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TIMELY PAYMENT

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 call for evidence *Timely Payment* ('the call for evidence') issued on 23 March 2021[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 Altering the frequency and/or calculation of tax payments would be a major change for affected businesses and individuals. We therefore welcome the fact that this call for evidence is taking place at an early stage in the consultation process, as well as the commitment not to introduce any changes within the present Parliament.

1.4 Overall, whilst we recognise there may be benefits to the Exchequer and some taxpayers of bringing tax payments closer to real time, we are concerned that these benefits could be outweighed by the practical and cash flow problems arising from making any such change compulsory. We would therefore recommend that, for income tax and corporation tax:

- As an initial step, the existing Budget Payment Plan is improved and access to it widened [see 2.4].
- Any changes to the frequency of tax payments should not be compulsory, but instead optional with incentives to drive participation [see 2.3 and 2.5].
- Instalment payments should be based on the tax liability of the previous year, rather than in year data [see 4.1 to 4.5].
- If the frequency of tax payments were to be increased, payments should not be required more often than quarterly [see 4.33 and 4.34].

1.5 We have set out our response to the specific questions posed by the call for evidence in Sections 2 to 6 below. Please note we have not responded to or listed out all of the questions in the call for evidence, only those where we have material comments to make.

[1] https://www.gov.uk/government/consultations/call-for-evidence-timely-payment

1.6 In our response, we have focused on the potential impact of moving to more timely payment for income tax self-assessment (ITSA) and corporation tax self-assessment (CTSA). Unless indicated otherwise, our comments below should therefore be read as referring to payments under these regimes.

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

2 Chapter 2: Principles

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

2.1 We agree that some businesses may find the ability to make more frequent and timely tax payments useful when it comes to budgeting for their tax bill. However, other businesses are likely to be less attracted to such an ability and might indeed conclude that any such requirement would have a negative impact on their business.

2.2 As acknowledged in paragraph 2.23 of the call for evidence, a lack of flexibility to dip into the money set aside for tax purposes may mean business struggle to cover unexpected one off expenses or capital expenditure. Other reasons why a business may not welcome more timely tax payments are set out throughout this response.

2.3 We would therefore recommend that more timely tax payment be offered on a <u>voluntary</u> basis only, and not be made compulsory. This would allow those businesses who would stand to benefit from earlier tax payments to do so, without imposing potential cash flow issues or extra administrative burdens on those businesses for whom it would provide no advantage and who wish to continue to pay on the current basis.

2.4 As a starting point, we agree that more should be done to improve and promote awareness of the existing Budget Payment Plan ('BPP'). From discussions with our members and the general public, the existence of the BPP appears to be little known, and consequently severely under-used. This may, in part, be due to a lack of visibility – if you enter 'HMRC Budget Payment Plan' into a search engine the top hits direct you to information on the wholly different Time-to-Pay arrangements, with no clear route to information on the Budget Payment Plan. The low take-up may also be due in part to the lack of flexibility in requiring regular payments to be made. We would recommend expanding this offering so that it is available to small companies as well as individuals and so that it allows taxpayers to choose to make payments as and when they are able, rather than requiring a regular contribution.

2.5 To encourage take-up of voluntary options for more timely payments (as distinct from the BPP), consideration should be given to offering some form of incentive to taxpayers. This does not necessarily have to be financial in nature, but could instead be something in the form of extended return filing deadlines, earlier closure of enquiry windows, quicker repayments of overpaid amounts or some facility that was likely to be of particular benefit to the relevant early payers.

2.6 As set out below at 4.1 to 4.5, whilst we can see the attraction of tax payments being based on up-to-date, in year, information, we believe that for many businesses this is likely to be outweighed by the practical difficulties of calculating tax liabilities within the year. We do not believe that MTD quarterly updates can be reliably used for these purposes, for the reasons set out at 4.12 to 4.14 below. We would therefore suggest that any movement to more frequent tax payments be based on the position in the previous year, as is currently the case for ITSA payments on account (POAs). This would, as acknowledged in paragraphs 2.34 to 2.40 of the call for evidence, be in line with the majority of international comparators.

Question 2: Please provide a narrative, with examples if possible, of any other benefits, challenges or impacts which you consider should be of central concern when looking at this proposal.

2.7 One of the key impacts of a move to more timely payment would be on the cash flow of businesses. We have commented on this issue in more detail in section 5 below.

