04 August 2026

Timely Payments in Income Tax Self Assessment (ITSA)

Response from ICAS

Timely Payments in Income Tax Self Assessment

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 24,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 12,000 of our members are based in Scotland and 10,000 in the rest of the UK.

2. The following submission has been prepared by the ICAS Tax Board. The Tax Board, with its five technical Committees, is responsible for putting forward the views of the ICAS tax community; it does this with the active input and support of over 60 committee members.

3. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in tax and regulatory system design, and to point out operational practicalities.

General comments

4. We welcome the opportunity to respond to the HMRC consultation Timely Payments in Income Tax Self Assessment (ITSA).

5. The consultation notes that "The government recognises that the announced changes and possible further reforms represent a significant change in the way ITSA taxpayers make tax payments…". We are surprised therefore that the period for this response is so short. In our experience, the shorter a timeframe to gather feedback, particularly when there are a number of open consultations in place, the less capacity our members have to provide us with valuable feedback. A longer period in which to gather views and feedback on "significant change" would enable respondents to make the most robust contribution possible.

6. We note also that the consultation states that most UK taxpayers already pay their tax on a regular basis in-year through PAYE and that less than 1/3 of taxpayers who have PAYE and ITSA income will be affected by the announced changes, based on current estimates. We believe that the policy rationale and intention that taxpayers will be able to manage their ITSA liabilities more effectively, reducing tax debt and improving compliance are likely better achieved by moving all ITSA taxpayers to more timely payments outside PAYE.

7. The consultation notes that "taxpayers can currently amend POAs where there expected liability changes" though does not detail whether this is limited to amending forecasts downwards (as is the case now for reducing payments on account) with similar consequences in terms of interest and penalties. There is currently no requirement to amend payments on account upwards.

8. HMRC indicated during a roundtable discussion that there was a deliberate decision to take a broader view in the consultation rather than provide specifics on how the forecasting process would be implemented. We believe that the detail of the forecasting process is fundamental to bringing the position closer to the stated policy objective and is also relevant to a number of the questions posed in this consultation. A longer consultation period, with more detail on this aspect would have been preferable and more beneficial to the tax system in the longer term.

9. We recommend that the details of the process involved in how HMRC will require, or expect taxpayers (and their advisers) to update forecasts should be made available as soon as possible. These details should include the required/expected frequency of updating forecasts, as that imposes an immediate administrative burden, as well as consequences in terms of interest and/or penalties for taxpayers or agents consequent to this process. We believe that this process and these consequences should be subject to further consultation. As noted above, many of the questions posed in this consultation seem to us to be dependent on how this process is intended to work. Our responses have therefore been made in the absence of this detail.

Specific Questions

ITSA payments through PAYE

Question 1: What are the benefits of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

10. We recognise the potential benefits outlined in the consultation of bringing tax payments closer to the taxable activity in terms of the ability of taxpayers to manage their tax affairs more easily and reduce the likelihood of late payments or 'bill shock' for certain taxpayers.

11. As noted at point 4 in the ICAS response to the call for evidence on timely payment published on 23 March 2021, benefits can arise for business, HMRC and HM Treasury in more closely aligning tax payments with taxable activity.

12. A shift to collection of tax through PAYE to the employer or pension provider may assist individuals with ITSA liabilities to make tax payments as it does for those who can and currently chose to have ITSA tax liabilities collected through their PAYE code.

Question 2: What are the challenges of the proposed approach, or are there alternative suggestions that would achieve the same policy objectives?

Challenges with the proposed approach

Administrative burdens

13. As noted at point 46 in the ICAS response to the call for evidence on timely payment published on 23 March 2021, "The current system of payments on account gives a measure of certainty over forthcoming tax bills for an extended period of time. For example, once a current year tax return is completed for income tax, tax liabilities for the coming months can be known in advance." The announced changes and proposals have the potential to replace this certainty with burdensome administrative requirements for updating forecast tax liabilities in-year, though as noted elsewhere in this response, the detail on how forecasting will be expected or required to operate is absent from the current consultation.

14. As the consultation itself notes there will be additional administrative burdens on employers, with potential consequences in terms of resources, including increased potential for monthly rather than quarterly payment deadlines and increased risk of late penalties, higher volumes of tax code changes and responding to employee queries. This will have an additional impact when the employer is a self-employed ITSA taxpayer, particularly if they also have PAYE income or will have to move to more timely payments on account under possible future reforms. We are concerned that this imposes further burden on a largely compliant population in a time where significant business pressures already exist.

