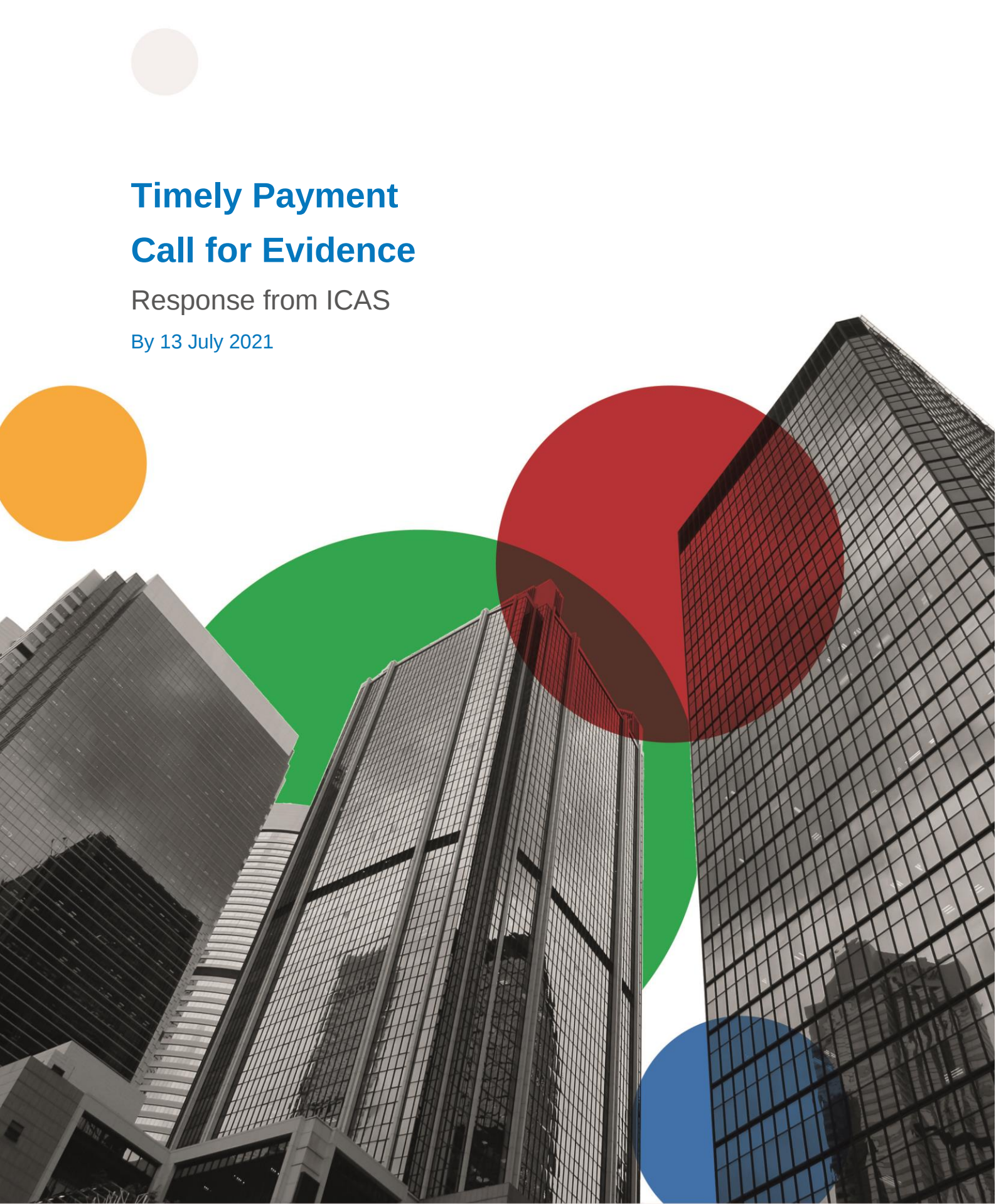




Timely Payment Call for Evidence

Response from ICAS

By 13 July 2021

About ICAS

1. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants. We represent over 22,000 members working across the UK and internationally. Our members work in the public and not for profit sectors, business and private practice. Approximately 10,000 of our members are based in Scotland and 10,000 in England. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good.
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.