2.8 A further concern is the administrative implications of any such change. Any move to more timely payment should not result in smaller companies and individuals effectively being required to complete four mini-tax calculations a year, something which would impose an unduly heavy administrative burden.

2.9 We acknowledge that those companies subject to the Quarterly Instalments Payments (QIPs) regime are already required to carry out such calculations. However, these will generally be larger and more sophisticated companies or groups which are likely to have either the internal resources and expertise to carry out these calculations in house, or the funds to pay an advisor to carry them out. This will not be the case for the majority of smaller businesses.

2.10 One practical area which would need to be carefully considered before implementing any move to more timely payment would be the interaction with existing rules which deduct tax at source from business income – for example the Construction Industry Scheme (CIS) and off-payroll working regime. Whilst it may be possible to carve out CIS or off-payroll working income from timely payments, the overall position is likely to be complicated where an individual or company has a number of contracts in one tax year, only some of which fall within those regimes.

3 Chapter 3: Overview of Current Regimes

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

3.1 A main advantage of the current payment timings, in addition to familiarity, is that they allow businesses greater flexibility in terms of cash flow. This can be useful in terms of funding working capital, as well as covering large one-off or unexpected business expenses. For example, a trader may need to replace or repair a key piece of machinery which has broken down, or a landlord may need to rectify damage caused by a tenant or deal with an unexpected repair bill.

3.2 Calculating and paying tax on an annual basis also effectively ensures that any fluctuation in the level of income and expenses from month to month or quarter to quarter is smoothed out. Examples of where this is particularly helpful include seasonal businesses, those who purchase stock which is not sold immediately, businesses which are expanding rapidly (with increasing staffing and overhead costs) and those with material annual expenses (such as insurance premiums). For these businesses, calculating and paying tax more frequently could lead to underpayments in some periods and overpayments in others.

3.3 Finally, our members report that the current practice in ITSA of linking POAs to the tax position in the prior year can act as an incentive to taxpayers to file their tax returns early.

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

3.4 We acknowledge that, given the amount of time which can expire between earning money and paying tax, some businesses may struggle to budget for their tax bills. However, we believe that this could be best addressed by encouraging businesses to use voluntary options to save for their tax bill (for example by setting up a separate bank account or using the BPP) rather than making widespread changes for all taxpayers.

3.5 One area of complexity with the existing ITSA POA system is the impact of individuals transitioning into the system. For example, someone who was previously outside the scope of POAs, but comes within them for the first time due to their tax liability increasing, will often have a large amount of tax to pay in January, comprising the whole of the previous year's liability plus their first payment on account for the current year. Consideration should be given to smoothing this impact, for example by decoupling the date of the 31 January balancing payment from that of the first payment on account.

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

3.6 We note that paragraph 3.7 of the call for evidence refers specifically to the long time given to pensioners and employees to pay amounts under Simple Assessment. We agree it would be beneficial for such individuals to pay tax closer to the time of receiving the related income, but we would encourage HMRC to consider changes to the operation of tax codes so that fewer individuals are within Simple Assessment, rather than requiring more frequent payments to be made by this population through some other method.

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

3.7 The newly self-employed often face a particularly long gap between earning their first income and making their first tax payment. However, calculating and paying tax earlier may be complicated for these individuals. They may be unsure as to the likely level and pattern of their income in the early days of operation, could have significant set-up costs and run a heightened risk of making a loss overall. If they were previously employed, they also need to adjust to the sometimes significantly changed availability of funds in their bank account.

3.8 We therefore believe that better promotion of voluntary payment plans (as discussed at 2.3 to 2.5) is the best way to approach this issue.

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

3.9 Many of the benefits noted above at 3.1 to 3.3 for ITSA apply equally to CT. The impact of uneven income and expenses, long payment terms or purchases of stock which is not immediately sold are likely to be more common in CT than ITSA due to the lack of a cash basis and the mandatory use of the accruals basis.

3.10 As noted at 2.9, the current QIPs regime works well for larger companies which have the resources to deal with more frequent tax calculations. However, such a requirement would be unduly onerous for smaller companies.

3.11 With regards to the QIPs system, the approach of being able to 'true up' the tax calculation each quarter based on year-to-date performance is helpful in dealing with fluctuations in income and expenses. The only sanction for underpayment being interest charged at a relatively low level is also helpful, as this acknowledges that in-year calculations can only ever be an estimate. If HMRC were to move to a wider system of in year tax calculations for ITSA and CT, we would strongly recommend that these features be incorporated.