15. The consultation is not explicit in terms of how the announced changes will impact people who have multiple employments and how which employment any deduction of ITSA tax liabilities will be operated on is determined. Adequate provision must be made to ensure that ITSA liabilities are not deducted from PAYE income more than once in these circumstances and adequate, timely guidance provided to that effect.

16. The administrative burden associated with the announced changes may encourage employers to alter their payrolling model by outsourcing this to a payroll provider. A tax-driven, but not necessarily commercially appropriate consequence for some businesses with employees. Some employers may not have this option but will be forced to absorb the additional administrative burden themselves e.g. a self-employed person who also has a small number of employees. This potentially further discourages small business from taking on staff with consequent wider implications for the labour market and economy more broadly.

Cash flow

17. We have had feedback that a primary concern of the announced changes (which also apply to the proposals for non-PAYE ITSA taxpayers) is the adverse impact on business cash flow. Concerns

have been expressed that paying more tax earlier will potentially mean that the business cannot pay suppliers or other operational costs which may put the survivability of the business at risk. This may particularly be the case for businesses in the start-up phase of operation, who in a world of increasing accessibility of AI may determine that they do not need the help of a tax agent. Unrepresented taxpayers, as always are most at risk from "significant" changes to the tax system that affect them.

18. While we believe that taxpayers should pay the tax they owe at the time it falls due, we are concerned that the announced changes and possible future reforms may, in certain situations, put the viability of businesses at risk. This has adverse implications for future tax receipts from a successful business and economic growth generally. The further mandating of the direction of funds towards required more regular/earlier tax payments removes the flexibility of the business to manage their own cash flow effectively in the interests of the survival of the business.

19. As noted in the consultation an additional adverse cash flow impact will occur for employers who have to move to monthly payments of amounts deducted through PAYE from quarterly payments.

20. In many, if not most, cases, taxpayers making payments based on forecasts will still have a balancing payment due by 31 January following the end of the tax year, as is the case currently. The size of this balancing payment, and the resultant adverse cash flow impact, is influenced by the amount of tax that is able to be deducted from PAYE or is paid under a revised schedule and method for non-PAYE ITSA taxpayers. These are both affected by the detailed rules around how forecasting is expected to be implemented. This is particularly relevant for taxpayers where the amount of PAYE income varies during the year, such that they do not always have sufficient PAYE income for ITSA tax deductions to be made. Detail on how forecasting is intended to work would provide clarity on the likely impacts for January balancing payments.

21. Implications for contractors and subcontractors in the construction industry should be carefully considered. Subcontractors who are not paid gross will be subject to deduction of tax at 20% or 30% from receipts during the year, on account of their self-assessment liability for the year. Sub-contractors are likely to face adverse cash-flow implications if they have sufficient PAYE income and are subject to the announced changes, particularly if they are in a repayment position for the year. We recommend that consideration be given to exempting subcontractors receiving payments subject to deduction of tax from the announced changes.

22. We have been made aware of a scenario involving a CIS subcontractor who has had tax deducted from payments, has filed the ITSA return declaring the income and the tax deducted. This client has then had a request from HMRC to pay the tax because there has been a delay in the contractor making the payments of the tax deducted over to HMRC. This client would suffer further cash flow consequences if they were also having to make additional deductions through PAYE under the announced changes.

23. We have received member feedback anticipating similar challenges with the impact of the announced changes or possible future reforms for taxpayers with student loan deductions. The concern is the ability to avoid a position where overpayments of the loan end up being made through double deductions. The current process for correcting this is not straightforward.

24. We have also received member feedback, that ITSA taxpayers with foreign tax credits may be likely to overpay their tax liabilities during the year under the announced changes and possible future reforms, adversely affecting their cash flow. We also note feedback we have received that the process for receiving refunds from HMRC can be too long generally.

25. Irregular payments from customers may have impacts on cash flow where annual income is not received equally throughout the year, yet equal tax deductions are being taken through PAYE based on the last filed return. The annual liability doesn't change but the monthly tax deduction does not match the receipt of the income. This will have particular impacts for seasonal businesses and is not in line with the policy intent and rationale.

