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CONSULTATION: REQUIRING PAYMENT OF VAT AND PAYE RETURN LIABILITIES BY DIRECT DEBIT

Response by 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 'Requiring payment of VAT and PAYE return liabilities by Direct Debit' ('the Consultation') issued on 23 June 2026[1].

1.2 The primary charitable objective of the ATT is to promote the education and 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.

1.3 Please note that we have only responded to questions relevant to our remit as a professional body, and have not commented on those directed primarily at individual businesses.

1.4 We would be pleased to discuss any aspect of this submission further. Relevant contact details can be found in Section 7.

2 Executive Summary

2.1 We do not support mandating Direct Debit for VAT and PAYE at this stage.

We consider the proposals to be disproportionate. The Consultation acknowledges that most taxpayers already pay the correct amount on time using existing payment methods, which include Direct Debit. We do not believe that either HMRC or taxpayers who already pay on time would gain significant additional benefit from a Direct Debit mandation.

The Consultation does not provide sufficient evidence to support the proposed policy change or to assess its impact. In particular, it does not publish any analysis showing that late payment is often caused by oversight or incorrect payment references, quantify the amount of tax debt that mandatory Direct Debit would prevent, explain why voluntary uptake has remained low, or provide a cost-benefit analysis demonstrating that mandation is the most effective and proportionate solution.

[1] https://www.gov.uk/government/consultations/requiring-paymentof-vat-and-paye-return-liabilitiesbydirect-debit/requiring-payment-of-vat-and-paye-direct-debit--2

We are also disappointed that this Consultation is taking place at Stage 2 of the Tax Consultation Framework ("Determining the best option and developing a framework for implementation including detailed policy design") rather than Stage 1 ("Setting out objectives and identifying options"). We are unaware of HMRC having previously consulted on this proposal and there appears to be limited HMRC activity to encourage the use of Direct Debit, other than updating HMRC guidance to promote Direct Debit as a possible payment method. As that change did not result in a material increase in uptake, we believe HMRC should first have consulted at Stage 1 to allow for input and feedback on the policy objectives and alternative solutions before proceeding to a Stage 2 consultation. There also appears to have been limited research into the reasons for low voluntary Direct Debit uptake, including why some businesses that previously used Direct Debit have not reinstated it.

We also believe the Consultation underestimates the complexity of business payment arrangements. Many businesses have legitimate commercial reasons for retaining control over payment timing. A mandatory approach risks imposing additional administrative burdens on compliant businesses whilst delivering limited additional benefit.

The Consultation does not fully consider the potential behavioural impacts of mandation. Businesses that currently manage cash flow by controlling the timing of payments may adapt their behaviour in ways that undermine the policy objective, for example by delaying returns or restructuring banking arrangements to retain control over payment timing. This could create unequal outcomes between taxpayers, increase administrative costs for both HMRC and taxpayers, and ultimately reduce compliance rather than improve it.

Before mandating Direct Debit, we believe that HMRC should:

- Undertake further research on causes of late payment (for example, the percentage caused by incorrect payment references, the taxpayer simply forgetting or HMRC system issues);
- Increase voluntary adoption through improved guidance, targeted communications and greater promotion of the benefits of Direct Debit;
- Seek to reduce the current perceived barriers to voluntary Direct Debit;
- Evaluate if other measures can achieve the desired policy outcomes; and
- Consider whether targeted interventions aimed at taxpayers with a history of repeated late payment would be more proportionate than mandation for all taxpayers with VAT and PAYE liabilities.

We also do not support the introduction of penalties solely because a taxpayer uses an alternative payment method and the correct amount of tax has been paid in full and on time. Existing late payment penalties already address non-compliance. Introducing a separate penalty regime based on payment method would add complexity, risk unfair outcomes for otherwise compliant taxpayers and appear inconsistent with HMRC's stated objective of encouraging timely payment.

3 About you

3.1 Question 1: Are you responding to this survey as:

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

3.2 A representative body (professional body).

3.3 Question 2: Are you UK based?

3.4 Yes.

3.5 Question 3: Are the views offered in your responses:

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

3.6 Our organisation's and members' views.

3.7 Question 4: Where does your business operate? (please select all that apply)

3.8 England, Scotland, Wales and Northern Ireland. Our members are also based throughout the UK.

3.9 Question 5: What is your industry sector? (select the relevant option)

3.10 Accounting (taxation).

3.11 Question 6: help us determine business size, please provide details on:

- number of employees in your business (select the relevant option)
- annual turnover: (select the relevant option
- an approximate summary of how your sales are split (enter an estimated percentage for each option or 0% where not applicable)

3.12 Not applicable

3.13 Question 7: How long has your business been operating? (select relevant option)

3.14 Not applicable

3.15 Question 8: Do you use an accountant for your business? (select the relevant option)

3.16 Not applicable

3.17 Question 9: Please share any further information about your organisation or its activities that could help us better understand your responses.

3.18 The Association is a charity and the leading professional body for those providing UK tax compliance services. In our response to the Consultation, we have drawn on our members' practical experience and knowledge. By contributing to consultations on the development of the UK tax system, we seek to ensure that, for the general public, it is workable and as fair as possible.

