Timely payments in income tax self-assessment: CIOT, ATT and LITRG consultation responses

OMB Personal tax Employment Tax

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Responses from ATT, CIOT and LITRG to this significant consultation share concerns over the practicality of proposals for estimated self-assessment liabilities to be paid in-year, and the resulting burden on taxpayers, agents and payroll administrators.

HMRC's consultation on timely payments in Income Tax Self Assessment (ITSA) explored moving to in-year collection of estimated ITSA tax liabilities from April 2029, replacing the current system of payments on account (POAs) due in January and July.

The intention behind the proposals is to collect tax closer to the point at which income is received, helping to reduce the number of taxpayers paying late or struggling to pay at all.

The consultation first considered ITSA taxpayers who also have PAYE income, proposing that ITSA liabilities could be collected in-year via PAYE. The estimate used for deductions via PAYE would be based on the ITSA return filed by the previous 31 January – so deductions of forecast ITSA liabilities in 2029/30 would be based on the 2027/28 ITSA return. HMRC envisage that taxpayers or their agents would adjust the forecast ITSA liability to reflect changes in circumstances since 2027/28 to improve the accuracy of tax collected during 2029/30.

Proposals for taxpayers with either purely ITSA income, or with insufficient PAYE income to allow their forecast ITSA liability to be collected via payroll, are less advanced. The consultation stated that 'other ITSA taxpayers *could be affected* if timely payment changes are introduced' (emphasis added), whereas measures for those with PAYE income were confirmed at Budget 2025. While forecasts would operate in the same way as for ITSA taxpayers with PAYE income, considerations for ITSA-only taxpayers in the consultation primarily concerned the frequency of payments and what support measures might be needed.

ITSA taxpayers affected by the proposed reforms will have to deal with the tricky and expensive issue of the 'transition year'. Under current rules, ITSA taxpayers making POAs will have to make their first POA for 2028/29 by 31 January 2029, and their second for that year by 31 July 2029. In addition, the reforms would result in in-year payments for 2029/30 being due from April 2029, which would result in two years' worth of estimated tax payments based on the 2027/28 tax position falling due within broadly the same period. The consultation acknowledged this difficulty and invited suggestions on appropriate ways to support those affected.

Making Tax Digital (MTD) is a further complication. By April 2029, taxpayers with sole trade and/or property income of more than £20,000 will be submitting in-year data of that income and related expenses every quarter. The consultation invited views as to whether this data should form the basis of in-year payments. While this could provide a solution to the issue of tax payments being based on a two-year-old tax position, using data from quarterly MTD submissions carries its own challenges – not least because the data submitted might only reflect part of the taxpayer's income.

ATT's response: key points

In its response, the ATT urged HMRC not to proceed with the proposals, either for taxpayers with ITSA and PAYE income or for those with purely or predominantly ITSA income.

We argued that the proposed payment reforms are impractically complex and would impose too great an administrative burden on taxpayers, agents and payroll operators. Basing in-year payments on a two-year-old tax position would commonly lead to inaccurate tax collection, but expecting taxpayers to reliably update their forecast tax position is unrealistic. While agents may be able to assist in updating forecasts, digital services to enable them to do so need to be built first, and the impact on agents, both administratively and in terms of potential liability for inadvertent errors, should not be underestimated.

Collecting ITSA liabilities via PAYE codes also reduces choice and privacy for taxpayers, many of whom prefer to segregate tax payable on their employment from that due on private income sources. It also risks eroding confidentiality for taxpayers who do not want their employers to know they have other sources of income.

Regarding the potential use of MTD data, our response raised concerns over an inconsistent basis for in-year calculations, not only between taxpayers who are in and out of scope of MTD, but also where taxpayers move into or out of MTD. Timing of data flows would also be an issue – the first MTD quarterly update is not due until four months after the start of each tax year, so it is unclear how in-year payments in the early part of the year would be calculated. Furthermore, at this stage, it is too early to assess how accurate MTD quarterly data will prove to be.