26. Member feedback has also raised the scenario where a pensioner may have had 50% of their monthly pension deducted in tax to reflect tax liabilities on trust income that may not be distributed

until after the tax year has ended. It is particularly concerning as income in possession trusts are commonly used for widows/widowers (particularly where there are second marriages). Beneficiaries often do not have a full understanding of how the trust operates or the tax requirements. Although trustees are more likely to have tax advisors, they are not necessarily going to be aware of the beneficiary's personal tax position. The announced changes have the potential to cause many individuals a lot of difficulty when their pension receipts suddenly reduce dramatically.

27. We have heard concerns for businesses where a major customer does not pay as a consequence of bankruptcy or liquidation. Tax has been deducted through PAYE based on an expectation that this money will be received. It will be important that a mechanism for a quick reduction of future PAYE deductions or repayment is in place to avoid extended delays for repayment of tax that was never expected to be due in the first place. Having had monthly deductions through PAYE (or more timely direct ITSA payments on account) will exacerbate this adverse cash flow position.

Segmentation of the ITSA population

28. It is critical that HMRC internal systems for ITSA and PAYE are fully aligned before the announced changes are implemented. We have received feedback that HMRC often issues PAYE calculations with incorrect payment demands or in some situations repayments to taxpayers which do not take account of self-assessment reporting, indicating that HMRC internal systems for PAYE and ITSA do not seem to work well together. We are also aware that there are many concerns about the existence of inaccurate or out-of-date PAYE codes. It is critical that the incidence of erroneous PAYE codes is reduced and minimised before HMRC has to start dealing with more regular PAYE code changes.

29. We have received member feedback that it is concerning that the announced changes create an inequitable segmentation of the Income Tax Self-Assessment (ITSA) population. ITSA taxpayers with sufficient PAYE income are to be treated differently from those who do not. For example, an ITSA taxpayer with sufficient PAYE income will have tax on ITSA income deducted monthly. If the proposals in this consultation result in no change for non-PAYE ITSA taxpayers, or end up with quarterly payments, this creates an inequitable distortion between taxpayers in the ITSA population. Note that this should not be taken as a recommendation for mandatory monthly ITSA payments on account for non-PAYE ITSA taxpayers as discussed in responses below.

30. We therefore believe that the ITSA population and the PAYE population in the tax system are better kept separate to avoid issues arising when both apply to a taxpayer, other than at the option of the taxpayer themselves. Some specific scenarios of concern have been included in the earlier responses above.

31. We have received member feedback that it is preferable to keep the ability to collect tax on non-PAYE income through the code at the option of the taxpayer who for commercial or other reasons may wish to keep their tax liabilities and payments for ITSA income separate from those in relation to their PAYE income.

Lack of clarity on approach or potential requirements to update forecasts

32. The consultation objective is to bring tax payment closer to the taxable activity, yet proposes that the "forecasted liability payments will be based on the taxpayers last filed ITSA return" as is the current situation for ITSA payments on account. The consultation notes that "Taxpayers will be able to update their forecast using more recent information to ensure it remains an accurate reflection of their tax bill" however is silent on whether an in-year upward forecast will be required or expected. There is no specific mention of any expectation or requirement to forecast upwards and there is a lack of detail in the consultation on consequences for taxpayers or their agents who decide not to exercise a choice to update their forecast to reflect an expectation of an increased tax liability, should this become a requirement or an expectation from HMRC.

33. The scenario at point 32 suggests that in the absence of a requirement to update a forecast upwards, the announced changes do not in fact move the position any closer to the policy objective from the current situation beyond a mandated deduction of additional tax through PAYE

based on the last filed ITSA return, or for non-PAYE taxpayers paying an estimate based on the last filed ITSA return more frequently.

34. Consequently, if it is intended to require taxpayers to update their in-year forecast upwards instead of having the option to do so, the details of this, including the anticipated speed of response to PAYE code changes by HMRC and the potential consequences for taxpayers and/or their agents of not doing so, for all ITSA taxpayers, should be subject to further consultation.