The Association has more than 10,000 members and Fellows together with over 7,000 students.

4 Direct Debit for VAT

4.1 Question 10: Prior to this consultation, were you aware that you could make VAT payments by Direct Debit?

4.2 Some of our members were aware that VAT could be paid by Direct Debit. However, as tax professionals, our members are likely to have a greater awareness of HMRC payment methods than the wider business population. We therefore do not consider our members' level of awareness to be representative of VAT registered businesses generally.

The Consultation states that, following the Spring Statement 2025, HMRC updated its guidance[2] to make Direct Debit the primary method of payment for VAT. However, the guidance currently published on GOV.UK does not describe Direct Debit as HMRC's preferred payment method; rather, it lists Direct Debit as the first of a list of several available payment options. Nor does the guidance clearly explain the benefits of paying by Direct Debit.

Based on anecdotal feedback, we believe awareness amongst businesses is likely to be low as existing VAT registered businesses would have no need to consult the HMRC website to clarify payment options when they have established payment arrangements in place. VAT registered businesses that have successfully paid their VAT by other electronic methods for many years are unlikely to seek out alternative payment methods or revisit HMRC's guidance unless they are first made aware of the option and the potential benefits or incentives of paying by Direct Debit.

To our knowledge, HMRC has undertaken limited promotion of either the availability of Direct Debit or the benefits identified throughout the Consultation document. Before mandating Direct Debit, HMRC should first demonstrate that reasonable steps have been taken to encourage voluntary uptake. We would welcome further information on the work undertaken to promote Direct Debit, including:

- Whether the change to HMRC's guidance was supported by a wider communications campaign, such as those for raising awareness of Making Tax Digital or the HMRC app;
- Whether HMRC has engaged with representative bodies, professional bodies and stakeholder forums, such as the Virtual Communications Group and the Guidance Strategy Forum, to raise awareness;
- Whether HMRC includes information about Direct Debit and its benefits in routine correspondence with businesses, particularly where taxpayers have previously made late payments; and
- Whether HMRC uses its online services to prompt businesses that Direct Debit is available as a payment option and explain its advantages, particularly in comparison with other forms of electronic payment.

We consider that improved awareness, clearer guidance and more proactive communication are likely to increase voluntary adoption of Direct Debit, without mandation being necessary.

4.3 Question 11: If you currently pay by Direct Debit or previously have done, what benefits or drawbacks, if any, have you experienced?

4.4 As a representative body, we do not comment on our own payment arrangements. However, feedback from members acting for a wide range of businesses indicates that Direct Debit can provide genuine benefits, many of which are identified in the Consultation. The most commonly cited benefit is that, for some clients, Direct Debit works well because it removes manual processes and reduces the risk of payments being missed or made late. However, this should not be seen as a one size fits all solution.

[2] https://www.gov.uk/pay-vat and https://www.gov.uk/pay-vat/direct-debit

We recognise these benefits and support HMRC's continued promotion of Direct Debit as a voluntary payment option. However, the existence of these benefits does not justify making Direct Debit mandatory. Many of these advantages are already available to businesses that choose to pay by Direct Debit voluntarily, and the Consultation has not demonstrated why mandatory adoption is necessary to achieve the stated policy objectives.

Our members have also identified several practical drawbacks and concerns, including:

- Reduced visibility and control over outgoing payments;
- Reduced flexibility over the precise timing of tax payments, which many businesses actively manage as part of their cash-flow processes;
- Difficulties where businesses have internal processes that require more than one individual to authorise tax payments;
- Concerns regarding the accuracy of amounts collected and the processes for correcting errors or obtaining repayments where mistakes occur;
- The risk of failed collections where businesses manage cash across multiple bank accounts and funds are not held in the nominated account on the collection date, potentially resulting in unplanned overdrafts or bank charges.

4.5 Question 12: If you were aware of the facility to pay by Direct Debit but have chosen not to use this payment method, could you explain why?

4.6 Businesses choose alternative electronic payment methods for a range of legitimate commercial reasons.

Common reasons include maintaining control over the timing of payments as part of cash-flow management. For some businesses, particularly those with seasonal or unpredictable income, retaining control over the timing of payments provides greater certainty that sufficient funds are available when payments are made.

Where existing processes are working effectively and payments are being made accurately, on time and using the correct HMRC references, many businesses understandably see little benefit in changing payment methods. As noted in our response to Question 10, awareness of the benefits of Direct Debit appears to be low.

We have also received feedback suggesting that many businesses with Direct Debit arrangements in place before the COVID19 pandemic cancelled them while participating in Government support schemes. A significant number of these businesses did not subsequently reinstate their Direct Debit once their VAT compliance returned to normal. Further research with these businesses could help HMRC understand why they have not returned to Direct Debit. This could reveal whether the issue is simply that businesses have not got around to setting it up again, whether they now prefer other payment methods, or whether there are barriers in the process of reinstating a Direct Debit. These findings could help identify taxpayer pain points, highlight opportunities to make the process simpler, and inform ways to make Direct Debit a more attractive payment option.

