Confusing and complex Timely Payments plan could cause cash flow issues

Briefings

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Taxpayers could face cash flow issues under a plan to collect Income Tax Self Assessment payments through Pay as You Earn (PAYE).

CIOT, ATT and LITRG have each responded to the government's consultation, 'Timely Payments in Income Tax Self Assessment'.

The consultation covers two areas: paying Income Tax Self Assessment (ITSA) liabilities through PAYE, and paying ITSA liabilities directly on a more frequent basis. A key difference from the existing rules is the proposal to bring tax payment dates closer to the time when the taxable income is earned. Tax payments would be based on the most recently submitted tax return.

CIOT: risk of confusion and complexity

CIOT said the proposals risked adding complexity to the tax system, with Ruth Sadlier, CIOT Technical Officer, saying the plans could be especially troublesome for people whose income fluctuates during the year.

Sadlier said: ‘We are concerned that under these proposals, individuals attempting to update their ITSA estimates or who see changes to the level of their PAYE income could find themselves moved in and out of different payment systems. This could create confusion and the potential for sizeable under or overpayments of tax.’

She continued: ‘The government should not underestimate the practical impact of these proposals on taxpayers, agents, employers and HMRC itself.

‘[A] more appropriate route would be to develop flexible direct payment options for all ITSA taxpayers, supported by improved forecasting tools, clear Self Assessment statements, increased agent access and voluntary testing before any payment dates are brought forward.

‘Without that, a policy intended to make payment easier could end up making the tax system harder to navigate.’

LITRG: reforms should be voluntary

The CIOT’s Low Incomes Tax Reform Group (LITRG) also responded to the consultation, saying that while it supported the government’s objective of helping taxpayers manage their tax liabilities more effectively, which could offer ‘genuine benefits’, it did not support the collection of Self Assessment liabilities via the PAYE system unless this is voluntary or taxpayers are able to opt out.

LITRG stressed that any reforms must be introduced gradually, supported by piloting, robust evaluation and continued engagement with representative bodies. It also recommended measures including the promotion of existing budgeting tools, such as HMRC’s Budget Payments Plan.

ATT: transition could create cash flow difficulties

ATT has called on the government to reconsider the proposals in their current form, warning that they could result in some taxpayers paying two years' worth of tax at the same time.

Jon Stride, chair of ATT's Technical Steering Group, said that a 'transition' year for taxpayers, during which they would pay estimated liabilities monthly through PAYE while also making payments on account, would be confusing and create cashflow difficulties.

He said: 'Bringing tax payments closer to when income is earned may sound straightforward, but these proposals would make an already complex system even harder to understand. Many taxpayers will struggle to grasp why their PAYE deductions have increased, while also continuing to make payments on account under the existing rules during the transition year.'

CIOT response can be read here.

LITRG's response is available here.

ATT's response can be read here.