually enter a forecast tax liability in their PTA for 2029/30, 2030/31 and/or 2031/32 would be helpful if they wished to make regular payments towards their expected liability for those years.

Whilst the take up for opting into regular payments early may be low, having the option to do so voluntarily may help some taxpayers budget for tax payments before they join the main CY-2 basis of estimating in-year payments.

However, this facility already exists to an extent in the form of the Budget Payment Plan. We therefore do not see the benefit of introducing an alternative means to the same end.

21.2 Agents would also need access to any such facilities.

21.3 We would discourage any automatic pro-rata system based on scaling up part-years' income. This risks confusing taxpayers, and would be especially inaccurate and unfair for seasonal businesses.

21.4 We would resist any moves for HMRC to try to estimate income for the first year in ITSA – many taxpayers simply will not know what their expected income will be.

The second year may be more predictable – taxpayers will not have filed their first ITSA return in time for the start of their second tax year as an ITSA taxpayer, but some may be in a position to make an estimate of their Y2 tax liability based on records kept for Y1.

21.5 To avoid the issue of two years of bill shock identified in paragraph 20.1, the current January/July POA system could be retained for a fixed period for new ITSA taxpayers. However, we would not recommend this as it complicates the transition to the concept of in-year payments, and would result in the problems of the transition year being repeated for all new ITSA taxpayers.

22 Question 21: What could be the impact of reducing the POA threshold, or are there alternative ways to support taxpayers below the current threshold to achieve the timely payment objectives?

22.1 We consider that the existing £1000 / 80% threshold should be retained.

22.2 Decreasing the threshold would result in more taxpayers having to make regular payments (monthly or otherwise). It would also expose greater numbers to the complexities of changing payment arrangements, and the extra cost burden of the transitional year.

22.3 A reduced threshold catching smaller tax liabilities would result in fairly insignificant regular payments – even with the current threshold, a £1,001 tax liability would equate to monthly payments of just £83.42.

22.4 Decreasing the threshold would create more coding adjustments for HMRC as more taxpayers with both PAYE and ITSA income would have to make regular in-year payments. This would also increase the burdens on PAYE operators.

22.5 Increasing the threshold above which POAs become due would make tax liabilities harder to budget for, going against the aims of the Consultation.

22.6 However, the existence of any threshold means taxpayers with liabilities around that level may drop in and out of the requirement to make POAs from year to year. Scrapping the threshold entirely would simplify the position in that all taxpayers would have to make POAs every year.

On balance, we suggest saving lower-liability taxpayers from the complexity of POAs is the more important factor and that the current threshold should be retained.

23 Question 22: In what circumstances could the government consider offering taxpayers with PAYE and ITSA income the choice between making ITSA payments through PAYE, or direct ITSA POAs, such as via Direct Debit?

23.1 We observed in paragraph 3.17 and 3.18 that some ITSA taxpayers who have PAYE income prefer to keep their ITSA and PAYE liabilities separate, and do not want their employer/pension provider to know about sources of income taxable under ITSA.

If the proposals in the Consultation go ahead, we would support options for taxpayers with both ITSA and PAYE income to opt for regular payments to be collected outside their PAYE code, with a choice of the same payment methods as are available to ITSA-only taxpayers.

This option could be made available via tick boxes on the ITSA return and MTD tax return, similar to the existing tick box at Box 2 on page TR6 to have smaller liabilities collected via PAYE where the return is filed before 31 October (on paper) or 30 December (online).

It would seem sensible for the default option to be collection via PAYE, with an active choice required (by ticking a box on the tax return) to elect for eg Direct Debit payment instead.

23.2 Providing this option creates a further argument for the frequency of in-year tax collection from ITSA-only taxpayers to be monthly – to create equal payment terms for taxpayers with PAYE income who opt to pay via eg Direct Debit.

23.3 Regarding the statement “There may be advantages to … enabling those who do not meet the criteria for paying through PAYE to do so if they choose” – we assume this means allowing PAYE collection of ITSA liabilities where doing so would not normally be possible due to the 50% deductions cap discussed under Question 5. We would discourage this, for the reasons explained under Question 5.