4.7 Question 13: The government expects that making payment of VAT by Direct Debit mandatory could deliver benefits for businesses, including greater automation and reduced administrative burdens. What benefits, if any, do you expect this change could bring to your accounting processes or wider business operations?

4.8 We recognise that Direct Debit can provide benefits. However, these benefits are not unique to a mandatory Direct Debit regime. They are already available to businesses that choose to pay by Direct Debit voluntarily. We believe that the policy objectives and benefits can be achieved through increased awareness, improved communications and greater encouragement of voluntary adoption.

If HMRC remains concerned about persistent late payment, a more proportionate approach may be to target interventions at taxpayers with a history of late payment, rather than imposing a requirement on all businesses, including those that already pay on time.

4.9 Question 14: What barriers or impacts, if any, might making payment of VAT mandatory by Direct Debit have on your accounting processes or wider business operations?

4.10 Many well-managed businesses deliberately control the timing of tax payments as part of their cash flow management processes. Mandatory Direct Debit removes that flexibility by transferring control over payment collection to HMRC.

We would also note that VAT liabilities are currently due on the same date that the VAT return is required to be submitted. However, a business's financial position can change rapidly, and taxpayers may experience unexpected cash-flow difficulties close to the payment deadline. Where a taxpayer pays by Direct Debit, payment will normally be collected automatically on the scheduled date. If sufficient funds are not available, there is a risk that the collection could result in the account becoming overdrawn or trigger bank charges and other associated costs.

This issue is particularly relevant in the context of mandatory Direct Debit. Where a VAT return is prepared and submitted close to the filing deadline, a taxpayer who subsequently identifies that they cannot meet the liability may have limited opportunity to contact HMRC and arrange a Time To Pay agreement before payment is collected. Even where a Time To Pay arrangement is agreed, it is unclear whether HMRC could guarantee that any scheduled Direct Debit collection would be cancelled immediately. Given the short timescales involved, there is a risk that payment could still be collected before the arrangement takes effect, potentially creating cash-flow difficulties for the business.

Effectiveness and evidence

The Consultation places significant emphasis on late payment arising from administrative oversight, missed deadlines or incorrect payment references. However, it does not provide evidence regarding causes of late payment, including the proportion attributable to payment method, incorrect references, administrative error, HMRC system issues, cash flow difficulties or deliberate decisions not to pay. Without this information, it is difficult to assess how much of the identified problem could realistically be addressed through mandatory Direct Debit.

HMRC's Tax Debt Strategy[3] identifies four strategic pillars, these include preventing tax debt, tailoring interventions and being adaptable. Whilst mandatory Direct Debit may reduce some instances of late payment arising from oversight or administrative error, it is not clear that it will prevent tax debt more generally. Where a business lacks sufficient funds on the collection date, the Direct Debit may fail and the underlying debt will still arise. Before introducing mandation, HMRC should demonstrate that the proposal addresses the underlying causes of late payment and not simply the process by which payment is made.

In addition, a mandatory requirement appears to contradict HMRC's objective of tailoring interventions to individual circumstances and being adaptable. A more targeted approach aimed at taxpayers with a history of late payment may align more closely with the principles set out in HMRC's own strategy.

Behavioural impacts and unintended consequences

There is also a risk that mandating Direct Debit could result in unintended behavioural changes.

Some businesses currently manage the timing of payments alongside their internal approval processes and cash-flow arrangements. If control over the payment is removed, some taxpayers may seek alternative ways to retain control. For example, businesses could establish separate bank accounts solely for Direct Debit payments, adding funds to them only when they are ready to pay. By contrast, businesses using their main trading account could have payments collected automatically even where cash flow is under significant pressure (or they are in overdraft), potentially affecting their ability to pay suppliers and meet other essential business costs. This may create unequal outcomes between taxpayers and could encourage behaviours that undermine the policy objective.

There is also a risk that some businesses may delay submitting returns until they are satisfied that sufficient funds are available. This could have the unintended consequence of reducing compliance, increasing follow-up activity and creating additional costs for both HMRC and taxpayers. HMRC should ensure such behavioural impacts have been assessed as part of the policy development.

HMRC systems, taxpayer confidence and protections

A key concern raised by members is low levels of taxpayer confidence regarding the accuracy and reliability of HMRC's systems. If HMRC wishes to introduce a mandate it is important that HMRC systems can cope. In particular, research should be carried out in the following areas:

- The frequency of incorrect Direct Debit collections;
- The number of failed collections and the reasons for failure;
- How errors are identified and resolved;
- The timescales for correcting errors and issuing repayments; and
- The resources available to support taxpayers where problems occur.

Where HMRC systems fail to collect a payment correctly, collect an incorrect amount, or prevent a Direct Debit from being established due to HMRC or administrative issues, taxpayers should not incur interest or penalties.