Alternative approaches

35. In the ICAS response to the call for evidence on timely payment published on 23 March 2021 at point 5, we noted that "payment cycles should align with computational rules" and at point 7, "as income tax is an annual tax, quarterly tax calculations can only ever be approximates. There is an inherent difficulty in having quarterly tax calculations yet an annual reference period. The only workable solution would seem to be estimating quarterly liabilities." This position has been reinforced by member feedback in terms of the current consultation in that it is often year-end tax planning activity, such as bringing forward capital expenditure, that will reduce tax liabilities in ways that were perhaps not considered during the year. Consequently, forecasting taxable income is inherently less predictable that forecasting incomes and expenditures.

36. In the absence of any indication that taxpayers will be required to update forecasts upwards, an alternative system to consider that may achieve the policy objectives would be to implement a modified version of the company quarterly instalment payments (QIPs) regime for unincorporated businesses. This will enable the expected tax liability for the year to be estimated each quarter and payment made on a year-to-date estimate on a cumulative basis, as is the case for QIPs. This can help to reflect the position of taxpayers with fluctuating income. However, in the absence of amendments to the regime for companies, this approach may create further distortions and incentives for tax-driven incorporation as outlined later in this response. We recommend that if this is to be considered, any HMRC proposal to implement such a regime should be subject to further consultation.

37. Alternatively, as a transition to a model where the tax liability for the year is subject to forecasts or estimates, from the perspective of encouraging taxpayer behaviour over time, consideration could be given to the current payment on account rules being amended to require four quarterly rather than two biannual payments and a balancing payment as now. Potentially further changes to align to the policy objective could be implemented in stages, for example introducing an estimation of annual tax liability as the basis for the more timely payments and/or bringing forward the date any balancing payment falls due. A future state with closer linkages to MTD quarterly updates once the full mandated MTD population, scheduled to be in place from 2028-29 onwards is established, would then seem more likely to be achievable. We note however, that any proposed change to the date of the balancing payment should be subject to further consultation as this would be another "significant change" with substantial administrative consequences for taxpayers and their agents.

Question 3: Should the government use, or give the option to use, anything else (for example, MTD quarterly updates and in the future, reputable third-party data) to inform the forecasting approach for this change?

38. We note that the current MTD quarterly updates are not tax-adjusted figures which for most businesses will not be an appropriate basis to make any updates to forecast tax liabilities, including for reasons noted in earlier responses. Only the most straightforward businesses, ie those that have few tax adjustments to their accounting figures, may find that quarterly updates provide a sufficient basis to update their forecasted liabilities in-year. This would not be an appropriate basis for most ITSA businesses.

39. As noted in point 37, this may be a consideration for the future as part of a transitional approach to behavioural change. We strongly suggest that any contemplation by HMRC in terms of changes to the nature of the MTD quarterly updates to make them more fit for purpose in terms of estimating true annual tax liabilities should be approached with care. If this is a future development, consideration of required changes to MTD software and the consequences for taxpayers in terms of forecasting approach and consequences should not be considered until the transition of all

mandated taxpayers from 2028-29 has been successfully completed. In the event, further consultation on these matters would be beneficial.

Question 4: What other safeguards should the government consider?

40. The government should be extremely mindful of the broader implications of leaving many more taxpayers with 50% (or potentially less as is implied by the consultation) of their PAYE income as a result of having ITSA liabilities deducted from their PAYE-income.

41. Mandatory payrolling of benefits in kind will potentially increase the tax deducted from PAYE income and it appears likely that this and the announced changes will increase the number of taxpayers for whom the safeguard threshold is relevant.

42. Notwithstanding the view expressed in the consultation that some taxpayers may prefer to have the safeguard threshold raised to enable them to have ITSA liabilities collected automatically through PAYE, we believe that many taxpayers with ITSA liabilities would rather see the maximum amount of tax that can be collected through PAYE subject to a reduced safeguard threshold to below 50% of PAYE income.

Question 5: Which groups of taxpayers would find a different threshold helpful?

43. Implementing different thresholds introduces complexity into the tax system which can distort taxpayer behaviour to ensure that they can create the most beneficial outcome possible, whether that be ensuring that their ITSA liabilities will always be collected through PAYE (as suggested by the consultation) or, as we would suggest more likely, benefit from having less of their tax collected through PAYE to gain more beneficial cash flow outcomes, particularly where this is critical to the survival of their business.