24 Question 23: What would agents find useful to enable them to carry out their role effectively under the announced changes or possible reforms?

24.1 We welcome consultation on agents' requirements. Agents play a vital role in tax compliance but their needs are often not given due consideration.

Improving the agent experience[16] is one of the ATT's Top 10 Asks for 2026, covering changes we would like to see made to tax policy and administration this year.

24.2 Members frequently report gaps in digital services available to agents compared to those their clients can access.

Members report that they cannot in some instances even *view* some clients' PAYE codes via their agent logins. PAYE codes are commonly not available for periods prior to the current ITSA filing year, meaning that agents need to contact HMRC if there is a query regarding PAYE deductions in the previous year, despite still being able to submit tax returns for that year.

Agents currently lack a digital service to update clients' PAYE codes, forcing them to contact HMRC via webchat or phone, which is time consuming and inefficient for both parties.

It is essential that these gaps in agents' ability to view and update PAYE codes are resolved and new systems thoroughly tested before the announced changes can go ahead.

There is also no e-mail or online mechanism to alert agents of changes to their clients' PAYE coding notices. This would be of even greater importance under the proposed changes and should be built alongside the ability for agents to reliably view and update clients' PAYE codes.

Without support from agents, we expect most represented taxpayers affected by these reforms will fail to update their tax forecasts and resulting PAYE coding adjustments in the way HMRC envisage, leading to inaccurate in-year payments, potential financial hardship for taxpayers, and negative publicity for HMRC.

24.3 If the proposals to extend in-year collection to ITSA-only taxpayers go ahead, agents will also need access to review and update tax forecasts linked with regular payments (eg monthly Direct Debit).

This should be provided primarily as a digital service, with alternative support via phone lines and webchat.

24.4 From an agent perspective, these new services will need to be accessible via both the Agent Services Account and the ('legacy') Online Services Account, in order to allow access for clients both in MTD and in 'classic' ITSA.

24.5 Services allowing agents to update tax forecasts, PAYE codes and in-year payment collection should allow freedom for wide-ranging adjustment, including reducing estimated liabilities/in-year payments to zero in the event of a source of ITSA income ceasing between CY-2 and in-year payments being collected.

24.6 Paragraphs 24.1 -24.5 outline agents' requirements from a practical perspective if the proposed changes go ahead. However, they do not reflect the additional burdens these reforms would impose on agents, even with access to the necessary digital services. They also do not consider agents' ability to charge for additional work involved.

[16] https://www.att.org.uk/improve-agent-experience

Expecting agents to update tax forecasts creates additional workload. Whilst some agents will have access to in-year income/expense records for their self-employed clients, many will not – particularly for clients who are not in MTD.

Many clients do not inform their agent of changes in circumstances, or of major events (eg capital equipment purchases for businesses, or voids in tenancies for landlords) until some time afterwards. The agent will not have the relevant information to make accurate updates to forecasts forming the basis of in-year tax payments.

These issues apply to ITSA clients both with and without PAYE sources of income.

24.7 Agents will have to charge for additional work carried out as a result of the proposed changes. Additional fees from agents may drive taxpayers to cheaper, less knowledgeable or less reputable alternatives, or to manage their tax affairs themselves. This would increase the risk not only of failing to understand and update a new payments structure, but of compliance errors more broadly.

24.8 Expecting agents to update tax forecasts which affect in-year tax collection will expose them to additional risk, including fee disputes for the work involved in updating tax forecasts, and potentially damages claims if they adjust in-year payments incorrectly, even due to incomplete information supplied by the client.

This will be particularly true if HMRC impose interest charges and/or penalties if incorrect adjustments are made to in-year payments – see Question 27.

25 Question 24: What support or guidance might be most effective for taxpayers with particular challenges and needs?

25.1 Digitally excluded and digitally unwilling taxpayers will find it harder to update the forecast tax liabilities which determine in-year collection of tax.

HMRC will need to ensure non-digital routes to update these forecasts are available, and that appropriately trained staff are available in sufficient numbers to support taxpayers, and that they can be easily reached via the main ITSA helpline.