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

3.12 The points noted at 3.4 and 3.5 above with regard to ITSA, and the difficulties some businesses may face in budgeting for tax payments, can apply equally to CT.

3.13 However, one complicating factor for ITSA (discussed below at 4.9 to 4.11) which is absent for CT is the interaction of basis periods and the tax year. As CT payments are linked to the accounting period end date, rather than the tax year there is generally less of a discrepancy in the amount of time between income being earned and tax becoming payable than can be seen in ITSA.

4 Chapter 4: Handling More Regular Payment

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

4.1 We do not agree with this proposal. Whilst we can see the benefits in taxpayers making payments based on up-to-date in-year data, in our view these are outweighed by the potential practical problems and administrative burdens involved.

4.2 Both ITSA and CTSA are calculated on a yearly basis and do not naturally lend themselves to more frequent calculation and payment. While VAT is generally paid quarterly, this is a transactional tax which operates and is calculated in a very different way. Similarly, while employees have had tax deducted in real time under PAYE for many years, the position is more complicated for businesses which will have expenses (with variable predictability) to consider, as well as tax and accounting adjustments

4.3 As set out at 2.8 above, businesses should not effectively be required to prepare four mini tax computations a year. This would impose a disproportionate administrative burden and cost, especially on the smallest businesses.

4.4 As discussed at 4.12 to 4.14, we do not believe that quarterly updates provided under MTD are a reliable basis for making estimated tax payments. These considerations apply equally to management accounts, or other information which businesses are likely to already hold or prepare. Put simply, the complexity of the ITSA and CTSA rules mean that pure income and expenses alone are unlikely to give a reliable estimate of eventual tax liability for all but the most simple businesses.

4.5 Therefore, if any change were to be made, we would prefer something along the lines of that suggested in paragraph 4.13 of the call for evidence- i.e. an accelerated version of current ITSA POAs based on prior year liability, with a similar system for those smaller companies not within the QIPs regime.

Question 14: Do you have any initial comments on the benefits and challenges of different calculation options to meet diverse taxpayer needs versus one process for all taxpayers in scope?

4.6 Whilst having one process has attractions in terms of simplicity, it is important to acknowledge the diverse nature of the taxpayer population across ITSA and CTSA. It is difficult to imagine how a 'one size fits all' approach could be taken if more timely payment were to be mandated widely.

4.7 Introducing a flexible, voluntary system to encourage taxpayers to pay tax early would remove the need to develop different, complex rules for different groups of taxpayers. Ideally, under such a system, businesses would be able to flex their tax payments – for example taking the prior year as a starting point, but increasing or decreasing payments as their current year performance and cash resources indicate.

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

4.8 As noted above at 4.1 to 4.5, we would not support a strict requirement for taxpayers to make in year calculations. Even with a digital solution, time would still be needed to understand the requirements, identify and enter the correct data etc. We are also unsure as to how such a requirement would interact with proposed reporting requirements under MTD – it would not be a desirable outcome for a self-employed individual or landlord if they had to file four quarterly updates under MTD and also carry out four in-year tax calculations separately, regardless of whether a digital solution was available or not.

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

4.9 We note that the choice of year end of a business in ITSA can make a large difference to the time-lag between income arising and tax being due. For example, a business with a 30 April 2021 year-end will have until 31 January 2023 to make their final ITSA payment – 21 months after the accounting period end. By contrast, a business with a 31 March or 5 April year end will have only nine months between their accounting period and their final payment.

4.10 If a move was made towards in year tax calculation and payment, then the choice of year end would also have a large impact in terms of cash flow and practicality. For example, a business with a 30 April year end should be able to get a reasonable picture of what their chargeable profits for any tax year are likely to be at a fairly early stage. By contrast, a business with a 31 March or 5 April year end will have to wait until the end of the tax year and beyond before getting a similar impression.

4.11 We would therefore recommend that HMRC carefully consider reviewing the basis period rules before making a move towards more timely payment.

Question 20: Do you have any initial comments on the feasibility and benefits for MTD customers of paying in-year instalments towards their tax bill, informed by their quarterly MTD updates?

4.12 We do not believe that it is feasible for MTD quarterly updates to be used as a basis for calculating in–year tax instalments.

4.13 MTD quarterly updates are not required to include tax or accounting adjustments. Given the complexity of the CTSA and ITSA rules, it is highly unlikely that unadjusted income and expense figures will give a reliable indication of final tax liability.

