HM Revenue & Customs

Making Tax Digital: Voluntary pay as you go

Summary of responses
31 January 2017

Contents

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1. Introduction

1. On 14 December 2015, HM Revenue and Customs (HMRC) published the Making Tax Digital roadmap which sets out how we will transform the tax system so that it is more effective, more efficient and easier for customers.

2. Making Tax Digital (MTD) will be introduced in phases: April 2018 for Income Tax and National Insurance obligations; April 2019 for VAT obligations; and April 2020 for Corporation Tax obligations.

3. On 15 August 2016, HMRC published six MTD consultation documents. One of these, Making Tax Digital: Voluntary Pay as You Go, looked at the options, under MTD, for a customer to make and manage their voluntary payments, and considered how voluntary payments would be allocated across a customer's different taxes. It sought views on, and explored the best way of dealing with, the repayment of voluntary payments.

4. The consultation also looked outside voluntary payments and considered how regular updating might provide the opportunity to make earlier repayments to customers.

Responses to the questions posed in the consultation document

5. This document sets out the questions asked in the consultation and provides some detail on the responses received. It follows the order of the consultation document. Some responses were not specifically attributed to any particular question so this document has tried to group the responses under the most relevant question. For some questions there was a considerable overlap in the responses; in those cases we have grouped them together into a combined summary and government response.

6. There were 80 written responses to this consultation, with an additional 617 responses to the question "Do you see any challenges with the voluntary payments process described?" posed by the MTD online survey.

General comments

7. Overall, respondents welcomed the opportunity to comment on the detail of the proposals, and the majority were supportive of the voluntary nature of the payments. The online survey lent itself to more general comments, and despite the ministerial commitment to no changes to mandatory due dates during this parliament, reflected some concerns that changes would follow.

8. Concerns regarding the proposed reforms centred on a few key issues:

- the complexity of the customer view in the digital tax account
- appetite for an option to make a voluntary payment
- the speed with which HMRC might handle repayments
- a customer’s loss of control in the allocation of payment against a particular tax

9. These issues are addressed under the relevant questions in the following pages.

2. Responses

Chapter 2. What voluntary payments might look like under MTD for business customers

10. The voluntary payments process described in chapter 2 of the consultation document proposed:

- customers would decide how often and how much they wanted to pay. These might be: regular set amounts; one-off payments; payments based on estimates of liability
- there would be no such thing as a missed voluntary payment, so a customer was not committed to, or chased for, payments
- voluntary payments would be repayable on request, up until the credits were allocated to a due liability (subject to possible parameters for debts becoming due shortly)
- voluntary payments might need special indicators, depending on system functionality, and would be paid and repaid electronically
- voluntary payments would sit on a customer’s account as a credit, allocated against liabilities as they became due, using appropriation[1] rules set by HMRC, with unused credits carried forward for use against future liabilities

Question 1: Do you see any challenges with the voluntary payments process described? Do you think there are alternative options that should be considered, and if so, what are these? (46 responses)

Question 2: Do you have any views or suggestions on the display of voluntary payments in the digital tax account? (41 responses)

11. A recurring observation was that, whilst in principle the process had merit, in practise there was unlikely to be a significant take-up of voluntary payments. Most businesses in reality would be reluctant to pay earlier than required, and those who were willing would already be putting money aside into their own savings account (retaining complete control over their funds). New businesses may be most receptive to voluntary payments as they would not face the same cash flow difficulties as existing businesses.

[1] HMRC accounting policies refer to the allocation of payments received as “appropriation”

12. Implementation was considered to be a tricky issue, with voluntary payments triggered by real time information being made alongside payments on account for preceding years. Also, with the exception of simpler businesses, it was observed that an in year estimated liability was unlikely to be accurate, and could give rise to more queries. It would be better for some businesses to ignore the estimates and make any voluntary payment based on their own projections.

13. There were queries about whether the HMRC payment service could be embedded into third party software for ease of the customer journey, and whether data in the digital account concerning payments made would be fed back to the software. Any link to payment functionality through software should reinforce the voluntary aspect of payments. One respondent commented that free software needed to have Voluntary Pay As You Go (PAYG) functionality built in so that no-one was excluded from it.

14. It was considered essential that HMRC makes it clear that voluntary payments are entirely optional, and provided clear messaging to ensure that customers do not feel they have to make payments that they could ill afford, or end up overpaying from a lack of understanding. The direct debit system was seen as a potential problem in this respect, and it was suggested that HMRC should not rely on customers to monitor this, but should themselves review any arrangement, perhaps annually.

