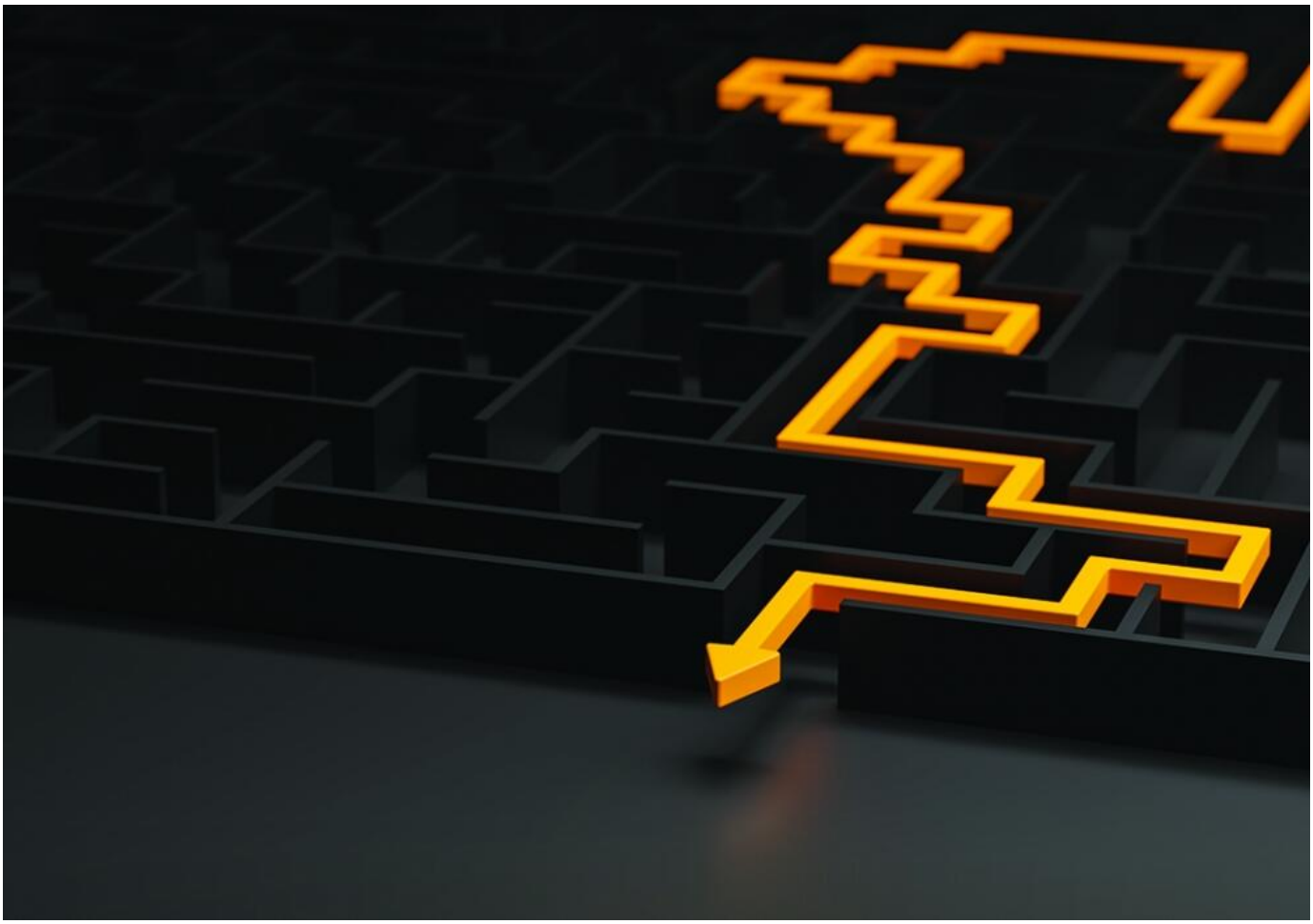
Make your way through the maze

OMB Personal tax



01 December 2020

Sharron West explains how HMRC can help taxpayers to manage their liabilities during Covid-19

Key Points

What is the issue?

Taxpayers who have suffered financially due to the Covid-19 pandemic may be worrying about how they are going to pay tax liabilities that will become due in the early part of 2021. This article explains how HMRC can help.

What does it mean for me?

You will know the options available to spread payment of liabilities and be able to advise accordingly.

What can I take away?

Encourage taxpayers who will have a large tax bill due in January 2021 to file their 2019/20 tax returns as soon as possible, and then make use of the online tool to set up a suitable time to pay arrangement if needed.

During these unprecedented times, many individuals and small businesses are suffering financially due to the Covid-19 pandemic, with less or no income, ongoing expenses, and some facing responsibilities for employees. Consequently, many taxpayers may be worrying about how they are going to be able to pay tax liabilities that will become due in the early part of 2021.

It has always been advisable to contact HMRC as soon as possible if there is a difficulty meeting a tax bill. HMRC often allows taxpayers to clear their tax bill by making regular payments over an agreed period of time, tailored to their specific circumstances. This is known as a ‘time to pay’ (TTP) arrangement.

HMRC explained its approach to TTP arrangements in the article ‘Practical assistance for struggling taxpayers’ (Tax Adviser, July 2020) and also published guidance on how such arrangements are set up in the policy paper ‘How HMRC supports customers who have a tax debt’ on 13 August 2020 (tinyurl.com/y3dseo4q). At the same time, HMRC published another policy paper, ‘How HMRC treats customers who have a tax debt’ which explains the various enforcement options available to HMRC if a TTP arrangement is unsuccessful (tinyurl.com/y4dlxuok).

HMRC says there are over half a million TTP arrangements in place at any one time and that 90% of these complete successfully.