General comments

3. ICAS welcomes the opportunity to respond to the call for evidence, 'Timely payment', issued by HMRC on 23 March 2021.
4. Reform to timing of tax payment fits within the overall framework of tax reform and is best considered as part of a longer-term strategy to do tax in a new way. There are dividends for business, HMRC and HM Treasury in more closely aligning the incidence and payment of tax.
5. Consideration needs to be given to radical legislative reform before new payment policies are introduced. This will help ensure that payment cycles align with underlying computational rules.
6. **Tax liabilities.** Even with reform, it is likely that quarterly information submitted for tax purposes will differ significantly from the figures on which the final liability to tax will be based. There is the need for a system of estimated payments during the period, with a balancing reconciliation as soon as possible after the period end. A system of estimated payments on account, found in many countries, and followed by year-end reconciliation within pre-determined margins, has much to commend it.
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.
8. Moving to the goal of more nearly real-time payment is challenging. Certainty over what tax liabilities are for the transitional period, and how they are to be collected, is key to successful accommodation and planning for business. It would be of assistance if basis periods and overlap relief were dealt with at the same time as the move to real-time payments.
9. **Accruals versus cash accounting.** There are growing tensions between the information needs of business and tax reporting. For all but the smallest businesses, accruals accounting is essential for business survival and development. Even micro businesses need to have an eye to current liabilities and assets on an accruals basis to be successful. But quarterly tax submissions on a tight time frame (within one month) are unlikely to be much more than raw bookkeeping data submitted on a cash basis.
10. **The role of agents.** Taxpayers with agents can rely on their agents to calculate any liabilities and oversee submissions. The role of agents in bringing within MTD taxpayers, who themselves may be unable or unwilling to interact with HMRC digitally, should not be underestimated. System design should factor in the 'agent does everything' approach and empower agents to act comprehensively for all taxpayers, including the digitally disadvantaged or excluded.

Specific questions

Chapter 2: Principles

Q1. Do you have any comments on the benefits and challenges of timely payment outlined above?

Groups who benefit – new business

11. In principle, moving to more timely payment of tax is better for business. But the proposals highlight the need for radical reform of the tax administration rather than sticking plaster additions which potentially create illogical and divergent outcomes.
12. For example, it is clearly beneficial for start-up businesses to more accurately calculate and pay their tax in real time and be introduced to a regular and timely method of paying tax liabilities as they accrue.
13. However, current proposals for Making Tax Digital for Income Tax Self Assessment would apparently leave new businesses outside MTD until they have submitted their first self assessment tax return under the current self assessment rules for income tax. Thus the current difficulty of a long delay, followed by a large bill, would not be addressed.
14. A key group who could benefit from the proposals, therefore, would fall outside the benefits. What is needed is radical reform of the administration – the legislation needs to change to facilitate a new approach to taxation. This would include legislative change on when businesses first need to notify HMRC of commencement of trading. New business will not fit within a simpler payment model unless the basis of taxation is changed.
15. For example, a modernised tax system using the calendar year for the tax year and real-time payments, would start to deliver the benefits outlined or, at the very least, to move to a 31 March year end. Businesses would need to be registered promptly on commencement of trade, rather than within six months of the end of the tax year of commencement, as is currently the case.

Multiple basis periods for income tax

16. Individuals within the charge to income tax face different basis periods for different income sources and gains. For example, an individual with both trading and property income is taxed on basis periods relating to the accounting period for the trading income, but property income is taxed according to the tax year (5 April).
17. Capital gains for individuals on residential property are to be reported within 30 days of completion, but the final tax due on the gain is affected by the level of other income, which is not ascertained until the end of the tax year. The position as regards off setting capital gains tax overpaid on account, against income tax due under self assessment for the same period, has caused difficulties.
18. This means that it can be complex, if not impossible, to accurately quantify tax liabilities before the end of the tax year. Reform is needed to simplify the basis of tax calculations for income tax. It would be possible to follow the example of Ireland, and move to a calendar year for income tax covering income and gains from all sources, with a clean cut-off for accounting periods straddling the new date. This would lift the administration into the 21st century.
19. Overlap relief should be eliminated as soon as possible. The economic value of overlap relief diminishes over time as inflation reduces the present value. It results in uncertainty over tax liabilities and potentially unexpected outcomes for traders on retirement or cessation of trade. Simple apportionment of trading profits to the tax year on a time basis would eliminate the need to overlap relief.