44. We believe that the 50% threshold acts as an important safeguard where the PAYE system has not operated correctly or there is a significant change to the tax code. A reduced threshold for the maximum amount of tax that can be collected through PAYE, for ITSA taxpayers with PAYE income could be considered. This could achieve the policy objective while minimising exposure to the cash flow risks, particularly for smaller businesses and new or returning businesses in the early years of their operation, and mitigate against some of the potential distortive behavioural effects noted elsewhere in this response.

45. Consideration could be given for taxpayers to opt out of having the % threshold applied in certain circumstances (eg for those taxpayers who want to have ITSA liabilities collected automatically through PAYE as envisaged in the consultation).

46. An alternative approach could be to increase the £3,000 threshold for liabilities that can be collected through PAYE to enable those taxpayers envisaged by the consultation as preferring ITSA liabilities to be collected automatically through PAYE, broader scope to do so, without mandating this for all ITSA taxpayers. This leaves taxpayers generally with more control over how they settle their ITSA liabilities, particularly where ITSA income and/or PAYE income fluctuates during the year.

Question 6: Do employers and other payroll operators need additional safeguards for these changes?

47. We have received member feedback that as unintended issues and errors are more likely to occur with more frequent changes to the PAYE code, the ability of employers to contact HMRC by phone for advice on a real-time basis must be improved to ensure that these situations can be rectified on a timely basis.

48. Pension providers are dealing with older taxpayers who may have more challenges understanding changes to their tax code as a result of deductions for ITSA tax liabilities. Additional guidance in terms of explainers or materials available walking through how the ITSA income has impacted their tax code in respect of their pension income should be made available. Older pensioners may

be digitally excluded so non-digital channels will be required for these resources in addition to digital resources.

Question 7: What support or guidance might employers benefit from?

49. We believe that consideration should be given to increasing the threshold at which employers are required to make payments of PAYE deductions to HMRC monthly rather than quarterly from £1,500 to minimise additional administrative burdens and adverse cash-flow impacts on employers with lower levels of PAYE deductions to settle, to a more appropriate figure.

Question 8: Are there other impacts for payroll operators that the government should consider?

50. Consideration of a soft-landing for interest and penalties would be appropriate for employers, pension providers and other payroll operators who have to move to monthly payments in the first year or two after the announced changes take effect.

Question 9: What options should the government consider to support taxpayers who might move in and out of paying their ITSA liabilities via PAYE?

51. The consultation refers to "any uncollected tax being paid separately". We strongly suggest that to avoid introducing further complexity into the system and further increasing administrative burden on taxpayers, their agents and payroll operators, this does not happen in any way other than through the current balancing payment process once the tax liability for the year is known.

52. If the policy position and announced changes envisage this to apply only those with sufficient PAYE income, serious consideration should be given to amending thresholds to limit as far as possible the number of taxpayers 'at the margin' who are mandated in to this position by the announced changes.

53. Taxpayers who currently choose to have ITSA liabilities collected through PAYE should continue to be able to do so.

Potential reform of Payments on Account

Question 10: What potential approach, including frequency of payments, would be most appropriate to achieve the policy objective, taking account of different taxpayer circumstances?

54. Increasing the number of payments on account required would significantly increase administrative requirements for taxpayers and their agents. We believe that if changes to the current system of payments on account are to be made, then quarterly payments would be preferably to monthly payments, though some larger businesses may prefer the option to make monthly payments. This can also be done through existing mechanisms.

55. As we have noted in the context of the transition period below, and in light of our earlier responses regarding inequitable segmentation of the ITSA population, if possible future reform is to happen, consideration could be given to implementing a threshold, above which payments are made monthly, below which payments could be made quarterly, and/or a further threshold below which taxpayers remain making bi-monthly payments.

56. We also note however, and as also noted elsewhere in this response, that implementing monthly (or even quarterly) payments whether via PAYE or directly, the contrast with companies who are outside the QIPs is more marked, distortive and may have unintended consequences which could be suboptimal for the economy more broadly.

Question 11: What could the impact of more frequent payments be on taxpayers?

57. It is imperative that HMRCs own online system deals with payments on account correctly. We have received member feedback that last year the system showed tax payments due which did not reflect payments on account already made. This is particularly problematic for unrepresented taxpayers, as the likelihood of overpayments, and therefore adverse cashflow consequences is increased.