There should be a clear and timely process for notifying taxpayers of any issues which allow sufficient time to resolve them before compliance action is taken. This should include situations where a Direct Debit has been cancelled, suspended or otherwise becomes inactive. HMRC should also clearly explain how penalties and interest will be handled where a Direct Debit is collected incorrectly, collected late, or fails due to HMRC or banking system issues outside the taxpayer's control.

[3] https://www.gov.uk/government/publications/the-hmrc-tax-debt-strategy-update/the-hmrc-tax-debt-strategy-update

While taxpayers are protected by the Direct Debit Guarantee[4] and may be entitled to a refund where an incorrect collection occurs, the existence of those protections does not eliminate the disruption and administrative burden caused by errors or the need for further safeguards. Businesses may still face temporary cash-flow difficulties, additional reconciliation work and uncertainty whilst errors are investigated and resolved. If an error results in insufficient funds remaining for planned transactions, it could affect the business's ability to complete those transactions, disrupt day-to-day operations, and potentially impact its ability to secure credit in the future.

There are known issues with liabilities, penalties and interest not reconciling between the online VAT account and HMRC's internal records. In some cases, HMRC staff are unable to view the same information as the taxpayer, making reconciliation more difficult. Mandatory Direct Debit should not be introduced until taxpayers and HMRC have access to consistent and transparent account information and can easily identify and correct errors.

HMRC should consider the interaction with existing hardship provisions and appeal processes, including circumstances where tribunals have recognised hardship when considering disputed liabilities.

Practical barriers with the current Direct Debit process

Members have also highlighted practical difficulties with Direct Debit. In particular, some businesses require multiple authorised signatories to approve banking transactions. Mandatory Direct Debit risks creating unnecessary administrative complexity for businesses with established processes and may require businesses to change internal approval processes solely because of a change in payment method. These issues should be addressed before any mandatory regime is introduced.

There are also concerns for businesses that manage funds across multiple bank accounts, which might not necessarily be with the same bank. A business may have sufficient funds overall but not in the specific account linked to the Direct Debit mandate on the collection date. This could result in failed payments, unnecessary compliance activity or businesses entering an expensive unplanned overdraft.

The current Direct Debit process also contains barriers that may discourage voluntary adoption. The guidance states: “Set up the Direct Debit at least 3 working days before you submit your VAT return, otherwise the payment will not be taken from your bank account and you’ll need to make your first payment using another payment method.” This requirement creates an additional administrative step. Allowing taxpayers to establish a Direct Debit mandate at the same time as submitting their VAT return would reduce barriers and make the process simpler. In addition, providing taxpayers with the option to pay via Direct Debit immediately upon submission may help with cash flow management and reduce administrative burdens if submission and payment can take place at the same time.

The guidance also states: “If you’ve not used your Direct Debit for 2 years or more, check with your bank that it is still set up.” HMRC should consider whether taxpayers could be proactively reminded of this requirement, for example through online accounts or targeted communications before payments are due. This would reduce the risk of unexpected failed collections.

Members have also highlighted that agents are currently unable to establish Direct Debits on behalf of clients. Allowing agents to support clients with setting up Direct Debit arrangements would remove a practical barrier, particularly for smaller businesses that rely on professional support for their tax compliance obligations.

[4] https://www.directdebit.co.uk/direct-debit-guarantee/

While we consider that these improvements would make Direct Debit easier to use, we recognise that some aspects of the process may be influenced by banking industry rules, payment system requirements or other regulatory constraints that are outside HMRC's control. Nevertheless, where flexibility exists, HMRC should work with financial institutions and other stakeholders to minimise administrative barriers.

Encouraging voluntary uptake

Before considering mandation, HMRC should focus on addressing existing barriers to voluntary adoption.

HMRC should consider working with software providers to explore whether Direct Debit could be incorporated into the return submission process. Presenting Direct Debit as an option at the point of submission, together with clear information about the benefits, would support education and encourage voluntary uptake.

Improvements could also be made to VAT repayment processes. Allowing Direct Debit bank account details to be used for repayments would reduce unnecessary administration by avoiding the need for taxpayers to update their VAT online account separately. This could also be promoted as an additional practical benefit of adopting Direct Debit voluntarily.

Taxpayers are aware of the difficulties in contacting HMRC regarding tax and VAT matters. Having an adequately resourced and dedicated contact point to assist business owners with queries concerning direct debit payments could encourage uptake among taxpayers who are currently resistant to using direct debits.

Overall, before introducing mandatory Direct Debit, HMRC should demonstrate that the identified benefits cannot be achieved through improved awareness, better guidance, targeted communications and removal of existing barriers to voluntary adoption.

4.11 Question 15: If you have chosen to use methods of electronic payment other than Direct Debit, are there particular benefits in your chosen method of payment that informed a decision to use these instead of Direct Debit?

4.12 As outlined in our responses to Questions 10 to 14, businesses may prefer alternative electronic payment methods because they provide greater control over the timing of payments and support cash-flow management. Businesses may also prefer to make payments manually where they have internal procedures requiring payments to be reviewed and authorised before funds leave the business account.