Cash flow and catch up payments

20. The approach of businesses to the current delays between the generation of taxable income and payment of tax varies. Some will make ongoing provision for future liabilities, other will not. Whatever approach has been adopted, transition to quarterly payment is challenging.
21. There is a need for an extended catch-up period of potentially five years or more. For example, if 12 months only were allowed, this would be analogous to doubling the tax rate: businesses which currently cover tax bills out of current income, rather than savings, would need to find tax on two years' profits within 12 months.
22. SME businesses can adapt to new ways of working, as has been evidenced by the response of many to the pandemic, but it takes time and puts businesses under stress. Without additional help, viable businesses could be placed under excessive strain and could fail.
23. A recent survey of members who advise businesses indicated that over half of businesses (54%) expected to pay past tax liabilities out of current earnings, and that less than 10% had put money aside in a separate account to cover expected tax liabilities. This is despite the recommendation of advisory firms for businesses to provide for known tax liabilities. Almost 60% of respondents considered that businesses would need up to 5 years to catch up to real-time payment.
24. Consideration could be given to Government backed borrowing to fund this period, analogous to the Bounce Back Loan Scheme (BBLs) during the pandemic.

Q2. Please provide a narrative, with examples if possible, of any other benefits, challenges or impacts which you consider should be of central concern when looking at this proposal.

Accruals versus cash accounting

25. There are growing tensions between the information needs of business and tax reporting. For all but the smallest businesses, accruals accounting is essential for business survival and development.
26. Even micro businesses need to have an eye to current liabilities and assets on an accruals basis to be successful.
27. But quarterly tax submissions on a tight time frame (within one month) are unlikely to be much more than raw bookkeeping data submitted on a cash basis.
28. Only a limited range of businesses can use cash accounting for tax purposes, companies are excluded. Even where the cash basis is available, raw bookkeeping data will need adjustments, such as for private use and non-tax-deductible expenditure, before it is accurate enough for tax purposes. Apportionment of business costs across multiple business may also be needed. This can be particularly relevant in the farming sector and for those working from home.
29. This growing divergence between business, and tax use, of figures potentially brings additional costs, particularly if the submissions are directly linked to the amount of tax payable (and therefore there is economic pressure to submit figures as close to the final tax adjusted ones as possible).
30. If tax liabilities were based on raw book keeping data, the tax liabilities would be likely to be incorrect, but the additional cost of supplying tax adjusted figure could be significant and of little benefit to the business. Even where management accounts are produced regularly, these would need to be adjusted for tax purposes, at an additional cost.

Digitalisation versus digitisation

31. Making Tax Digital has been introduced, so far, as additional legislation, on top of the existing self assessment structure. But what is needed is radical reform. Rather than making the current

system digital, a new structure is needed which leverages the benefits of new possibilities and transform the system.

32. Radical change is needed to bring trading basis periods into line with reporting periods. The underlying legislation should be reformed before bringing in a new digital model.

