HM Revenue & Customs

Making Tax Digital: Discussion paper on simpler payments

Introduction

1. The government is revolutionising the services it provides to taxpayers and committed at Autumn Statement to invest £1.3bn to transform HMRC into one of the most digitally advanced tax administrations in the world. At the heart of this will be simple, secure and personalised digital tax accounts, bringing an end to the tax return.

2. On 14 December 2015 the government published the Making Tax Digital roadmap which sets out in more detail how this transformation will be achieved both for businesses and for individual taxpayers. This includes transforming the tax system so that it operates much more closely to 'real time'.

3. The roadmap sets out how, by 2020, most businesses, to include companies, partnerships and individual taxpayers who are self-employed and those letting out property, will be required to keep track of their tax affairs digitally and update HMRC at least quarterly. By reporting information closer to real time, businesses will find it easier to understand how much tax they owe, giving them far more certainty over their tax position and helping them to budget accordingly.

4. For individual taxpayers, the roadmap sets out how, from 2017, HMRC will make much better use of the real-time data received from employers operating PAYE – and other information from third parties – to reduce over and underpayments.

5. The roadmap also indicates that the government will consult on the issue of payment – on options to simplify the payment of taxes, align payment arrangements and bring payment dates closer to the time of the activity or transactions generating the tax liability.

6. HMRC will be running a series of consultation events in January and February to discuss these payment issues with stakeholders. This document is intended to set out the context for these events and to set out the agenda for discussion.

7. These events will not consider Corporation Tax (CT) arrangements in respect of the largest companies (broadly those who have more than £20m profits in a 12 month accounting period) since the government has already announced reforms to Quarterly Instalment Payment (QIPs) for this group. However, they will consider payment arrangements for the remainder of the CT population, Income Tax Self Assessment (ITSA), Value Added Tax (VAT), Class 4 National Insurance Contributions (NICs) and other taxes collected through the Self Assessment process.

Simplifying payment

8. Making Tax Digital provides an opportunity to consider how HMRC can simplify payment arrangements for taxpayers. The current arrangements have developed over decades in a way that made sense for those taxes at the time but leaves many different payment systems which are confusing for taxpayers and lead to error.

Example: Complexity for Unincorporated Businesses

The arrangements for unincorporated businesses within the current Self Assessment (SA) system are complex, governed by basis period rules that determine how periods of account are mapped to the tax year. These rules mean that there is a long lag between the start of trading and the first payment of tax and can result in some or all of the first year's profit being taxed twice. Even when unincorporated businesses are established, there are variable lags between the profits being generated and the tax being paid. Neither are the payments on account due in January and July under the SA system based on up-to-date data but on the tax due and paid in the previous year.

9. Making Tax Digital also presents an opportunity to align payment arrangements across different taxes and to provide a more joined-up service for taxpayers. The government has already brought the collection of Class 2 National Insurance Contributions (NICs) for the self-employed into the arrangements for self-assessment, which means that from April 2015, Class 2 NICs are now collected alongside Class 4 NICs for most. The government is also consulting on the abolition of Class 2 NICs and reform of Class 4 to further simplify the system.

10. We envisage that, for the self-employed, the payment arrangements for NICs will continue to align with those for Income Tax (IT), wherever possible. But HMRC also want to consider opportunities for alignment beyond NICs and IT to reduce the burden on taxpayers, and make payment arrangements that are more like paying a single tax, for example being able to offset Construction Industry Scheme (CIS) deductions against other liabilities.

Smaller, more regular payments

11. For businesses and individuals, there are variable periods of time between the activity generating the tax liability and the payment date. These lags made sense in a paper-based world where it took time to gather the information to calculate liabilities. But in an increasingly digital world, taxpayers should not have to wait until after the end of their tax year or accounting period to understand how much tax is likely to be due, or to receive any repayments.

12. The government has already announced some changes in this area. The payment of Capital Gains Tax (CGT) on the disposal of residential property will be brought forward to within 30 days of completion and there will be a reduction to the filing and payment window for Stamp Duty Land Tax (SDLT).

13. We know from research and stakeholder engagement that many taxpayers see advantages from paying smaller amounts of tax more regularly. Research conducted for HMRC in 2015, for example, concluded that many small businesses saw that this could enable them to better plan their finances and avoid shocks, especially for taxes currently paid annually. (https://www.gov.uk/government/publications/understanding-the-impact-of-reporting-cycles).

14. Some relevant quotes from the research are below:

    "You pay your bills monthly why not tax? As long as it's not more expensive to do it that way" (Sole trader, SA)"

    "It sounds like an attractive proposition. I wouldn't have drawers full of receipts! It would also save me from paying a huge tax bill at the end of the year" (Sole trader, SA)

    "Having regular payments for HMRC will mean [it's] easier to balance the books and know where the business stands [for] finance" (10-49 employees, CT)

    "Not knowing how much tax is due is difficult as I don't like shocks and it may mean I don't have the money available. Hence knowing if I'm over or under paying on a more regular basis will help, and it also helps cash flow" (2-9 employees, CT and VAT)

Example: Payment of Corporation Tax

Companies with profits above £1.5m a year are required to pay their Corporation Tax (CT) through Quarterly Instalment Payments (QIPs). Companies with profits below £1.5m a year make a single payment no later than 9 months and a day after the end of their accounting period. This means they pay tax later than is the case in any other country in the G20 and creates a significant transitional burden for those that grow and move onto QIPs.

Employees & Pensioners

15. The majority of employees and pensioners pay the correct amount of tax through their employer's operation of PAYE, but those with secondary income sources currently need to tell HMRC about this other income through the Self Assessment process.

16. Those employees and pensioners with secondary income of £10,000 or more a year from self-employment or property will be required to keep track of their affairs digitally and update HMRC at least quarterly through their digital account. Making Tax Digital will enable them to have a more up to date view of their overall tax position across all sources of income. The digital tax accounts will provide a view of how their personal allowances have been allocated against employments and pensions, the impact that has on the tax they pay each week or month and the tax owed on any income not covered by PAYE.

17. Employees and pensioners with secondary income of less than £10,000 will not be subject to the same requirements as business. But, they will be able to report income regularly through their digital tax account and HMRC will be able provide these taxpayers with the information they need to budget for tax on their income from self-employment and any other income they receive. In practice, digital accounts will mean these taxpayers, too, will be better able to keep their tax position up to date creating a straightforward bill (or repayment) closer to real time, removing the necessity of filling in a tax return or the worry of a surprise tax bill building up over the year.

Example: Individual with Employed and Self Employed Earnings

Individuals whose main income is through employment currently receive their pay after tax and national insurance has been deducted by their employer. In addition they have to complete a self-assessment tax return by 31 January, following the end of the tax year in which they received income from self-employment to provide HMRC with the information required to calculate the tax due. In addition under the SA system the tax due for payment in January relates to income earned up to 20 months previously with a further payment on account potentially due in the following July. With payment dates set so long after the event this can feel like a disjointed and complicated process with little bearing on current circumstances.

Consultation Events

18. HMRC wants to explore the issues raised in this document with stakeholders at an early stage and to invite their ideas. In particular, whether the principles that we have set out here of a simpler and more aligned payment system, operating in closer to real time are the right ones for a transformed tax system. We are also interested in views on the practical steps involved in transitioning to any new payment arrangements, and the impacts on taxpayers.

19. We intend to begin this discussion with a series of events with key stakeholders in January and February, avoiding the immediate run up to 31 January wherever possible. If you wish to express an interest in joining one of the events, please email makingtaxdigital.mailbox@hmrc.gsi.gov.uk