4.13 Question 16: Are you currently excepted from submitting VAT returns electronically?

4.14 Not applicable

4.15 Question 17: What barriers or impacts might you face by making VAT payments by Direct Debit?

4.16 We refer HMRC to our responses to Questions 10 to 14, which set out the key barriers and impacts identified by our members.

In addition, the Consultation document does not appear to consider how VAT liabilities arising from error corrections, amendments, or HMRC assessments would be handled under a mandatory Direct Debit regime. In practice, genuine errors can occur on both the taxpayer's and HMRC's side, and liabilities may be subject to dispute or appeal. If such amounts were automatically collected by Direct Debit, there is a risk of creating cash flow difficulties for businesses, particularly where the liability is subsequently found to be incorrect.

We therefore consider that amounts arising from amendments, corrections, or HMRC assessments should not automatically be collected by Direct Debit until the taxpayer has provided approval. This is especially important where an HMRC assessment is being challenged or is the subject of an appeal.

The Consultation should also consider the administrative burden that could arise where amounts have been collected incorrectly and subsequently need to be refunded or adjusted. Such situations could create additional costs and complexity for both taxpayers and HMRC.

4.17 Question 18: If you have set up a Direct Debit using VATC9 form or on your online VAT account and currently pay VAT by Direct Debit:

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

4.18 We have not received any member feedback on whether this would have an impact.

4.19 Question 19: Are there any particular customer groups (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) likely to be disproportionately affected? If so, please explain how.

4.20 Yes.

Small businesses and businesses with volatile or seasonal cash flow may experience greater impacts because they often rely on actively managing the timing of outgoing payments. Removing flexibility over payment timing may create additional cash-flow pressures, particularly where businesses have sufficient funds overall but cannot guarantee funds will be available in the specific account linked to the Direct Debit mandate on the collection date.

The consultation acknowledges that certain groups are currently exempt from the requirement to file VAT returns online, including members of religious societies whose beliefs are incompatible with electronic communications, those subject to certain insolvency procedures, and those for whom online filing is not reasonably practicable because of disability, age, remote location or other valid circumstances.

These groups may also face difficulties in operating a mandatory Direct Debit arrangement. In many cases, the factors that justify an exemption from digital filing may also make it more difficult to establish, manage or monitor Direct Debit payments.

We are concerned that introducing separate rules for Direct Debit and online filing could create unnecessary complexity and confusion for taxpayers. HMRC should seek to ensure that any exemptions and alternative arrangements are aligned wherever possible and clearly communicated to taxpayers.

Overseas businesses without UK bank accounts will require appropriate alternative payment arrangements.

Some groups may face barriers because of a lack of awareness, confidence or trust in Direct Debit arrangements rather than because they are unwilling or unable to adopt the payment method.

4.21 Question 20: What, if any, barriers might you face or impacts might you experience on your accounting processes/business if POA instalments were collected by Direct Debit?

4.22 Businesses within the Payments on Account (POA) regime are generally larger businesses and will often operate established financial controls and approval processes. While these businesses may have greater administrative resources, this does not mean that changing payment methods will be straightforward or without impact.

Businesses should be provided with sufficient notice, clear guidance and an appropriate implementation period to allow them to review and adapt their internal procedures.

4.23 Question 21: What benefits, if any, do you foresee if POA instalments and the balancing payments were collected by Direct Debit?

4.24 We have not received specific member feedback regarding the collection of Payments on Account (POA) instalments and balancing payments by Direct Debit.

However, as set out in our response to Question 13, we recognise that Direct Debit may provide benefits for some businesses. These benefits are likely to be similar for businesses within the POA regime. However, the existence of these potential benefits does not, in itself, demonstrate that mandatory Direct Debit is necessary or proportionate. We believe that these benefits can be achieved through improved awareness, better guidance and increased voluntary adoption.

In addition, any assessment of benefits should take account of the potential operational impacts identified in our response to Question 10 to 14, including the effect on businesses with established financial controls, cash-flow management processes and more complex payment approval arrangements.

4.25 Question 22: If your VAT liability fluctuates above and below £20 million within a tax year please explain the typical range, frequency of fluctuation under and over £20 million and why this varies

4.26 HMRC is likely to hold significantly better data regarding the number of businesses affected, the frequency of fluctuations around the £20 million threshold and the operational implications of applying different payment methods depending on liability levels.

We encourage HMRC to carry out analysis, specifically on:

- The number of businesses expected to move above and below the threshold;
- How frequently businesses are expected to change payment requirements;
- How HMRC systems will identify and communicate changes in payment obligations; and
- The administrative impact on businesses required to change payment methods due to temporary fluctuations in liability.
- Targeted questionnaires to VAT registered businesses not currently settling their quarterly liabilities by direct debit.

Where payment requirements change because a business's VAT liability fluctuates, taxpayers will need clear and timely information and guidance to understand which payment method applies. HMRC will also need to ensure that its systems can accurately identify when a taxpayer moves above or below the threshold and communicate any change in payment requirements promptly. Businesses should not face interest or penalties where they have acted reasonably but have not been given sufficient notice of a change in requirements.