Manageable cashflow

33. A key advantage to business from the proposals is the potential positive impact on cashflow management. Currently the incidence of tax bills, particularly for income tax, is disconnected from current business performance.
34. When a business has rising profits, tax bills will rise, but with a significant lag. This produces positive cashflow, but it does not reflect reality.
35. Conversely, when profits are falling, tax bills based on previous higher earning periods may cause tax bills to rise at a time income is falling, potentially placing significant strain on resources.
36. Overall, there can be a roller coaster effect, particularly for income tax. This is exacerbated when the accounting period ends early in the tax year (e.g. 30 April or 30 June). Some businesses settle to a 'steady state' after a number of years of trading, but there can still be a hidden liability in terms of overlap profits and delays in the reporting and payment cycle.
37. Matching tax payment more closely to current business performance is a recipe for improved business performance and resilience.
38. However, it is likely, even with reform, that quarterly information submitted for tax purposes will differ significantly from that on which the final liability to tax will be based, due to the issues noted above. Alignment, as far as possible, is therefore best achieved via estimated payments during the period, with a balancing reconciliation as soon as possible after the period end.
39. For micro business, radical reform of the tax rules, such as those applying to micro-entities in France, would improve certainty, reduce errors and facilitate compliance. This would be achieved by simplifying reporting and calculations such that a simple tax calculation applied to the submitted data (such as a percentage of business turnover) would be the final tax liability for each quarter.
40. Such a micro-entity scheme should have an opt-out clause so that businesses for whom it was more appropriate to use the full tax rules could choose to do so.

Q3. What are the relative merits and disadvantages of tax payment regimes in other countries compared to the UK's?

41. The micro-enterprise system in France has much to commend it. It brings a greater degree of certainty over tax reporting submissions to the entities which would be most burdened by additional administration, and potentially most adversely affected by retrospective adjustments to tax liabilities.
42. The UK would do well to consider a similar micro-entity model for MTD. The current rules are overly complex for the smallest businesses. This is apt to produce inequitable outcomes, dependent on the knowledge available to the business owner, and their ability to resource accurate advice.
43. A system of estimated payments on account, found in many countries, and followed by year-end reconciliation, within margins, has much to commend it.

Q4. Are there examples of tax payment timings from other states or territories which the UK should consider?

44. No additional comments

Q5. Where people have experience or data of timing changes in other countries (e.g. recently in France), what have been the impacts and what should have happened differently?

45. No additional comments

Chapter 3: Overview of Current Regimes

Q6. What are the advantages of the current payment timings? Are there any groups who rely more heavily on these than others?

46. 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 the current year tax return is completed for income tax, tax liabilities for the coming 12 months can be known in advance.

47. However, unless profits are at a similar level each year, the exact tax liability as determined by the return may be unexpected.

Q7. What are the challenges with the current payment timings? Are there any groups who are challenged or disadvantaged more than others?

48. New businesses, seasonal businesses and those with fluctuating profits, such as farming, may be disadvantaged under the current system.

49. The main disadvantages/ challenges are the roller coaster effect, noted at 33-36 above.

50. The relation between tax years and basis periods is also challenging. For example, year ends early in the tax year, will be earning profits which will be taxed in the next tax year, when the tax rates for the following year are unavailable. E.g. accounting date 30 June 2020. From 1 July 2020, profits are taxed in 2021-22 tax year, for which tax rates will not have been confirmed. (July 2020 being in the accounting period to 30 June 2021, would be taxed in the year 6 April 2021-5 April 2022).

Q8. Do you have any comments on the specific challenges faced by non-business ITSA taxpayers (i.e. those in ITSA other than the self-employed, landlords, or large partnerships)?

51. PAYE taxpayers on high income, such as those whose income occasionally exceeds £120,000 may unexpectedly find themselves facing significant self assessment bills where the personal allowance has not been correctly reduced to reflect annual earnings, and the resultant bill cannot be coded out.

52. A significant challenge affecting non-business income taxpayers is the incidence of capital gains, where tax may be up to 22 months after the date of disposal.

Q9. Do you have any comments on specific challenges faced by low income or vulnerable taxpayers?

53. No additional comments

Q10. Do you have any comments on the specific challenges faced by new ITSA taxpayers?

54. Clarity of messaging is needed to ensure that all new traders in businesses are aware of the benefit of being registered with HMRC as soon as practicable, and the likelihood that they are accruing a significant tax liability through trading.