25.2 Telephone support from HMRC may need to include HMRC staff being able to interpret changes in taxpayers' circumstances, consider the timing of those changes, and calculate the expected impact on the taxpayer's forecast liability for the year. For digitally excluded/unwilling taxpayers, that expertise will need to be reliably available via the main telephone support lines, or via the Extra Support Team.

If HMRC do offer this level of support, consideration should be given to how the distinction is made between assisting taxpayers with compliance and providing advice. HMRC should also consider the potential risk it presents to them if tax forecasts their staff assist in updating prove to be incorrect.

25.3 Telephone advisers will also need to be able to explain the complexities of the transition year, and support taxpayers who may struggle financially with effectively paying two years' worth of tax in one year.

25.4 If the proposals go ahead, ITSA taxpayers more broadly will need educating in advance of the 2029/30 tax year. As noted elsewhere, understanding of both POAs and PAYE codes tends to be low, so guidance and support should focus on explaining the new payment structure, whilst also highlighting additional cost burdens in the transition year, and available support from HMRC where this causes financial hardship.

26 Question 25: What extra support or guidance might taxpayers who qualify for financial support from the government (such as Universal Credit) need?

26.1 No comments.

27 Question 26: What support or guidance might be most effective for tax agents?

27.1 Once the required digital services covered in response to Question 23 are built, guidance on how to access and use them will be needed – webinars and videos (YouTube etc) would be most helpful, to provide walk-throughs of the new systems.

27.2 Given that payroll administrators are likely to experience significantly more queries regarding PAYE codes and discrepancies in take-home pay, providing guidance packs with links to relevant GOV.UK and support in other formats which they can provide to employees/pensioners to explain the changes would be helpful.

28 Question 27: Are there are any additional comments you would like to make regarding the 'timely payments in ITSA' announced changes and possible reforms?

28.1 *Interest/penalty regime for payment on account adjustments*

28.2 The Consultation does not explain HMRC's expected position in respect of late payment interest and/or penalties if in-year payments under the proposed reforms are reduced excessively.

For instance, suppose a taxpayer's forecast ITSA liability for 2029/30 (based on their 2027/28 tax return) was £12,000. 12 monthly payments of £1,000 (either via PAYE, or potentially via eg monthly Direct Debit) would be due from 6 April 2029.

If that taxpayer (or their agent) altered the forecast liability before April 2029 to £6,000, then the in-year payments would presumably reduce to £500 per month.

If the taxpayer's ITSA liability according to their 2029/30 tax return was £12,000, would interest be payable on the £6,000 shortfall which accumulated through the year? Would there be any penalties for late payment of tax?

Under the current system, HMRC would normally charge late payment interest. Penalties do not generally apply to late-paid payments on account, other than where reductions to POAs are made "fraudulently or negligently".[17]

28.3 Conversely, if ITSA income falls but a taxpayer fails to adjust their forecast liability for a year, they will overpay via in-year payments of tax.

[17] https://www.gov.uk/hmrc-internal-manuals/enquiry-manual/em4660

Will HMRC credit interest on the amount deducted each month which proves excessive? If so, how will this be calculated – for instance, will the liability be split pro-rata across all monthly payments, with interest credited on the excess amount from the April payment onwards? Or will monthly payments be treated cumulatively, such that later months in the year form a credit balance on which interest is credited but earlier months do not?

28.4 The proposed new POA system relies more heavily on updating forecasts than the current January/July payment arrangements, and more frequent adjustments will be needed to improve accuracy. Clarity is therefore needed around HMRC's intentions for both credit and debit interest, and for penalties where adjustments prove to be incorrect.

Guidance should make clear any differentiation in the consequences of making minor adjustment errors, compared with more abusive examples – for instance reducing the forecast liability to zero and making one balancing payment of the full liability for the year.

28.5 *Interaction with Time To Pay (TTP) arrangements*

28.6 How would the proposed reforms interact with TTP arrangements? If a taxpayer is incurring monthly deductions via PAYE in respect of a forecast ITSA liability but encounters financial hardship, could they apply for a TTP arrangement in order to stop the monthly ITSA deductions via PAYE?

28.7 Similar concerns would apply if regular payments are extended to ITSA-only taxpayers – would successfully applying for a TTP arrangement automatically excuse them from regular payments?