4.14 Requiring MTD quarterly updates to be tax and accounting adjusted would impose an unreasonable burden on businesses – as noted at 2.8 above, we do not believe that they should effectively be required to complete four mini tax computations a year.

Question 21: Are there customers for whom MTD updates would be a particularly unreliable guide for in-year tax payments, and what alternative basis might be more reliable for them?

4.15 The vast majority of businesses will see some tax and / or accounting adjustments required to the income and expense figures reported under MTD. However, the following are likely to be particularly affected:

- Seasonal businesses
- Those applying the accruals basis
- Businesses with large disallowable expenses or private use adjustments
- Businesses buying stock where there is a gap between purchase and sale of stock
- Businesses incurring capital expenditure
- Businesses undergoing rapid growth contraction.

4.16 As noted in our response to the recent consultation on MTD for Corporation Tax[2], this is especially likely to be the case for companies, who have to apply the accruals basis, and may also have group or audit adjustments to take into account.

4.17 We would therefore recommend that, instead of basing in-year tax payments on MTD quarterly updates, any change be based on the prior year tax position, with an option to adjust this where necessary (i.e. similar to that which currently operates for ITSA POAs).

Question 22: Do you have any initial comments on how income and expenses could be reported in year for non-MTD customers or on a more frequent basis than required by MTD?

4.18 We are unclear as to the intended scope of the first part of this question – is it referring to, for example, self-employed individuals under the £10,000 MTD for ITSA threshold (many of whom won't be tax paying due to the availability of the personal allowance) or taxpayers who are within the ITSA regime due to receiving income such as interest or dividends? In either case it would seem there is limited benefit to be had from imposing extra reporting requirements on these individuals.

4.19 We note that paragraph 4.27 of the call for evidence refers to employees taxed under PAYE who incur deductible expenses. Our preference, here would be for claims for such expenses to be made on a standalone basis, rather than reflecting them in any timely payment estimates.

4.20 We would strongly recommend against requiring reporting of income and expenses on a more frequent basis than under MTD. MTD is already likely to present a significant administrative burden to taxpayers and their advisers and, as set out at 4.33 and 4.34, we would not like to see a requirement for payments to be made more frequently than quarterly.

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

4.21 The introduction of flat rate expenses may be a simplification for those who have simple businesses with predictable income streams and regular expenses. One such example might be a self-employed consultant who

[2] Making Tax Digital for Corporation Tax | The Association of Taxation Technicians (att.org.uk)

works from home and has minimal expenses beyond additional heating and lighting costs, printing and stationery etc.

4.22 However, applying flat rate expenses becomes more difficult for more complicated businesses who incur uneven or difficult to standardise costs, such as purchases of stock, wages and salaries or capital expenditure.

4.23 We would therefore strongly recommend that any flat rate system be made optional and available only to smaller businesses, in line with the flat rate scheme for VAT.

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

4.24 We note that paragraph 4.33 of the call for evidence states that the use of flat rate expense would not be suitable or necessary for businesses keeping and reporting their records under MTD. We are unclear as to why this would be the case and, if so, who would be the intended beneficiary of such a change given that the majority of businesses are expected to be within the scope of MTD at some point?

4.25 Whilst we appreciate that businesses in MTD will be filing income and expense information, we see the simplification benefit of flat rate expenses to be not in replacing the actual level of expenses incurred, but in providing a proxy for what proportion of those expenses are tax deductible. As such, we see no reason why being within the scope of MTD (and therefore filing unadjusted income and expense data) would necessarily prevent a business from using a simplification to determine their tax adjusted position.

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

4.26 Allowing flat rate expenses to dictate the final tax position of a business would be a major change to the computation of tax. As flat rates can only ever be a broad brush measure, there may also be concerns about the accuracy and fairness of tax liabilities computed in this way.

4.27 We therefore do not believe that there is particular merit in introducing flat-rate expenses. However, if they were to be introduced, they should replace actual expenses. Having one system for in year calculation, and a different system for final tax calculations is unlikely to be practical or cost effective for the smaller businesses who, as set out in our answer to question 27 below, would tend to benefit the most from the simplification they afford.

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

4.28 This would appear sensible, as flat rate expenses are likely to be least accurate for larger more complex businesses, and it is the smallest businesses who would benefit most from the reduced administrative burdens involved.

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

4.29 Recognising and reflecting annual reliefs, allowances and deductions is an area of particular difficulty when it comes to in-year estimations of tax payments. ITSA and CTSA are annual taxes, and therefore don't lend themselves to quarterly payments in same way as transactional taxes like VAT.