55. Unfortunately, new businesses do not always seek professional help early, and may be unaware that a business which has incurred, for example, significant capital and stocking costs, may have negative cash flow, but still have taxable income.
56. Similarly, 'accidental' landlords, for example those letting out a house they have been unable to sell, may not recognise that where rental income only covers mortgage and other costs, that there may be a significant tax liability if part of the mortgage repayments are capital repayments.
57. It is unlikely that this situation can be remedied by information and education alone. Changes in the underlying legal requirements about when to register would be needed to drive significant change.

Q11. What are the benefits of the existing payment timings for CT? Are there any types of company, sectors, or other distinctions which rely more heavily on the long payment window than others?

58. No additional comments

Q12. What are the challenges with the current payment timings? Are there any types of company, sectors, or other distinctions which make the current payment timings challenging or disadvantageous?

59. In terms of equity, some firms have noted that there is a potential loss of tax revenues where a company accrues significant tax liabilities and then goes out of business, even being struck off by Companies House. Were tax payments to be nearer real-time this loss would likely be reduced, so benefiting the majority of taxpayers who pay on time.

Chapter 4: Handling More Regular Payment

Q13. Do you agree that if there is to be a more frequent tax payment regime, it should generally be based on current year liability?

60. While more frequent tax payments would ideally be based on current tax liability, until basis periods are reformed, there is an inherent mismatch for businesses whose accounting period is not coterminous with the tax year. For such businesses, quarterly profits can be taxed in the following tax year. This makes alignment of tax payments and accruing tax liabilities in the current year problematic.
61. Even if the system were to be reformed, quarterly submissions are unlikely to be sufficiently representative of actual taxable profits to form a reliable basis for tax payments, as noted above.
62. Tax payments may therefore need to be based on estimated current liability.

Q14. Do you have any initial comments on the benefits and challenges of different calculation options to meet diverse taxpayer needs versus one process for all taxpayers in scope?

63. There is a clear dividing line between businesses with paid for professional help, who should be able to meet the complexity of the current and future tax system, and some micro entities which may be unable to afford appropriate professional help.
64. It makes sense for micro entities (perhaps those with a turnover under £25,000, certainly under the VAT registration threshold) to be able to adopt a simpler system if they choose.
65. Even without major reform, quarterly tax bills for micro business could perhaps be based on reported turnover. A regime based on reporting turnover would be simpler, provide certainty over liabilities and be more easily audited by HMRC in terms of compliance. This could significantly reduce the tax gap.

66. Where estimated quarterly payments are in view, there would seem no particular reason for different models for different groups. Sufficient flexibility could be available from the start for all groups within scope.

Q15. What are your views on using digital solutions to facilitate in-year calculation, and what and how could specific groups be affected negatively by this?

67. In year tax calculations are unlikely to be reliable for many taxpayers for a number of reasons. This is more about the data available, the sources of income and the basis of taxation, rather than any IT solution.
68. Many taxpayers have multiple income sources, not all of which are reportable under the current proposals: such as pensions income, savings income and employment income. There may also be capital gains.
69. Added to this, the devolved administrations setting income tax rates in Scotland, and Wales, do so for only part of the income liable to tax: that applying to non-savings non-dividend income. This vastly increases the complexity of the calculation and the possibility of accidental error, for example through misclassifying income, or in changes in taxpayer status.
70. In all but the simplest cases, it would seem unlikely that any in-year tax calculation based on quarterly submissions would be meaningful.

Q16. Do you have any comments on how the needs of taxpayers for whom digital solutions are unavailable or challenging could be met when considering calculating tax liability in-year?

71. Digital solutions are not the primary issue when it comes to calculating tax liabilities. The key issues are availability of information, accuracy of information and tax basis periods.
72. Taxpayers with agents can rely on their agents to calculate any liabilities. The role of agents in bringing within MTD taxpayers, who themselves may be unable or unwilling to interact with HMRC digitally, should not be underestimated. System design should factor in the 'agent does everything' approach and empower agents to act comprehensively for all taxpayers, including the digitally disadvantaged or excluded.