And if Direct Debit is used, would HMRC suspend future collections as part of the TTP process, or would the onus be on the taxpayer to pause the Direct Debit?

28.8 *Timing*

28.9 Under normal timescales, the last Finance Bill via which the necessary measures could be introduced would appear to be Finance Bill 2027. Allowing time for Royal Assent, this would ordinarily leave approximately one year for employers and taxpayers to understand the new arrangements before implementation in April 2029.

28.10 PAYE operators are already having to prepare for the phased introduction of mandatory payrolling of most benefits in kind starting from April 2027, with further roll out in April 2028 and beyond.

Under the proposals in the Consultation, they will have to prepare for yet more change and be ready to deal with additional queries from employees on top of the workload from mandatory payrolling of benefits.

28.11 As identified in our response to Question 3, the proposed implementation date of April 2029 also coincides with the introduction of mandatory e-invoicing. That will be another major change for businesses, software providers and agents, who will all need to invest significant time and resources in updating systems and processes. Introducing the proposed payment reforms at the same time will place yet more pressure on those resources.

Consideration should therefore be given to delaying ITSA payment reform until e-invoicing has become more established. See also our comments under Question 3 regarding potential scope to use e-invoicing data to improve the accuracy of in-year tax payments.

28.12 *Interaction with Simple Assessment*

Consideration should be given to the interaction with Simple Assessment, and the time that taxpayers are allowed to pay under that method.

Simple Assessment is used to collect tax when either the tax due cannot be coded out, the amount owed is £3,000 or more, or tax is due on state pension. Increasingly, Simple Assessments have been used to collect tax on interest in excess of an individual's Personal Savings Allowance. Currently HMRC asks those with interest income over £10,000 to report the tax due under Self Assessment. Individuals with bank interest of less than £10,000 and who do not otherwise need to be in Self Assessment will generally have their tax collected by Simple Assessment. Simple Assessment is typically collected with a single payment with the due date depending on whether the letter comes before or after 31 October following the relevant tax year.

For example, a pensioner with state pension of £12,570, a private pension of £5,000, and interest of £10,000 will, after deduction of the personal allowance have tax to pay on the private pension (£1,000) and on the interest (£2,200 at 22% from April 2027). The tax on the pension can be collected at source, but full collection of the interest element exceeds 50% of the private pension, and cannot be collected from the state pension. If they are put within Self Assessment to collect the £1,900 of tax on their interest, they will be required to make payments on account and/or monthly payments. If they are assessed via Simple Assessment, they will need to fund the tax in a lump sum but will not be required to make payments on account.

For the purposes of fairness, we think that consideration needs to be given to the differing position for someone in Self Assessment versus Simple Assessment. Pensioners in particular may be more likely to welcome collection on a monthly basis rather than via a lump sum.

In many cases, collection issues would be eased for pensioners if it was possible to operate PAYE on the state pension.

29 Recommendations

29.1 We have expressed concerns throughout this response about the practicality and envisaged benefits of the proposed reforms.

It is disappointing that the Consultation appears to confirm the Government's intention to press ahead with monthly ITSA payments for taxpayers with sufficient PAYE income, despite acknowledging concerns identified in response to the previous government's 2021 Timely Payment Call for Evidence[18] "about adopting a 'one-size-fits-all' approach to more regular payments, the potential for increased administrative burden, the complexity of calculating tax liability accurately in-year and possible impacts on cashflow".

We believe these concerns remain every bit as valid now as they were in 2021, and that this Consultation does nothing to address them. We urge the Government to look at alternatives to adopting in-year payment of ITSA liabilities via PAYE.

29.2 The Consultation refers to extending regular payments to ITSA-only taxpayers as "possible reforms" rather than "announced changes", and says that "ITSA taxpayers paying through PAYE <u>will be affected</u>

[18] Timely Payment Call for Evidence Summary of Responses

by the announced changes, and other ITSA taxpayers could be affected if timely payment changes are introduced" (emphasis added).

This indicates that there is more opportunity to consider stakeholder feedback on the impact for this population than for taxpayers with both ITSA and PAYE income.