58. Our comments above at point 57 and at points 92 to 99 below suggest that an unincorporated business facing more regular payments on account than would be faced by a company with similar levels of taxable profit, may have a tax-related incentive to incorporate which may not be commercially appropriate or desirable for the business and the broader economy.

Question 12: If these changes were introduced, what additional measures could the government consider to support taxpayers when their Self Assessment income changes during the year?

59. As noted elsewhere in this response, this question has a dependency on the detail of the method of forecasting implemented in our view. In general, taxpayers, particularly the unrepresented, rely on guidance from HMRC which is timely, accurate and available on multiple channels. The more complex the system introduced is likely to be for taxpayers, the higher the need for effective guidance will be.

60. As has been the case with MTD for income tax, regular updates (also specifically for agents) in a variety of media would help taxpayers.

61. Adequate provision for digitally excluded taxpayer will also be required.

Question 13: How else might the government support taxpayers to manage more regular payments?

62. We believe there is scope for targeted nudge letters and other more general communications (as for MTD for income tax) and effective HMRC guidance outlining the aims and benefits for taxpayers and their businesses of more regular payments being made available. Evidence as to how more regular payments positively correlates with business success would be particularly relevant, were such evidence to exist. If this evidence is from sources independent of HMRC or government, this is likely to be even more impactful.

Question 14: Which groups of taxpayers might require additional support to access or use payment management tools?

63. New ITSA taxpayers or those returning to ITSA after the implementation of the announced changes or any further reforms may require additional support.

64. Additional provision for digitally excluded taxpayer will also be required.

Issues affecting both taxpayers with and without PAYE income

Question 15: How might the government best support taxpayers to manage the transitional period?

65. Taxpayers who are making ITSA tax payments monthly through PAYE and are also required to make payments on account will have an adverse cash flow impact of payments for the 2028/29 tax year in July 2029 and January 2030 (and potentially also if any payments in respect of earlier years due on January 2029 are made later than March 2029). We note that the transitional rules arising from basis period reform may also have impacts on taxpayers up to the payment date of 31 January 2029.

66. We suggest that taxpayers are given the option to settle liabilities for tax years prior to 2029/20 over a payment period of between two and five years. A threshold-based approach where liabilities over a certain amount can be paid over longer periods, and below a threshold paid over

two years could be considered. In the interests of avoiding unnecessary complexity, we would not expect taxpayers who happen to have paid their liabilities after the due dates to be denied this spreading option.

67. In respect of non-PAYE ITSA taxpayers, if a future reform is that monthly payments are mandated, the same approach should be applied.

68. If a future reform is that non-PAYE ITSA taxpayers are required to make quarterly payments, then a simple way to avoid the adverse cash flow (as illustrated in Case Study 4 in the consultation) would be to move the payment date for the quarterly payment to the middle or the end of the quarter to avoid the July 2029 and January 2030 past-year payments being due at the same time. This action should not deny taxpayers the options to spread these payments and may in fact reduce the number of taxpayers who would be inclined to take advantage of this option.

69. A general consideration could be to implement a soft-landing for interest/penalties in the transitional period.

Question 16: Would the option to make voluntary pre-payments, ahead of implementation, be helpful?

70. We believe that some taxpayers may find this helpful.

Question 17: If changes were made, what transition period would be most appropriate?

71. As noted in our response at point 66 we believe a period of two and five years would be appropriate for most taxpayers. Incorporating thresholds could be considered.

Question 18: What other support would help ITSA taxpayers during the transition period?

72. Accurate and detailed guidance from HMRC on how the provisions put in place for the taxpayer for the transitional year will operate, including exact details on what options are available to the taxpayer, relevant conditions and deadlines and clarity on the consequences for the taxpayer of taking up/or not taking up any options available.

Question 19: How might the government best support new or returning taxpayers to make timely payments, when they start earning ITSA income?

73. We recognise that this situation can be difficult for taxpayers, particularly the unrepresented, who do not make adequate provision for their tax liabilities once they have started an unincorporated business. Our member feedback suggests that any represented taxpayers do not actually engage an agent until closer to the tax payment deadline, often waiting at least 18 months from the time they start their business to seek advice from an agent. If a taxpayer engages an agent earlier after commencing their business agents are likely to advise them to put money aside regularly in anticipation of the tax liability for their first tax year of self-employment or direct them to the Budget Payment Plan.