Q17. If tax payment and calculation was more regular under ITSA, what are the key ways in which it would need to align with PAYE, Simple Assessment, and more widely to get the best result for taxpayers?

73. Tax payment and calculation should not be confused. Unless basis periods are aligned, the equation is overly complex, and calculations based on submitted data are likely to be unreliable.
74. As income tax is an annual tax, quarterly tax calculations can only ever be approximates.
75. In the long term, if RTI data and other information were available to tax agents and taxpayers quarterly, this could provide a basis for more accurate in-year calculations. However, given the many uncertainties of business, it must be questioned whether this is an aspirational or an achievable goal.
76. For example, a particular business may have planned capital expenditure, or be aware in advance of loss of a contract, or a fall in trade. Using submitted results only, would mean that tax calculated on submitted figures would be overstated, leading to tax refunds being needed in a later quarter.
77. Proper integration between PAYE, simple assessment and self assessment is currently lacking. A case in point would be a new trader moving into self employment from employment, where there is a tax bill being coded out through PAYE. Such an individual may end up in both simple assessment and self assessment for the same tax year.

Q18. Do you have any initial comments specifically on the impact of basis periods on more timely payment of ITSA?

78. Basis periods add significantly to complexity and as noted at 50 above, there can be inherent uncertainty about liabilities. Reform to basis periods would assist accurate quarterly payment. This could be done via apportionment of profits to tax years, akin to what happens with companies and financial years.
79. The issue is acute where individuals are involved in businesses with different basis periods. For example, a partner in a business with a 30 June year end, and also in business as a sole trader with a 31 March year end.
80. Potentially in such scenarios, some costs may have to be apportioned over businesses with different year ends.
81. Overlap relief is an additional complication. It is probable that many businesses with overlap relief have been trading for a long time. Inflation will have eroded the value of the overlap relief and the business therefore would face a significant tax charge in the move to a more convenient year end for MTD ITSA and quarterly payment, of say 31 March.
82. Such businesses would essentially be taxed on inflationary increases if they moved their year end to coincide with the tax year. Consideration could be given to simply taxing 12 months of profits in the year of transition.

Q19. Do you have any initial comments on other reforms that could support bringing tax payment closer to the point of transaction?

83. While the concept of bringing payment closer to the point of transaction is welcomed, it would be well to learn from the mistakes around the introduction of 30-day CGT reporting. This has been far from trouble free. It would be helpful to the smooth operation of the tax system if such an approach were avoided in future.
84. There is an essential difference between transactional taxes, such as VAT which can be accurately reported in real-time, and profits or gains based taxes where detailed calculations are required to ascertain the tax payable. In the latter case, unless reporting and payment frameworks can be matched so that timely payment is accurate and final, a system of estimated up front payments would be preferable.

Q20. Do you have any initial comments on the feasibility and benefits for MTD customers of paying in-year instalments towards their tax bill, informed by their quarterly MTD updates?

85. The concept of paying estimated instalments on account would appear feasible. This could either be based on the current income tax payments on account system rules, or on a modified version of the large company QIPs regime. Either would seem feasible.
86. The use of the phrase 'informed by their quarterly MTD updates' would seem to avoid a direct computational tie-in and leave open the possibility of a looser link where taxpayers could choose to make payments (within limits) which were not computationally derived from the quarterly returns.
87. A computational tie in between quarterly returns and payments would not appear workable for the reasons outlined elsewhere in this response, including the professional costs involved in preparing tax adjusted quarterly figures. The additional accuracy of tax adjusted figures over reasonable estimates is unlikely to be cost effective or justifiable in terms of additional administration.

Q21. Are there customers for whom MTD updates would be a particularly unreliable guide for in-year tax payments, and what alternative basis might be more reliable for them?

88. As outlined above, any business reporting using GAAP for tax purposes would be unlikely to find quarterly returns based on book keeping data an accurate basis for quarterly payments.

89. Businesses using the cash basis for income tax could potentially submit figures quarterly which were more closely aligned to adjusted taxable income, but it is unclear if in practice it will be feasible for adjustments such as private use to be made by all businesses in real-time.