15. Respondents highlighted there was a risk that problems would arise if the payments made weren't easily identifiable in the digital tax account, and there needs to be complete clarity over their eventual allocation. It was also considered to be essential that repayments are simply and easily accessible, as otherwise there could be negative impacts on a business' cashflow.

16. There was some recognition of the potential benefits to all taxpayers from reductions in debt action. However it was emphasised that the system needs to remain voluntary.

17. The consultation document raised the possibility of restrictions over the number of payments or repayments allowed in a period. Respondents thought that although the majority of those taking up voluntary payments were likely to opt for 12 a year/one a month, there would be some who might prefer to pay weekly, in which case a maximum of 53 payments would be useful. It was also thought that limiting the number of repayments in a period would affect the flexibility and therefore the attractiveness of voluntary payments.

18. It was suggested that the volume of repayments would be low in practice, on the basis that if HMRC was not proposing to pay interest on voluntary payments, customers would therefore be less likely to 'invest' money with HMRC and only pay sums which they felt comfortable with HMRC retaining. A cap of 12 repayments in a period - equivalent to one a month - was suggested by one respondent as a possible sensible approach.

19. Flexibility over payments was welcomed, however some respondents felt that to avoid confusion voluntary payments need to be tagged separately, and that it may be necessary for customers to have to register separately for voluntary PAYG. Whilst this reduces flexibility, it would improve customer understanding and expectations.

20. Previous experience had led some respondents to query the capabilities of HMRC's IT systems, especially in relation to updating liabilities due with payments made. If this was too slow and a debt was shown where there were voluntary credits elsewhere on the system it was considered to be likely to lead to misunderstanding and increased contact.

21. A query was raised over how voluntary payments and their repayment would interact with the benefits system, particularly with Universal Credit, that are based on net income, and which therefore reflect the tax and national insurance that has been paid.

22. The examples in the consultation document were seen as confusing by many respondents and there was a concern about how easy it would be for businesses to follow what was displayed in the digital tax account. The increased number of transactions arising due to the display of estimated in year liabilities and the combination of different taxes could give a very confusing and busy picture. Some thought that estimated liabilities should be kept separate from amounts which are legally due.

23. Having a view of a specific tax year was thought to be helpful for queries relating to that one year, but a global view of credits and debits for all years in a consolidated format would also be helpful. There should be explanations of entries clearly showing the date, amounts and method of payment by which voluntary payments were made, the details of what they have been used against, repayments made, and indication of impending liabilities that they will be allocated against.

24. Whilst some thought it would be helpful to compare the voluntary payments to the cumulative estimated liabilities in order to judge the shortfall/overpayment, others felt this could be misleading.

Government Response

25. The government recognises the importance of ensuring that customers are fully informed at every step in the voluntary payment process. The optional nature of these payments will be reinforced throughout guidance and at all points where voluntary payments are referenced.

26. We are committed to ensuring that the software industry makes available products to properly display information on voluntary payments, to ensure a positive customer experience and confidence in making voluntary payments.

27. We continue to develop our electronic payment services to ensure simple and straightforward processes, with preferred methods by BACS, faster payment,

direct debit, card and CHAPS. Customers entering direct debit arrangements are covered by the direct debit guarantee, which enables a customer to cancel the arrangement at any time.

28. In determining how many payments can be made in a period consideration will need to be given to the costs to the exchequer of the payment method used.

29. The detailed design for voluntary payments on the digital tax account will be informed by customer research. We will ensure that the online facility to claim a repayment is simple and quick to follow, that there is clear messaging on the implications of claiming a repayment, and that - subject to the necessary robust security procedures - repayment is made promptly after a request. Repayment will be made to the customer's bank account, or where appropriate, to the originating card.

30. We are alert to the possible impacts of voluntary payments on benefits and these will be considered as part of our regular dialogue with the Department for Work and Pensions on interactions with MTD.

31. Many of the suggestions regarding the display of the digital tax account extended beyond voluntary payments. These will be considered separately by the government in the wider development of the digital tax accounts.

Question 3: Should there be a 'period of grace', and if so, what period would be appropriate to allow for separate payment of an amount becoming due? (52 responses)

32. The consultation document considered whether time might be needed to allow a customer to pay a due liability separately without money being allocated from the voluntary payment credits.

33. Many respondents questioned the need for such a restriction, seeing it as adding an unnecessary complication to the process. Allocation of voluntary payments made against liabilities as they become due would be the most straightforward way of handling and displaying voluntary payments (provided the penalty and interest consequences were always in the customer's favour), avoiding any necessary complication. Customers would not want to have to keep managing their digital account.