Where a business's VAT liability fluctuates above and below the £20 million threshold, taxpayers will need certainty regarding when the mandatory Direct Debit requirement applies and when alternative payment methods remain available.

5 Direct Debit for PAYE

5.1 **Question 23: Prior to this consultation, were you aware that payments of PAYE could be made automatically by Direct Debit, following an RTI return?**

5.2 Some of our members are aware that PAYE liabilities can be paid via Direct Debit. However, as tax professionals, our members are likely to have a greater awareness of HMRC payment methods than the wider business population. We therefore do not consider our members' level of awareness to be representative of employers generally.

We refer to our response to Question 10 regarding the wider issues of taxpayer awareness, HMRC communications and the evidence base underpinning this proposal, which would similarly apply for PAYE.

The Consultation states that, following the Spring Statement 2025, HMRC updated its guidance[5] to make Direct Debit the primary method of payment for PAYE, National Insurance and employer penalties. However, the guidance currently published on GOV.UK does not describe Direct Debit as HMRC's preferred payment method; rather, it lists Direct Debit as the first of a list of several available payment options. The guidance also does not clearly explain the benefits of paying by Direct Debit compared with the same day payment options.

5.3 **Question 24: How do you currently make payments of PAYE to HMRC?**

5.4 As a representative body, we do not comment on our own payment arrangements. However, the Consultation appears to confirm our understanding that the majority of employers make payments of PAYE and National Insurance electronically, such as by bank transfer (BACS, CHAPS or Faster Payment) or online using a debit/credit card. This allows them to take advantage of the three-day extended payment deadline compared to payments made by cheque.

5.5 **Question 25: If you have previously not paid on time, or paid with an incorrect reference, can you explain why this happened and would Direct Debit have helped prevent this?**

5.6 We refer to our response at Question 14 regarding the range of factors that can contribute to late payment. These include cash-flow difficulties, administrative issues, disputes regarding liabilities and other circumstances that would not necessarily be addressed through mandatory Direct Debit.

In relation to PAYE specifically, incorrect payment references can occur where employers misunderstand how payment references differentiate between a month and a quarter. In other cases, employers may reuse a previous payment reference, resulting in payments being incorrectly allocated by HMRC. HMRC also uses the same bank account for Corporation Tax and PAYE payments, so if an employer has recently paid Corporation Tax, a subsequent PAYE payment may be allocated incorrectly if the wrong reference has been saved or selected within the employer's banking system.

[5] https://www.gov.uk/pay-paye-tax

We have also received feedback indicating that HMRC has not always allocated a payment to the correct period or to the correct liability, even where the correct payment reference has been used by the employer. For example, an employer paying Class 1A National Insurance might be incorrectly pursued by HMRC if the payment is allocated to the PAYE and Class 1 National Insurance account, resulting in interest incorrectly being charged whilst the payment is reallocated. Resolving these matters can be remarkably time-consuming. We believe that difficulties in resolving such issues discourage the voluntary uptake of Direct Debit, as taxpayers often prefer to retain control over payments to ensure that the correct amount is paid and to avoid the need to seek repayments of overpaid tax, which can itself be a time-consuming and resource-intensive process.

Direct Debit may reduce some issues arising from incorrect payment references because payments are linked directly to the employer's PAYE account. However, it would not address the issues outlined in our response to Question 14.

5.7 Question 26: If you were aware of the option to use Direct Debit but haven't done so, please could you explain why?

5.8 We refer to our responses to Questions 10 to 14 regarding the reasons why businesses may choose not to pay by Direct Debit.

For PAYE specifically, employers who do not use Direct Debit are unlikely to see what additional benefits this payment method offers to them beyond other electronic payment methods. Many employers already have effective payment processes in place and are able to make payments accurately and on time using their preferred payment method.

Employers may also prefer payment methods that allow them to retain control over when and how a payment is made to HMRC, whereas under Direct Debit it will be HMRC who has control over payment timing.

5.9 Question 27: If you have used Direct Debit to make payments of PAYE to HMRC could you:

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

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

5.10 We have significant concerns over HMRC's ability to collect the correct amount via Direct Debit, particularly when there could be several Full Payment Submissions or Employer Payment Summaries are submitted, including additional submissions to amend any errors identified. Further complexities could arise in respect of the Construction Industry Scheme and it is unclear as to whether those deductions will be in the scope of the proposed mandatory Direct Debits.

The Consultation was silent on how HMRC would deal with disputes with employers over the PAYE and National Insurance payable for a period (for instance where HMRC disagrees with the amounts reported in the Full Payment Submissions or Employer Payment Summaries submitted by the employer) and how this could be resolved before a Direct Debit payment is taken from the employer's bank account. It may be the case that HMRC would refund any overpayment taken in error promptly, but it could instead adjust the next PAYE payment – in the case of employers paying quarterly, this could be a significant period of time and could cause cash flow difficulties.

We note that HMRC has a PAYE dispute resolution service[6], however this only commits to responding within 40 working days. This could be challenging if HMRC collects the amount it believes is due via Direct Debit in the meantime.