90. For example, fuel costs from a bank feed for a vehicle used partly for business, would need to be apportioned for private use. The adjustment could be significant.

Q22. Do you have any initial comments on how income and expenses could be reported in-year for non-MTD customers or on a more frequent basis than required by MTD?

91. The most obvious route here would appear to be via the individual's Tax Account. If HMRC fed in any data available, e.g. from RTI, the taxpayer could add any additional information. Proper procedure for data correction would be needed.

Q23. Do you have any comments on potential interactions between reporting for Universal Credit and reporting for more timely payment of tax?

92. No comment

Q24. Do you have any comments on the benefits and disadvantages of flat rate expenses?

93. For micro businesses, flat rate expenses would offer a suitable and convenient alternative to applying the full tax code.

94. The results may be somewhat rough and ready, but are likely to be sufficiently accurate given the advantages of simpler compliance and more effective audit. Whereas the tax treatment of expenses, including private use adjustments can be complex and inevitably approximate, ascertaining income and fixed rate deductions is less problematic.

95. Businesses should always be permitted to apply the full tax code, subject to the need to protect revenues.

96. To counter any 'tax shopping' where businesses might opt for the system which provides the lowest tax bill, fixed rate deductions should not be excessive and consideration should be given to joining and leaving conditions.

97. For example, businesses, unless exceeding any turnover limit, could be required to stay with their choice unless there is a material change in their business, or there could be a restriction on the number of 'switches' permitted within a given period of, say 5 years.

Q25. What examples are there that work well and would be appropriate for Income Tax expenses that would not be captured through any MTD updates?

98. No additional comments.

Q26. If there were flat-rate expenses, should they replace the actual expenses or only act as a proxy for in-year calculation?

99. There seems little advantage in having proxy figures. Such an arrangement would increase administrative burdens and increase uncertainty.

100. The smallest businesses would benefit most from being able to 'rule off' each quarter as it is submitted.

Q27. If flat-rate expenses were introduced, should they be restricted to smaller businesses?

101. It would seem sensible to restrict such a measure to the smallest businesses.

Q28. Do you have comments on the impact and challenges of recognising annual reliefs, allowances, deductions, and other amounts?

102. 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.
103. For example, an individual who is self employed and employed might find, with fluctuating income levels, that part or all of the personal allowance needed to be applied to income from self-employment, where it has historically been allocated to employment. In such a scenario, even for the individual themselves there may be some uncertainty over the optimal use of allowances in real-time.
104. Having any automated system in such a context would be likely to bring errors, such as can now occur in PAYE RTI for individuals with multiple PAYE sources, when it is unclear from submitted data if a particular employment is likely to be ongoing.

Q29. Do you have any initial views on the benefits and challenges of monthly, quarterly, or other, payment frequency?

105. While quarterly payment may be appropriate for most businesses, the option to make monthly payment may be welcomed by some.

Q30. Do you have any comments about how over- or under- payments of tax could be resolved in -year?

106. One significant disadvantage to computationally linking payment and quarterly returns is the possibility of refunds being needed. Currently HMRC's processing of refunds is slow. A new system of authorising and paying refunds would be needed. As illustrated by the problems surrounding the introduction of CGT 30 day reporting, it is also essential for different HMRC systems to interact with each other so that offsetting is possible.
107. If quarterly payments are 'best estimates', then the need for refunds should be reduced as businesses will be more easily able to match payments to reality – for example to seasonal patterns, such as occur in farming and hospitality sectors.

Q31. What systems and processes exist that would help to ensure protection against fraud and organised crime, whilst also allowing quick and easy repayment?

108. No additional comments.

Q32. How could more frequent payment based on current year liability be phased in?

109. One approach would be to crystallise the catch-up amount and make separate payment arrangements for this liability. For example, spreading the catch-up payment over five years.
110. If possible, quarterly payment should be real-time payments (even if based on estimates, they would be estimates of current liabilities) as soon as possible.

Q33. Do you have any comments on any specific impacts that more frequent payment of tax could have on large partnerships and how these might be mitigated?