34. Arguments for allowing a grace period included the complexities of having multiple liabilities across a range of taxes, the possibility of liabilities arising of which the customer may be unaware, and a concern that payments could not be specified and tagged for a particular period.

Government Response

35. In order to keep the process simple and straightforward, and to minimise the work that customers will have to do to manage their digital tax account, the government does not intend to introduce a period of grace before applying

voluntary payments to liabilities as they become due. It will ensure that the intention to use voluntary credits against forthcoming liabilities is clear in the digital tax account, and will explore the options for appropriate messaging in the business software.

Question 4: Do you have any general comments to make on the allocation of voluntary payments? (46 responses)

Question 5: Do you see any problems with HMRC's intended approach to the allocation of voluntary payments? (42 responses)

36. Drawing on past experience a number of responses to these two questions focused on whether HMRC's IT systems would be able to cope with allocating payments correctly. Additionally it was commented that for HMRC allocation to work correctly, interest and penalties would need to be wholly aligned, and any entitlement to benefit reliant on contributions taken into account.

37. It was observed that under common law principles the customer has the right to allocate payments against specific liabilities, and it is only in the absence of a customer allocation that HMRC can direct where a payment should be appropriated. If the intention is that any voluntary payment is deemed to have been made without any allocation by the customer, this needs to be made explicit to the customer in all guidance and advice surrounding voluntary payments.

38. The design of the digital tax account was a recurring point, and was seen as fundamental if customers are to be able to understand all their affairs across taxes, yet not enough detail of the design has been made available. In the early days it might be easier to keep the taxes separate, and develop a multi-strand view gradually.

39. One respondent observed that HMRC would not be matching like with like. The credit card analogy - allocating payments against the oldest debt first - was thought inappropriate as, for example, VAT and income tax are different taxes, and allocating an income tax payment against a VAT debt was therefore in their view like allocating a payment made on one credit card against the liabilities arising on a different credit card.

40. Some suggested that customers should be given the option to tag the voluntary payment as either for a specific liability, for example, for a 2020/21 Self-Assessment (SA) liability, or for a general payment on account for HMRC to appropriate. In the absence of any tagging the default should be to the oldest liability.

41. Using voluntary payments to pay off whichever tax becomes due first was supported by several respondents on the basis that this would mitigate interest and penalties as much as possible, dependent on alignment of those charges. Others suggested that a payment should be allocated in the most beneficial way for the customer; usually the oldest, interest bearing liability.

Whilst using voluntary payments to pay off whichever tax becomes due first was recognised as simplest for customers to understand, it does remove freedom and flexibility of choice from the customer. Some agents said they would not therefore recommend voluntary payments to their clients.

42. Where a liability is in dispute it was suggested that a voluntary payment should not be allocated against it, unless the customer specifically requests it.

Government Response

43. As mentioned in the consultation document, HMRC is considering the allocation and set-off of payments in general, with voluntary payments just one subset. The responses to questions 4 and 5, whilst centred on the application to voluntary payments, included many comments and suggestions in relation to a general policy on payment appropriation. The government will be using these responses to inform future thinking on appropriation.

44. We believe treating voluntary payments as amounts paid towards a customer's liabilities, rather than towards a specific future liability, provides the most flexibility and will ensure money can be allocated in the customer's interest to minimise debt (including interest and penalties) without the need for queries or further interaction from the customer. To do this we will ensure robust business allocation rules are in place, and that these are publicly available. These rules will take into account many factors, including the needs for certain customers to protect their entitlement to contributory benefits through the payments of Class 4 National Insurance Contributions. The automatic allocation of voluntary payments across taxes will only become available as our different taxes migrate to a single digital platform. Voluntary payments made by a business in the earliest stages of MTD will therefore be treated as payments of Class 4 NICs and income tax.

Question 6: What improper or inappropriate use of the repayment facility do you think there may be, and what rules do you think should be applied by HMRC to stop that happening? (36 responses)

45. There was a general view that unfortunately fraudsters will always try to target systems, with money laundering also an ongoing issue. It was considered to be HMRC's responsibility to ensure that robust safeguards are in place on its systems to fight online cyber threats, and the risks should be no greater from voluntary payments than any other overpaid tax. Making repayments to the debit/credit card or bank account from which payments have been made, or to a pre-nominated taxpayer bank account, would help to alleviate some of the risks. Customers would need to be confident that such bank account information was securely stored by HMRC.

46. Respondents suggested that care was needed over making repayment to intermediaries, possibly even a ban on repayment to third parties, but it was felt this should already be HMRC practice and not just linked to voluntary

payments. For money laundering the focus should be on stopping the payments from being received by HMRC in the first place, including measures to stop the fraudulent creation of Government Gateway accounts.