74. We therefore suggest that any requirement for ITSA payment through PAYE or more timely direct ITSA payments are not applied to taxpayers in the first year of an unincorporated business.

75. Presently, a new unincorporated business does not have to register for self-assessment until up to 18 months from the time it commences activity. As noted at point 14 of the ICAS response to the call for evidence on timely payment published on 23 March 2021, consideration could be given to an earlier deadline for the mandatory notification of the commencement of the business in order for HMRC to be aware that the business exists (potentially, as noted above, before any agent is engaged). HMRC is then in a position to provide further support in terms of awareness and effective planning for tax payments, potentially through nudges for example, in respect of the first tax year the business is in operation.

76. The government could enhance efforts in terms of communicating the risks of not making timely payments, the good practice of putting money aside to meet tax obligations for the first year of the

business, and the availability of the Budget Payment Plan for taxpayers when they register their unincorporated business and/or sign up to self-assessment. As noted above, support could be given more easily if HMRC is aware of businesses earlier through a revised notification of commencement deadline.

Question 20: How might estimating appropriate liability for new or returning ITSA taxpayers be achieved?

77. We believe that a satisfactory method for estimating a tax liability for a new ITSA taxpayer will be very challenging in the absence of any prior year final tax liabilities. HMRC may have to accept that any requirement to do this for a business in the first tax year may not be possible.

78. If there are previous tax years where a tax liability can be established (eg as is more likely for returning ITSA taxpayers), this figure may be a potential option for an initial estimate. The ability to alter the forecast will be more critical here as previous tax years liabilities may result from a profile of income sources which is very different from that in the first year of an unincorporated business.

Question 21: What could be the impact of reducing the POA threshold, or are there alternative ways to support taxpayers below the current threshold to achieve the timely payment objectives?

79. We believe that it may not be possible for HMRC to implement timely payment for every single ITSA taxpayer. The impact of reducing the £1,000 threshold will be dependent on how many taxpayers are in the 70% currently not required to make POA because do not meet the £1,000 threshold as opposed to having had more than 80% of their liability deducted at source.

80. Reducing the £1,000 threshold is likely to bring more taxpayers into a requirement to make POAs with the additional administrative, cash flow and other consequences discussed elsewhere in this response. These consequences are likely to be enhanced with the implementation of any other potential reforms discussed in this consultation. We therefore suggest that consideration be given to increasing the threshold, which has remained at £1,000 since it's last increase took effect from 2009/10.

81. We believe that the implementation of the announced changes may have the opposite effect of removing taxpayers from the need to make POAs as more taxpayers will likely have more than 80% of their liability deducted at source under the announced changes. We believe that it is important that taxpayers who have sufficient PAYE income to have ITSA liabilities deducted from PAYE income, should not then also be in any direct POA timely payments regime if despite these additional deductions less than 80% of their tax liability is deducted at source.

82. Other comments in this response have addressed alternative ways around education and effective guidance on supporting taxpayers with more regular payment which are relevant to this question also.

Question 22: In what circumstances could the government consider offering taxpayers with PAYE and ITSA income the choice between making ITSA payments through PAYE, or direct ITSA POAs, such as via Direct Debit?

83. We believe that taxpayers having control over the method of paying their tax is a positive feature of the tax system which can build levels of trust and deter non-compliance. Direct debit for PAYE liabilities is currently subject to another consultation, though we note here that direct debit removes control from the taxpayer and relies on HMRC collecting the correct amount of tax to debit from the bank account.

84. We therefore believe that providing taxpayers with a choice over the method of payment for ITSA payments would be a positive outcome. The ability to make the choice between ITSA payments through PAYE or direct ITSA POAs will be circumstantially dependent and therefore the ability to make such a choice could in our view, particularly in the absence of conditions, enhance compliance.

85. The outcome of this consultation as regards direct POAs will of course be a factor in how taxpayers make any choice that is made available in this context. In any event, proper, accurate and timely guidance in respect of how the choice is made, conditions and deadlines and the consequences of making or not making a choice, together with any related interest and penalty implications should be available for taxpayers and agents in good time before implementation.