Deferred tax payments from earlier in 2020

When the UK went into lockdown in March 2020, the chancellor announced two tax deferment options as part of the package of support available to individuals and businesses:

1. Defer payment of the income tax payment on account for 2019/20, due on 31 July 2020, until 31 January 2021.
2. Defer payment of any VAT due between 20 March and 30 June 2020 until 31 March 2021.

HMRC confirmed that no interest would be charged during the deferral periods, so taking advantage of these deferrals came at no cost to the taxpayer.

The ongoing effect of Covid-19 restrictions has caused HMRC to acknowledge that individuals and businesses may now need additional help to deal with payment of liabilities in 2021, including these deferred liabilities. Therefore, on 24 September it was announced that HMRC could now offer further support by allowing a TTP window of up to 12 months for most taxpayers, as well as simplifying the process to set this up. Below, we look in more detail at these measures.

Income tax payment due by 31 January 2021

For most taxpayers in self assessment, their tax payment due in January 2021 will be made up of the balancing payment for the 2019/20 tax year and the first payment on account for the 2020/21 tax year, as well as the deferred payment from July 2020. This could amount to a significant sum at a time when income and/or cash flow is stretched, particularly if taxable profits in the 2019/20 tax year were not substantially affected by Covid-19 and so remained at pre-pandemic levels, while current income has fallen.

Payments on account for 2020/21

Before setting up any kind of TTP arrangement in respect of the self assessment payment due on 31 January 2021, it is vital to ensure the amount that is the subject of the arrangement is accurate. This includes giving due consideration to reducing the payment on account element relating to the 2020/21 tax year.

For businesses in certain sectors which have been hit hard by the measures taken to try to contain Covid-19, it seems likely that taxable income for the 2020/21 tax year will be significantly lower than for the 2019/20 tax year. Therefore, on the face of it,

a claim to reduce the 2020/21 payments on account is likely to be relevant.

However, it must not be forgotten that taxable income in the 2020/21 tax year includes coronavirus support payments taxable under Finance Act 2020 Schedule 16, including those received under the Self Employment Income Support Scheme. This will affect the level to which payments on account should be reduced. In some cases where the effect of Covid-19 on businesses has been less significant, it may mean that it is not appropriate to reduce the 2020/21 payments on account at all.

Time to Pay arrangement

To support individuals who need time to pay after considering reducing instalment payments, HMRC is encouraging use of its online tool (tinyurl.com/y5ps9tm2) to set up an instalment plan for self assessment payments. The tool has been enhanced to deal with payments becoming due of up to £30,000 (increased from £10,000). The self-serve process means that provided the taxpayer meets all the relevant criteria, a short-term TTP arrangement can be put in place without having to discuss it with HMRC and without having to provide details of current income and expenditure.

However, unlike the original deferral rules, it is important to note that arranging an instalment plan with HMRC in this way does not avoid incurring interest charges. Interest (at 2.6% per annum at the time of writing) will still be charged from 1 February 2021 on amounts unpaid by 31 January 2021 until payment is received. However, late payment penalties should be avoided if an instalment plan is in place and is adhered to (or varied by agreement with HMRC).

The online tool can only be used once the 2019/20 tax return has been submitted and the tax payment due on 31 January 2021 quantified. Also, there must be no outstanding tax returns, debts or existing payment plans with HMRC. The payment plan must be set up within 60 days of the original payment date and payment must be made by direct debit.

Taxpayers need a government gateway account to use the tool. This can be set up at the beginning of the process if necessary. The tool asks whether or not the taxpayer wants to pay a lump sum upfront, the amount of the desired instalments and over what time period (up to the maximum of 12 months).

HMRC believes that around 95% of self assessment taxpayers due to make a payment by 31 January 2021 will be able to use this self-serve option. Those who do

not have online access or who cannot interact digitally with HMRC will still be able to discuss this option over the phone and set up a similar arrangement.

HMRC will still discuss arranging an instalment plan over a period of more than 12 months if this is required. This can be done either via the self assessment payment helpline

(0300 200 3822) or the coronavirus helpline (0800 024 1222). In this situation, HMRC is likely to need more information, such as current income and expenses details, before agreeing to a longer payment period.

We would welcome feedback on the online tool. You can email LITRG via: www.litrg.org.uk/contact-us.

VAT payment due by 31 March 2021

Payment of deferred VAT can be made at any time up to 31 March 2021 without incurring interest or penalties. However, if it now seems that payment by 31 March 2021 is going to be difficult due to the effects of Covid-19 on the business, HMRC will allow traders to use the VAT New Payment Scheme.

Under this scheme, payment can be made in monthly instalments in the period April 2021 to March 2022 and interest will not be charged (see tinyurl.com/yx247sum). At the time of writing, details of how to opt into this scheme are still to be published, but we expect more information to be available shortly.

HMRC will still consider an instalment plan over a period of more than 12 months if this is required. The Payment Support Service should be contacted to discuss this on 0300 200 3835.

Employers’ PAYE payments

There are no new specific provisions relating to PAYE which cannot be paid, but HMRC should consider sympathetically a request for a time to pay arrangement where the lack of funds to pay has come about due to Covid-19 related problems. Contact HMRC’s coronavirus helpline (0800 024 1222) to request this.

Individuals currently receiving tax credits or universal credit

Tax credits, universal credit or other means-tested benefits claimants who have tax bills to pay in January 2021 are unlikely to have much spare monthly income in respect of which a TTP arrangement could be made with HMRC. They should be advised to contact HMRC and explain their situation.

HMRC might then agree that they do not need to make any payments towards the tax bill in the short term. It is likely they will be asked to keep HMRC regularly updated as to their financial position (for example, calling them every three months) so the situation can be kept under review. When their income position changes and they are no longer in receipt of benefits, HMRC will expect a TTP arrangement to be put in place.