47. There was some concern that voluntary payments could be used to hide money from creditors, by moving money from a private or business bank account to HMRC even when there is no liability. A way around this would be to limit the amount of voluntary payments that could be made to the amount of known upcoming liabilities, and estimated liabilities.

48. From the perspective of debt management, some respondents suggested that the digital tax account should not be viewed as a form of savings account, which might encourage customers to use it as a bank, drawing money out at will. However they also recognised that this could impact on the perceived flexibility in budgeting towards a tax bill and discourage take up. It was suggested that HMRC would already hold data showing business patterns of behaviour that could be used to inform repayment parameters and messaging.

49. Further responses concerning the management of debt are detailed below under question 7.

Government Response

50. The government is committed to ensuring that its IT systems are secure. There are already processes in place within HMRC to reduce the incidence of repayment fraud, including strict procedures in place concerning repayment to third parties. Our repayment rules currently repay to the debit or credit card from which payment was received and these rules will be applied to voluntary payments. As we align our processes across taxes we will be reviewing what bank account information we will use for repayments, and how we securely validate and store such information. HMRC will continue to review its processes, to include countering cyber-attacks, and identifying and tackling money laundering. It will monitor voluntary payments coming in and out to determine any additional risks arising and what preventive action is needed. This will include volumetric assessment and comparisons of payments to liabilities.

Question 7: Do you agree with a restriction on repayments shortly before a liability becomes due, and if so, what period or terms of restriction do you think should be put in place? (52 responses)

51. Opinion was divided on this. Some were supportive of the principle, and suggestions ranged from seven to thirty days. There was a caveat from several respondents that the restriction must be limited to the sum becoming payable; anything over and above that should be repaid.

52. Other respondents were opposed to a restriction, with the primary reasons being:

- until a liability is due HMRC has no right to withhold a repayment
- it would destroy confidence in the “voluntary” aspect of these payments
- cashflow management is crucial for many small businesses
- the crown has no preference over other creditors
- HMRC has the power in some circumstances to take funds from a customer’s bank account to meet debts

53. Some respondents suspected there would be different repayment restrictions for the different taxes, so the additional complexity would discourage customers from making the payments in the first place.

54. Those who were supportive pointed out that currently HMRC inhibit repayment of a credit on the self-assessment account if there is a liability becoming due within the next 45 days. It was thought this had proved to be a sensible approach, although with the increased transparency of liabilities and due dates the current window should be reduced, especially for a voluntary payment.

55. It was deemed important that the customer is always informed of what is happening, and especially the possible future consequences at the point when a voluntary payment is made.

56. A recurring suggestion was that where repayments are requested within a certain number of days of the next due date, the system could display a warning to the customer of the impending liability, advising the interest and penalty consequences of non-payment, and possibly even asking the customer to confirm they have read and understood before proceeding with a repayment. Giving agents access to the digital tax account was also recommended to enable customers to make better informed decisions.

Government Response

57. As repayments will not arise automatically on voluntary payments, in all cases a repayment will have to be requested, through digital channels. We recognise that customers requesting a repayment may be unaware of the consequences of proceeding shortly before a liability becomes due, which may prove to their detriment, and the importance therefore of ensuring that their decision to proceed is fully informed. The government also has an additional responsibility to obtain the best value for the exchequer, and ultimately for all taxpayers, ensuring it has proper debt management controls in place.

58. In the light of these comments the government’s position is that repayment requests of unallocated voluntary payments made within 30 calendar days of a liability becoming due should trigger a message advising the amount, nature and due date of the liability, the interest and penalty consequences if payment is not subsequently received on the due date, and asking the customer to confirm their intention to proceed with their request. Where the

customer makes such a confirmation, repayment of the full amount requested will proceed, subject to certain criteria:

- where a request is received within 7 days of a liability becoming due, a restriction of an amount up to the liability will occur unless all the customer's liabilities within the previous 12 months have been paid within 7 days after the due date
- where enforcement action has been necessary against the customer in respect of an unpaid liability within the previous 12 months, the government reserves the right not to proceed with a repayment request up to the amount of any liability becoming due within the next 30 calendar days

59. We believe this balances the need to give customers control of their voluntary payments, alongside the delivery of the best value to the exchequer - and therefore all citizens - as part of HMRC's collection and management responsibilities. Cases of particular hardship may still be dealt with on a case by case basis.

60. The above position assumes that an unallocated voluntary payment will be separately identifiable from other customer credits. Where this is not the case we will have to reconsider this approach.