We also refer to our responses to Questions 10 to 14 regarding the wider benefits and drawbacks of Direct Debit. In particular, where an employer needs to contact HMRC to arrange a Time To Pay agreement for their PAYE and National Insurance before payment is collected, it is unclear whether HMRC could guarantee that any scheduled Direct Debit collection would be cancelled immediately. Given the short timescales involved, there is a risk that payment could still be collected before the arrangement takes effect, potentially creating cash-flow difficulties for the business.

5.11 Question 28: If you currently pay PAYE by Direct Debit to what extent does the later payment date influence your decision to use this method, compared with other factors?

5.12 Anecdotal feedback would indicate that employers are generally comfortable with the existing three-day extension offered for electronic payments, whether Direct Debit or otherwise. Payment by bank transfer (BACS, CHAPS or Faster Payment) or by debit/credit card gives the employer control, whereas the control under Direct Debit is passed to HMRC. They remain to be persuaded as to the advantages for them for paying via Direct Debit.

5.13 Question 29: If it is made mandatory to make payment of PAYE by Direct Debit, what impact, if any, might this have on your business?

5.14 We refer to our response to Question 14 regarding the wider impacts that mandatory Direct Debit could have on businesses.

5.15 Question 30: Are you currently excepted from submitting electronic returns for PAYE?

5.16 Not applicable

5.17 Question 31: Please explain any barriers or challenges, if any, that you may face in making PAYE payments by Direct Debit?

5.18 Please see our response to question 25 and 27.

5.19 Question 32: Are there any impacts on particular groups of taxpayers (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) that need to be addressed? How do you suggest we can overcome these?

5.20 We refer to our response to Question 19 regarding the potential impacts on particular groups of taxpayers and businesses.

We note that the requirements for electronic payment currently differ between VAT and PAYE. For example, VAT legislation links the requirement to pay electronically to the requirement to file online, whereas different rules and exceptions apply in relation to PAYE. These variations can add complexity and create confusion for taxpayers, particularly those with obligations across multiple taxes. HMRC should seek to align approaches across taxes wherever possible and clearly communicate any exceptions that apply.

More broadly, simplifying and aligning payment requirements across taxes could make compliance easier for taxpayers to understand, reduce administrative burdens, and help minimise errors and late payments.

[6] https://www.gov.uk/guidance/get-help-to-correct-an-employer-paye-bill

5.21 Question 33: Have you ever made a payment of PAYE over £20million?

5.22 Not applicable

5.23 Question 34: If yes to 33, if you fluctuate above and below £20million please explain the typical range, frequency of fluctuation under and over £20million and why this varies?

5.24 Not applicable

5.25 Question 35: If yes to 33, what is the lowest regular payment you have made in the past 3 years?

Not applicable

6 Incentives to encourage uptake and sanctions for non-compliance

6.1 Question 36: What are your views on the use of penalties where VAT or PAYE is not paid by Direct Debit, including whether any penalty should apply on each occasion a payment is not made by Direct Debit, or if penalties should operate on a cumulative basis?

6.2 We do not support the introduction of penalties solely because a taxpayer chooses to use an alternative payment method and the correct amount of tax has been paid in full and on time.

The purpose of penalties within the tax system should be to encourage compliance with tax obligations. Where a taxpayer has paid the correct amount by the deadline, it is difficult to justify a financial penalty based solely on the method used to make payment. Such an approach risks undermining perceptions of fairness and proportionality within the tax system. There is already a penalty regime for late payment, introducing an additional penalty regime based solely on the payment method used would add further complexity to the tax system and could result in otherwise compliant taxpayers being subject to penalties despite no loss of revenue arising to HMRC.

The Consultation does not provide sufficient evidence that the use of alternative payment methods is a significant cause of late payment. In particular, HMRC has not provided analysis showing the proportion of late payments attributable to the payment method used, compared with other factors such as cash-flow pressures, business circumstances, administrative issues or HMRC system issues.

We do not support restricting the existing seven-day extension for electronically submitted VAT returns and electronic payments so that it is available only where payment is made by Direct Debit. The extension was introduced to recognise electronic submission and payment, and we do not believe there is sufficient justification for removing it from businesses that continue to make timely electronic payments using other approved methods.

We also do not support restricting the existing extended PAYE deadline of the 22nd of the month where a business uses electronic payment, so that it only applies to those employers paying by Direct Debit.

We recognise that Direct Debit can provide benefits for many businesses. However, we would suggest these benefits do not justify penalising compliant taxpayers who choose another approved electronic payment method.

If mandatory Direct Debit is ultimately introduced with a penalty regime, we would strongly recommend any compliance approach should include a substantial and well communicated soft-landing period. No penalties should arise where taxpayers are making genuine efforts to establish Direct Debit mandates, where implementation issues arise, or where failures result from HMRC systems or banking issues outside the taxpayer's control.

Where a taxpayer intends to use Direct Debit for VAT and submits their return within the permitted timeframe, but the Direct Debit subsequently fails due to matters outside the taxpayer's control, there is a risk that the taxpayer could face both late payment and late submission consequences (if the seven day filing and payment extension is removed). In such circumstances the taxpayer should be given the opportunity to resolve the issue and should not be subject to interest and penalties.