4.30 We note that paragraph 4.40 of the call for evidence describes how annual factors are handled in PAYE, but we note that the position is very different for ITSA and CTSA. For example, employees often have regular even payments of income with limited expenses or adjustments, and do not have to take into account issues such as capital allowances or losses.

4.31 Any in-year tax calculation would need to allow taxpayers to factor in the impact of reliefs such as the personal allowance, for example by allowing a relevant proportion of the annual amount to be deducted. With respect to capital allowances, businesses should be allowed to apply reliefs such as the Annual Investment Allowance (AIA) on a cumulative basis, i.e. assuming that all expenditure is covered until the annual limit is reached. Failure to do so could result in overestimation of tax liabilities.

4.32 These complications are a further reason why, as stated at 4.1 to 4.5, we believe that any move to more timely payment should be based on the prior year position, as is currently the position for ITSA POAs.

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

4.33 A move to a quarterly payment frequency would appear to strike an appropriate balance between assisting businesses with cash flow and minimising administrative burdens.

4.34 We do not believe that payments should be required more frequently than quarterly. That would be overly onerous for most taxpayers and our concerns expressed elsewhere in this response on cash flow issues and the difficulties of calculating in year payments would be magnified by any such move.

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

4.35 As noted at 4.7 we believe that any move to a timely payment system should be voluntary and relatively flexible. This would limit the potential for over-payments to arise, as taxpayers could choose to reduce or even cease making payments if it appeared that they had previously overestimated their eventual liability.

4.36 If overpayments were to arise, ideally taxpayers should be able to withdraw amounts from HMRC relatively easily. This would be particularly helpful where a business had incurred an unexpected large expense, or would like to use the money to invest in plant and machinery.

4.37 However, we appreciate there may be fraud concerns around allowing for such a drawdown mechanism. As discussed at 3.11 above, an alternative would be to adopt something akin to the CTSA QIPs regime, where taxpayers ‘true up’ each quarter and flex their payments accordingly.

4.38 Whatever system is adopted; it is important not to penalise underpayments harshly. As is currently the case with CTSA QIPs, a low level of interest could be charged but there should be no sanctions for underpayments where an individual or business has made reasonable efforts to estimate their liability.

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

4.39 The transition to more frequent payment would need to be very carefully considered in order to minimise adverse effects on business cash flow.

4.40 Wherever possible, payments under any new regime should be timed so as not to fall due at the same time as payments under the previous regime.

4.41 Alternatively, the possibility of allowing payments under the current regime to be spread across the instalments due in the first year of the new regime could be explored.

4.42 Whatever system was being phased in, it would be essential to give businesses and their advisers as much notice as possible of any change.

5 Cash-flow impacts

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

Our members report that they frequently advise their clients to set up a separate bank account to save money in to cover their eventual tax liabilities. This approach helps with budgeting, whilst also providing the flexibility to the taxpayer of being able to vary payments, or even withdraw amounts where these are needed in the wider business.

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

As noted at 2.4 we agree that HMRC should look to improve and expand the existing BPP. As set out at 2.5, consideration should also be given to the feasibility of some form of incentive for making tax payments earlier.

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

5.3 More timely payments may help some businesses manage their cash flow. For example a consultant who is paid relatively quickly after invoicing and has minimal expenses may welcome the opportunity to avoid having to pay a periodic large tax bill.

5.4 However other businesses are likely to find that timely payment has a negative impact on their cash flow. For example, those that:

- buy stock, especially where there is usually a gap between purchase and sale of stock;
- are looking to invest in their business and / or incur significant capital expenditure and/or are expanding rapidly;
- receive an unexpected large expense (e.g. a bad debt, or having to replace or repair essential equipment);
- are not paid straight away and invoice on credit.

All of these businesses may experience a squeeze on cash flow if they are expected to pay tax over to HMRC more frequently, rather than having the flexibility to use those funds in their business.

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

5.5 Please refer to our answer to question 36 above and our comments elsewhere in this response.

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

5.6 Accruals accounting will exacerbate cash flow issues as more timely payment may require tax to be paid on income before the cash is actually received. This will be particularly problematic for those industries which have long payment terms as standard, or where bad debts are encountered.

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

5.7 We agree that some of the simpler case studies (for example the gig worker and tutor mentioned on page 31 of the call for evidence) correctly illustrate scenarios where timely payment, perhaps combined with a flat rate expense deduction, could be of assistance in managing cash flow.