86. We have received member feedback that the current system where taxpayers have the option to have ITSA liabilities collected through PAYE has not always been effective in producing accurate outcomes. If more taxpayers can opt in to this method of collection as a result of announced changes of potential further reforms it is critical that the HMRC system which operate this method is accurate.

Question 23: What would agents find useful to enable them to carry out their role effectively under the announced changes or possible reforms?

87. We have had member feedback that if more regular changes to PAYE codes is going to be a feature after the announced changes are implemented, it should be a priority in implementing the announced changes that agents should have full access to their clients PAYE information which enables them to see and potentially question changes to the PAYE codes. As noted earlier in this response, it is critical that HMRC systems for ITSA and PAYE communicate with each other effectively. Member feedback suggests that agents would value being able to see what their clients can see across all aspects of their tax affairs, in order to provide them the best support in this context.

88. As with any changes to the tax system, accurate and detailed guidance for taxpayers and agents which is made available early and is subject to minimal changes in advance of implementation is critical for taxpayers and agents to prepare effectively.

Question 24: What support or guidance might be most effective for taxpayers with particular challenges and needs?

89. We have no additional response to this question.

Question 25: What extra support or guidance might taxpayers who qualify for financial support from the government (such as Universal Credit) need?

90. We do not have a response to this question.

Question 26: What support or guidance might be most effective for tax agents?

91. Please see our response at points 87 and 88.

Question 27: Are there any additional comments you would like to make regarding the 'timely payments in ITSA' announced changes and possible reforms?

92. We have concerns that there are a number of potential unintended consequences which may arise from the announced changes and possible future reforms which are the subject of this consultation.

93. The call for evidence on timely payment published on 23 March 2021 at paragraph 1.18 recognised that in the absence of a corresponding change to timings for corporation tax payments for companies outside the quarterly instalment payments (QIPs) regime, a change to payment timings for unincorporated businesses would risk increasing distortions and the incentives for tax motivated incorporation. The current consultation suggests such changes to payments for unincorporated businesses in the absence of any currently known proposals to change those for corporation tax outside the QIPs regime. We express concern therefore that new incentives and motivation for tax-driven incorporation will exist, which may not be the most commercially advantageous route for unincorporated businesses. This may have adverse consequences for the economy and economic growth more broadly.

94. We have received feedback that there are concerns that a taxpayer who currently has significant sources of self-assessment income from non-PAYE sources may be disincentivised from taking up part-time employment if the consequence is that their income after tax from employment is reduced to 50% (under the current rules) of their PAYE income. Our feedback suggests that this, while perhaps a rarer situation, could also happen in a partnership context. Such scenarios are distortive and may create adverse impacts for the labour market, the broader economy and economic growth.

95. We have also had feedback that the situation in the point above, may in certain cases result in an employee in this position deciding that it is no longer worth continuing in employment, also with implications for the labour market, particularly in sectors with existing labour shortages.

96. We are concerned that the announced changes for taxpayers with sufficient PAYE income may discourage entrepreneurial taxpayers, currently spending the majority or all of their working life in employment, from taking the decision to commence a self-employed unincorporated business. A taxpayer in this scenario could incorporate (though while tax driven may not be the most commercially appropriate decision) or decide not to start the business at all. This also creates distortions and is likely to have adverse outcomes for the economy and economic growth.

97. We have received feedback that a further potential risk impacting the labour market is that employers who currently permit their employees to undertake self-employment alongside their employment, whether or not they are required to give permission to do so, may move to prevent this from happening at all, as a result of the additional administrative burden of operating PAYE on the employees income from their self-employment discussed above. This may also have distortive effects on the labour market, the broader economy and economic growth.

98. We have also received member feedback that, as a result of not being able to pay an adviser, some taxpayers may decide that the situation is too complex to deal with themselves and withdraw from their self-employed activity. This will be particularly acute for taxpayers who may be undertaking the activity for extra income to top up wages from employment, particularly in the current cost-of-living environment.

99. We have received member feedback that as an alternative to new requirements for regular tax payment, the government could consider incentivising taxpayers to pay their tax liabilities earlier through some sort of discounting approach. In an environment where taxpayers are paying money out of their own bank accounts more regularly to HMRC this may compensate them in some way for lost interest on those funds. We recognise that such an approach will have its own inherent complexities, though may be an additional way of supporting taxpayers with at least the implications of the transition year.

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