We also note that HMRC's Transformation Roadmap[7] refers to incentivising customers to pay their tax on time. Introducing penalties for taxpayers who have paid the correct amount of tax on time using another approved payment method appears difficult to reconcile with HMRC's stated objective of incentivising customers to pay their tax on time. HMRC should demonstrate why improved awareness, better communication and targeted interventions would not achieve the desired increase in voluntary Direct Debit adoption.

Currently, where a return is submitted electronically, an additional seven day extension applies to payment of liabilities arising from the same return by electronic means. Once a Direct Debit is set up through the VAT online account, payment is collected three days after the due date and HMRC notify businesses of the date and amount of the Direct Debit payment no later than three working days before collection. Therefore, where a return is submitted electronically and a Direct Debit is in place, there is currently an additional period of three days before payment is collected. We believe this could itself act as an incentive for businesses to adopt Direct Debit and should be promoted more clearly rather than removing flexibility from taxpayers using other compliant payment methods.

6.3 Question 37: What challenges, if any, might arise from having different VAT or PAYE payment dates depending on the payment method used?

6.4 Different payment deadlines depending on the payment method are likely to increase complexity and taxpayer confusion rather than simplify compliance.

Businesses, agents and software providers would need to manage multiple payment deadlines depending on how a taxpayer pays. This increases the risk of confusion, particularly for agents acting for large numbers of clients using different payment methods. It could also increase administrative costs, create additional training requirements and generate avoidable payment errors.

Varying submission deadlines may also create uncertainty where businesses change payment methods or where Direct Debit arrangements fail unexpectedly or for reasons out with the control of the business, including potential issues with HMRC's Direct Debit systems. In these circumstances, taxpayers could inadvertently miss a deadline despite intending to comply.

There is also a risk that mandatory Direct Debit could encourage businesses to alter their behaviour rather than improve payment compliance. Some businesses may establish separate bank accounts for Direct Debit payments and only transfer funds into those accounts when they are ready to pay. Others may delay submitting returns in order to manage cash-flow timing. Such behaviours could create additional compliance risks and undermine HMRC's objective of encouraging timely filing and payment.

[7] https://www.gov.uk/government/publications/hmrc-transformation-roadmap/hmrcs-transformation-roadmap

If HMRC's objective is to simplify the payment process, making further changes to the statutory payment dates according to payment method appears inconsistent with this, as well as HMRC's stated objective of incentivising customers to pay their taxes on time as set out in the transformational roadmap. The existing arrangements already give incentives for making payments electronically, including by Direct Debit.

6.5 Question 38: What other incentives or sanctions could be considered to encourage payment of VAT and PAYE by Direct Debit?

6.6 We believe HMRC should prioritise measures that encourage voluntary adoption before considering mandation. This should be supported by a campaign to raise awareness amongst VAT registered businesses and employers.

If HMRC remains concerned about repeat late payers, a more proportionate approach may be to require Direct Debit only where a taxpayer has demonstrated a pattern of repeated late payment over a specified period. This would focus intervention on taxpayers presenting a compliance risk rather than imposing additional requirements on compliant businesses that already pay accurately, on time and using the correct HMRC reference.

The Consultation does not provide sufficient evidence that low Direct Debit take up is caused by unwillingness from businesses to use the facility. An alternative explanation may be a lack of awareness, limited promotion and understanding of the benefits, concerns regarding HMRC processes, or practical barriers within the Direct Debit set up process. Potential bank charges may also act as a practical barrier to Direct Debit take-up. For example, charges can arise if a Direct Debit payment fails or if the payment causes an account to become overdrawn.

Before introducing sanctions, HMRC should seek to understand why voluntary uptake has remained lower than expected and address those barriers.

Measures that could encourage voluntary adoption include:

- Improving awareness that Direct Debit is available and explaining its benefits more clearly through HMRC guidance, digital services and targeted communications;
- Ensuring that HMRC guidance clearly explains that Direct Debit is the preferred payment method and the practical benefits it provides for the business as well as HMRC;
- Targeted communications for businesses that continue to pay electronically but do not currently use Direct Debit;
- Considering whether agents could be permitted to assist with setting up Direct Debits on behalf of clients, removing an existing practical barrier;
- Working with software providers to explore whether Direct Debit registration could be integrated into the return submission process;
- Providing greater transparency around the Direct Debit process, including confirmation of collection dates, payment notifications and the procedures followed where collections fail or errors occur; and
- Working with representative bodies, agents and software providers to promote the benefits of Direct Debit and encourage voluntary uptake.
- Greater accessibility to HMRC staff and in particular, a dedicated telephone helpline to help with Direct Debit payment queries and problems.

We consider these approaches more consistent with HMRC's policy objectives. Mandatory Direct Debit should only be considered as a last resort.

7 Contact details

7.1 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 us at atttechnical@att.org.uk.

The Association of Taxation Technicians

8 Note

8.1 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.