Based on figures in the consultation, the envisaged benefit in reducing failure to pay appears to be relevant to just 6% of the overall ITSA population, while potentially having an impact on the 2.5 million who currently make POAs. The proposals also delay in-year receipts for HMRC, which may have a wider fiscal impact.

The proposals fail to meet five of the ATT's ten principles for the tax system. They are overly complex and impractical, potentially treat taxpayers with PAYE income differently from those with ITSA sources only, and create undue administrative burdens. We also consider that HMRC has failed to consult stakeholders adequately.

Our response recommended alternative ways to meet the policy objectives. The simplest option could be to require quarterly POAs rather than the current January

and July instalments, and to promote automated payments. Other suggestions included improving awareness of and incentives to use HMRC's Budget Payment Plan to encourage timely payment and increasing the £3,000 cap on collecting ITSA payments via PAYE.

The full ATT response can be viewed here.

LITRG's response: key points

LITRG's response focuses on the perspective of the unrepresented taxpayer. While we recognise that more frequent payments may help some taxpayers to budget more effectively, we do not support mandatory collection of ITSA liabilities through PAYE, due to the operational complexities of the PAYE system and the practical challenges likely to result from these reforms. If the proposals are taken forward, LITRG recommend that participation should remain voluntary or that taxpayers should have the ability to opt out.

We believe these proposals could lead to unexpected reductions in take-home pay and create significant problems for taxpayers, particularly those with low incomes. We point out that any new arrangements must include straightforward mechanisms for correcting deductions, varying payments where appropriate and responding to changes in taxpayers' circumstances.

LITRG is more supportive of reform to the current payments on account regime, which many taxpayers find difficult to understand. However, we outline in our response that any replacement system should be flexible enough to accommodate fluctuating and seasonal incomes and allow taxpayers to update their income estimates easily.

Like ATT, we also raise concerns about the potential use of MTD quarterly update data to estimate tax payments. Our response highlights practical issues with this proposal, while pointing out the risk of undermining taxpayer trust – particularly given HMRC's previous assurances that MTD would not in itself lead to more frequent tax payments.

Our response also highlights the interaction between the proposals and the benefits system, particularly universal credit. We believe that detailed modelling must take place to understand the impact of each proposal on universal credit awards,

thresholds and reporting obligations before any reforms are implemented.

The full LITRG response can be viewed here.

CIOT’s response: key points

The CIOT’s response made clear our support for the policy aim of spreading tax payments to make them more manageable, but we did not agree that the PAYE system was the right way to achieve this.

We noted that PAYE codes were poorly understood, prone to errors and limited in what they could achieve. Taxpayers with multiple sources of PAYE income, fluctuating levels of PAYE or ITSA income, changes to jobs or benefits in kind, or PAYE deductions close to the threshold would face unreasonable complexity and the potential for significant underpayments or overpayments of tax.

We suggested that the better starting point would be to improve ease of access to and awareness of existing direct payment options, encouraging taxpayers to familiarise themselves with these options ahead of more frequent payments being mandated.

In terms of more timely payments (bringing forward tax due dates), our concerns focused on the impact on those with tax due on income not yet received or tax due on overestimated profits. We echoed the ATT’s doubts about the feasibility of tax in real-time. We highlighted that such a requirement would, at the very least, need flexible payment options and efficient processing of in-year tax refunds.

The consultation proposed the use of MTD and third-party data to improve income estimates, allowing taxpayers to update their forecasts as frequently as needed. In response, we questioned the fairness of high interest charges for getting estimates wrong. We recommended lower late payment interest rates and repayment interest on more timely payments, as applies to corporate quarterly instalment payments.

Finally, we stressed that, despite HMRC’s Transformation Roadmap, major projects were seemingly being designed and implemented without sufficient regard to each other and the overall goals for our future tax system. Without a coherent plan, these reforms, coming on the back of MTD, payrolling of benefits in kind, e-invoicing for VAT, etc., could risk reducing trust in the tax system and leaving taxpayers,

employers and agents feeling overly burdened.

We are grateful to our members and volunteer community for their substantial contributions to the CIOT's response, which can be viewed here.

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