Requiring payment of VAT and PAYE return liabilities by Direct Debit: CIOT, ATT and LITRG responses

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The CIOT, ATT and LITRG have urged the government not to mandate payment of PAYE and VAT return liabilities by Direct Debit at this stage. Most taxpayers already pay the correct amount of tax on time using existing payment methods, including Direct Debit. The benefits of Direct Debit are already available to those who wish to use it voluntarily, and there is currently insufficient evidence that mandation would significantly improve payment compliance.

The CIOT, ATT and LITRG have responded to HMRC's consultation on requiring payment of VAT and PAYE liabilities by Direct Debit (tinyurl.com/yewmyykm).

CIOT's response

The CIOT does not believe that mandating payment of VAT and PAYE liabilities by Direct Debit should be introduced at this time.

While Direct Debit can be a convenient and efficient payment method for many businesses and employers, we do not think that making it mandatory would be a proportionate response to address compliance concerns relating to the small minority who do not pay on time, when most businesses and employers do.

We believe that the method of payment should remain a matter of choice for businesses and employers. In our opinion, mandation would result in a significant shift in control without any compelling evidence that the benefits to HMRC outweigh the risks to businesses and employers. It also risks penalising those that pay on time via other methods.

In relation to VAT, members have reported how time-consuming it can be to rectify payment misallocations and how mandatory Direct Debit would exacerbate the issue. We therefore recommended that instead of mandating Direct Debit for VAT returns, HMRC should focus on upgrading their infrastructure so that businesses, their agents and HMRC staff have the transparency and ability to reconcile online business tax accounts, especially when misallocations arise.

In relation to PAYE, we suggested that upgrades to HMRC's PAYE Real Time Information (RTI) system and related debt management systems are needed before even considering the mandation of Direct Debit collection. PAYE reconciliation issues, delays in resolving disputes and the misallocation of PAYE payments are all common complaints from our members. We believe HMRC's IT infrastructure needs investment and modernisation to address these issues if advisers and employers are to trust that HMRC will collect the correct amounts through Direct Debit.

We also suggested that payment by Direct Debit could be more widely publicised and encouraged by HMRC, and that any mandation should be limited to clearly evidenced risk groups.

The full CIOT submission can be found here: www.tax.org.uk/ref1720.

ATT's response

The ATT raised concerns about proposals to require VAT and PAYE liabilities to be paid by Direct Debit, arguing that the consultation underestimates the complexity of business payment arrangements and the potential impacts of mandation.

In its response to the consultation, the ATT recommends that HMRC should:

- not introduce mandatory Direct Debit payments at this time;
- undertake further research into the causes of late payment to assess whether mandation would address the underlying issues and represent a proportionate solution;
- increase awareness and promotion of voluntary Direct Debit payments and address barriers that currently discourage their voluntary adoption;
- recognise the complexity of business payment arrangements and the risk that businesses may change their behaviour in ways that undermine the policy objective;
- ensure robust safeguards are in place to protect taxpayers where payment failures or other problems arise due to HMRC systems, banking issues or other factors outside the taxpayer's control;
- not introduce penalties solely because a taxpayer chooses an alternative payment method, provided the correct tax is paid in full and on time; and
- consider whether targeted interventions for persistent late payers would be a more proportionate and effective approach than mandating Direct Debit payments for all VAT and PAYE taxpayers.

The full ATT submission can be found here: tinyurl.com/47p9ueb3.

LITRG's response

LITRG does not support making Direct Debit mandatory for VAT and PAYE payments, for many of the same reasons raised by ATT and CIOT colleagues.

Our response focuses on small and micro businesses, voluntary VAT registrants (such as those in the gig economy where registrations can be encouraged or facilitated by intermediaries) and individual employers, such as care and support employers. For these groups, mandatory Direct Debit payments raise a number of issues and questions, including:

- Reduced taxpayer control: taxpayers would have less control over how and when payments are made and the implications of HMRC, in effect, becoming a preferred automated creditor.
- Reduced flexibility: for example, mandatory collections could make it harder for taxpayers to use Time to Pay arrangements where needed.
- Risk of unintended payment failures: automatic payments could fail despite the taxpayer intending to pay, potentially leading to new HMRC compliance action.
- Unclear scope of mandatory collections: it needs to be clear which liabilities would be covered, including whether VAT assessments, as well as self-assessed liabilities, would be collected automatically.
- Risk of incorrect or duplicate collections: delays in refunds or corrections could cause significant financial difficulties for businesses and employers with limited financial resilience.

Our conclusion is that a voluntary payment method that taxpayers actively choose is likely to command greater trust, achieve better compliance and require fewer safeguards than one that is imposed. However, if HMRC decide to proceed, small and micro businesses, voluntary VAT registrants and individual employers should be considered for exemption. We also said that any mandatory scheme would need to be supported by improvements to HMRC's systems and processes and should not be enforced through penalties.

The full LITRG submission can be found here: tinyurl.com/5cakw4nw.

Matthew Brown *mbrown@ciot.org.uk*
Jayne Simpson *jsimpson@ciot.org.uk*
Chris Campbell *ccampbell@att.org.uk*
Autumn Murphy *amurphy@att.org.uk*
Meredith McCammond *mmccammond@litrg.org.uk*