5.8 However, other examples illustrate some of the issues we have noted elsewhere in our response, and in our view strengthen the case for any changes to be voluntary and not compulsory.

5.9 For example, the 'landlord' case study on page 32 of the call for evidence illustrates our concerns over the implications of dealing with one-off unexpected expenses where more timely payment is required. The case study says that *"Sometimes Olga uses her tax savings to pay larger maintenance bills when they arise, so it can still be stressful for her to receive large tax bills"*. However, we would argue that it is equally a problem that, if Olga has paid tax on a more frequent monthly or quarterly basis, she may not have the funds available to cover one-off maintenance costs (such as rectifying damage caused by a tenant when they have moved out or unexpected repairs). This could limit her ability to let out the property and generate future rental income.

5.10 In the shop keeper case study on page 32 of the call for evidence, concerns are expressed around the ability to buy stock where tax is paid more frequently. Again we believe this underlines the importance of a voluntary rather than mandatory approach.

5.11 In the 'business professional' case study on page 33 of the call for evidence, it is stated that the taxpayer finds the existing ITSA process very tedious and would like to spend less time managing tax affairs, a sentiment which many business owners are likely to share. However, that desired outcome would not result if there was a strict requirement to make estimates of in-year tax position is introduced. This supports our recommendation at 4.1 to 4.5 that any new payment regime should be based on prior year information, with the option for this to be flexed as needed based on current year projections.

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

5.12 As noted in our response to question 36 above, typical things which a business may use funds that will be due as tax for include:

- purchasing stock;
- covering one-off, or unexpected expenses
- investing in the business and making capital expenditure;
- covering short term liquidity issues arising from invoice payment terms.

6 Chapter 6: Wider Questions

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

6.1 We are not aware of any other taxes which would lend themselves to more timely payment. As noted in the call for evidence, many indirect taxes are payable on a quarterly basis already, whereas other taxes such as stamp duty are payable within a short time frame of the relevant transaction.

6.2 We would not recommend any changes to the timing of inheritance tax payments given the complexity of the issues that can arise in that tax, and the sensitivities of dealing with bereavement.

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

6.3 We do not believe there is merit in exploring the potential for more timely payment of CGT.

6.4 For UK residents, with the exception of the rules for UK residential property, CGT is paid in a lump sum following the end of the tax year because, as the rules stand, the position is calculated based on the net of the gains and losses for the year. CGT is not a transactional tax, and therefore does not lend itself to regular payments following each disposal. The final position cannot be known until the taxpayer's income has been established and all their gains and losses of the year identified and reliefs such as the Annual Exempt Amount offset. Unless the Government intends to amend the rules to tax individual disposals (which would be exceedingly onerous in the case of share disposals and transactions in cryptoassets which can occur in significant volume and frequency) then this would appear to be a sensible status quo and we see no benefit in considering a change of deadline in the longer term.

6.5 The introduction of the '30-day reporting' rules for UK residential property for UK residents and the UK Property Reporting Service has received almost universal negative feedback from our members, all of whom report concerns that people are simply not aware of the new rules and most of whom have also reported that the requirement in effect to report property disposals twice has dramatically increased administration costs for them and their clients.

6.6 The UK residential property service as a standalone system does not interact with the self-assessment process, making it difficult for those who have overpaid on the disposal during the year to recover or offset that repayment at the end of the tax year and we would not wish to see further extensions of this sort.

6.7 Where there may be some benefit for those with simpler affairs – for example where a disposal is very much a one-off event (such as sale of an inherited asset) and the taxpayer's income, perhaps through PAYE, is more certain - then we can see merit in extending the voluntary 'real time' CGT transaction service in the manner suggested by the OTS in their latest CGT report[3] to make it a standalone service, accessible by agents and governed by clearly defined rules. Enhancing this service, on a purely voluntary basis may well be of benefit to some taxpayers, but without introducing unnecessary complexity and administrative burden for all those who make disposals subject to CGT.

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 our relevant Technical Officer, Emma Rawson on 07392 824718 or erawson@att.org.uk .

The Association of Taxation Technicians

[3] See page 14 of https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/987994/Capital_Gains_Tax_stage_2_report_-_May_2021.pdf

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 9,000 members and Fellows together with over 6,000 students. Members and Fellows use the practising title of 'Taxation Technician' or ‘Taxation Technician (Fellow)’ and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.