111. No comment

Chapter 5: Cash-Flow Impacts

Q34. What methods do taxpayers use to budget for their tax bill?

112. Based on information from sample polling questions and discussions with members, despite advice to save in advance, the majority of businesses (perhaps up to 60%) do not seem to provide in advance for tax liabilities. Instead, tax bills are paid out of current earnings.

113. Very few (possibly under 10%), seem to make provision in a separate account for future tax liabilities.

Q35. Do you have any comments on what more HMRC could do to help taxpayers pay their tax on time?

114. Few taxpayers are likely to want to pay tax in advance, though favourable interest rates on tax paid early may encourage such behaviour.

115. The layout of the current tax liabilities within the Business Tax Account is not particularly helpful in identifying and planning income tax payments. For example, on submission of a tax return, the full liability for the tax year is shown, ignoring payments on account already made. This is not a particularly useful figure.

116. The Business Tax Account could incorporate a budgeting tool which would quantify, for example, the monthly equivalent of the annual tax bill. Eg 'you would need to put aside £x a month to cover this annual bill'.

117. It would help if the Business Tax Account clearly set out what needs to be paid and when, for 12 months ahead, taking into account all payments on account.

Q36. Do you have any comments on the positive and negative cash-flow impacts for businesses of more timely payments?

118. The medium to long term impact should be positive as tax becomes a regular 'business expense' just like rent, wages or any other business cost.

119. Moving to this goal is more challenging. Certainty over what liabilities are, and how they are to be collected, is key to successful accommodation and planning. It would be of assistance if basis periods and overlap relief were dealt with at the same time as the move to real-time payments.

120. Businesses may want to establish for themselves a tax payment cycle which matches their pattern of trading. For example, share fishermen, those in tourism, farming and hospitality can all experience significant seasonality. Each business may have a different preferred method of paying the tax liability and this should be facilitated.

121. For example, businesses could agree to a 12 month payment plan, based on expected annual liability and be free to spread their annual liability in any manner they choose. For example, a seasonal trader with far higher summer earnings, might prefer to pay the annual liability in full over the summer months.

Q37. What wider economic impacts do you foresee from reducing the time between the income and the taxation?

122. No additional comments.

Q38. Which taxpayer groups will be most or least affected by the cash-flow impact of more timely payments?

123. No additional comments

Q39. Are there particular ways in which accruals accounting might lead to greater impacts on certain groups or types of business?

124. No additional comments

Q40. Do you have any comments on the cash-flow impacts on the case studies outlined above?

125. No additional comments

Q41. Is there a better way of grouping people to consider the level and nature of impact on cash-flow, outside of trades?

126. No additional comments

Q42. What are the common uses for the funds that will become due as tax on income during the period before it is payable? Does this differ by business, trade, or other factors? Is there research, data, examples, or other supporting evidence to build up a picture?

127. No additional comments

Chapter 6: Wider Questions

Q43. Are there other taxes administered by HMRC that the government should consider for more timely payment of tax?

128. No additional comments

Q44. Do you have any initial comments on the opportunities and challenges of more timely payment of CGT?

129. The introduction of CGT 30-day reporting for residential property has been highly problematic. There have been numerous issues with the reporting system. Some of these arise because the system is not well designed, some returns have to be made on paper (not only by the digitally excluded but for estates etc), agent access is difficult and CGT reporting does not connect with other HMRC systems (notably the SA system). Other issues relate to the fundamental difficulties arising from making a return and payment of tax, at a time when accurate calculation of the tax is often not possible. The rate of CGT may not be known until the year end and there is also insufficient scope to amend returns to take account of subsequent disposals, after the initial property disposal.

130. Taxpayers are now experiencing significant problems obtaining repayments of CGT overpaid on 30 day returns, or offsetting overpayments against payments due under SA. Insufficient consideration was clearly given to payment, refund and offsetting processes before the system was launched.

Q45. Is there anything else you would like to suggest to help progress the exploration of this policy?

131. No additional comments

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