Whilst we do not support in-year payments of ITSA liabilities for taxpayers with PAYE income, we would also argue that requiring in-year payment solely from individuals with PAYE income sources is unfair, going against HMRC's own Charter and risking perception that HMRC are disadvantaging the soft target of taxpayers with a regular source of income from which tax is already being collected each month.

If taxpayers with both ITSA and PAYE income sources are required to make in-year payments, so should their counterparts who only have ITSA income.

29.3 The Consultation states that "any reform would be a substantial change for ITSA taxpayers and should have the primary aim of supporting taxpayers to meet their tax obligations and simplifying their payments journey".

If the proposals do go ahead, consideration should be given to providing choices for all taxpayers as to whether they want to opt-in to more regular payments or continue under existing POA rules. If this could be communicated effectively, providing a choice could support taxpayers who struggle to budget for tax liabilities, whilst not adversely impacting those who do not. However, we acknowledge that providing options inevitably complicates the position and message.

29.4 *Alternatives*

29.5 We proposed a number of alternative approaches to improving timely payment for ITSA taxpayer and reducing the risk of them falling into debt for consideration in response to Question 2. In summary, these include:

- Consult further on the possibility of moving the ITSA filing deadline closer to the end of the tax year, and basing POAs on the previous tax year rather than a two-year old liability, as proposed.
- Retain the existing POA requirements for all ITSA taxpayers, but move to more frequent payments – we suggest quarterly, and with the option to automate payment/
- Improve awareness of and incentives to use HMRC's Budget Payment Plan.
- Increase the £3,000 cap on collecting unpaid ITSA tax via PAYE.
- Consider withholding basic rate tax from bank interest, investment income and property income.

Whilst any alternatives to the proposal would require bespoke consideration and consultation, in view of the concerns expressed in this response in respect of the proposed reforms, we urge the Government not to press ahead before considering these alternative options.

30 Contact details

30.1 We would be pleased to join in any discussion relating to this consultation. Should you wish to discuss any aspect of this response, please contact atttechnical@att.org.uk.

The Association of Taxation Technicians

31 Note

31.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or 'Taxation Technician (Fellow)' and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.

APPENDIX

Cashflow modelling for Paragraph 3.22

Scenario

- Taxpayer with ITSA liability of £12,000 in 2029/30
- POAs due for 2030/31
- Sufficient PAYE income to collect via PAYE under the proposed reforms
- All liabilities paid on the due date

Payments if existing POA rules continued:

31 January 2031:	£6,000	First POA for 2030/31. Calculated as 50% of the 2029/30 tax liability
31 July 2031:	£6,000	Second POA for 2030/31. Calculated as 50% of the 2029/30 tax liability

Payments under proposed POA reforms:

April 2031	£1,000	First POA for 2031/32. Calculated as 1/12th of the 2029/30 tax liability
May 2031	£1,000	Second POA for 2031/32. Calculated as 1/12th of the 2029/30 tax liability
June 2031	£1,000	Third POA for 2031/32. Calculated as 1/12th of the 2029/30 tax liability etc
July 2031	£1,000	
August 2031	£1,000	
September 2031	£1,000	
October 2031	£1,000	
November 2031	£1,000	
December 2031	£1,000	
January 2032	£1,000	
February 2032	£1,000	
March 2032	£1,000	

Comparison of cashflow to HMRC:

	Receipts under existing rules	Receipts under proposed reforms	Difference compared to existing rules
January 2031	£6,000	-	(£6,000)
February 2031	-	-	(£6,000)
March 2031	-	-	(£6,000)
April 2031	-	£1,000	(£5,000)
May 2031	-	£1,000	(£4,000)
June 2031	-	£1,000	(£3,000)
July 2031	£6,000	£1,000	(£8,000)
August 2031	-	£1,000	(£7,000)
September 2031	-	£1,000	(£6,000)
October 2031	-	£1,000	(£5,000)
November 2031	-	£1,000	(£4,000)
December 2031	-	£1,000	(£3,000)
January 2032	-	£1,000	(£2,000)
February 2032	-	£1,000	(£1,000)
March 2032	-	£1,000	-