Chapter 3. Other aspects of PAYG

61. This chapter considered the interaction of voluntary payments with payments on account, the opportunity to elect for an overpayment to be held as a voluntary credit rather than be repaid, the application of interest, and the operation of voluntary payments for partnerships.

62. Payments on account are mandatory payments currently payable by some customers within income tax self-assessment. They are paid in two instalments, based on a previous liability. The consultation document explored the opportunity to use the sums being reported under MTD.

Question 8: Do you have any views or evidence on whether, and how, HMRC should revisit the sums paid as payments on account to match more closely to the sums being reported under MTD? (42 responses)

63. The majority response was that payments on account should not be revisited at this stage to match them more closely to sums being reported under MTD.

64. The primary reason for this was the proposal in the consultation document Making Tax Digital: Bringing business tax into the digital age that quarterly updates did not need to include tax and accounting adjustments. On this basis it was thought difficult to mandate payments on account based on tax estimates which would not reflect an emerging annual taxable profit. It was also considered difficult to get a consistent picture for seasonal businesses, for those that might make year-end payments (for example pensions

contributions or capital purchases) or for those individuals with other sources of income that they report annually.

65. Another factor in respondents' desire not to revisit the payments was the large change coming in with MTD. The payment on account system is understood and works reasonably well. Changing this at the same time as everything else would be too much. Once MTD has fully bedded in there would be the opportunity to reconsider this, and at that point it was proposed that a full, standalone consultation on payments is carried out, following detailed research into how the estimated liabilities from quarterly updates compared to final liabilities.

66. Respondents did see merits in using the quarterly updates to inform the payment on account. Customers could compare the statutory payment due on the basis of the previous year's liability with the quarterly estimates, and use the information gained to consider whether to request a reduction to the payment on account. Clear messaging, and possibly an intelligent view of previous quarter outcomes, would help. Similarly, it was thought that HMRC systems could flag up to customers whether the estimates to date were higher than the payments on account required, and offer the option of making a voluntary payment of all or part of the difference.

67. Others thought that the proposals around changing business periods (see consultation document Simplifying tax for unincorporated businesses) offer the opportunity to tailor a new payment regime. They thought that real time reporting offers the opportunity to move away from old style payments on account, but needs proper consideration.

Government Response

68. In March 2016 the government announced that there would be no changes to statutory payments during the course of this parliament. It was, however, interested in opinions on how the information provided through regular updates and the finalisation of liabilities might be able to improve the customer experience of payments on account.

69. In light of the responses received we will be looking at the opportunity to build into our systems and messaging some functionality that compares in- year tax calculations with the payments on account due, to help customers decide whether to make a claim for reduced payments on account[2], or to make a voluntary payment towards a perceived shortfall.

Question 9: Do you have any views or suggestions on customers' ability to elect for overpayments to be held as voluntary credits? (49 responses)

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[2] Claims can be made to reduce a payment on account under the provisions of Section 59 A (3) and (4) of the Taxes Management Act 1970.

70. The majority thought this a good idea and supported the introduction of an option allowing taxpayers to elect for HMRC to hold overpayments as voluntary credits, although taxpayers should be able to withdraw this election whenever they chose. Elections should be possible through the digital tax account, perhaps through a tick-box facility so customers can make an election via the digital account as opposed to contacting HMRC by phone.

71. A comparison was drawn with current SA repayments that are only triggered by the submission of an SA return and completion of the repayment claim box: in effect a customer can already elect for the credit to be retained by HMRC by not completing the box.

72. Some chose to reinforce the fairness of paying interest on such credits, because otherwise a customer would have no incentive to elect for an overpayment to be rebadged as a voluntary payment.

73. One organisation welcomed this additional option for customers, provided they were fully informed, and understood the value of having voluntary credits rather than having them repaid.

74. One respondent thought that having to claim repayments would add to the administrative burden of businesses, particularly as many taxpayers who do not intend to visit their digital tax account could have credits sitting on their account that they are unaware of. In contrast, another suggested that if a customer overpays, it should be held on their account and the responsibility would be on the customer to request a refund online – making less administration for HMRC - provided the customer is informed of the overpayment.

Government Response

75. We are currently reviewing the repayment process in a digital environment and the responses to question 9 will feed into that work.

76. Currently many SA repayments are claimed in a tax return. Under MTD for business we envisage that the end of year submission and/or the finalisation of liabilities for a tax year will, for the moment, replicate this. The absence of such a claim will therefore result in the overpayment, by default, being treated as a voluntary credit.

77. We will consider the interest implications of this as part of our wider review of alignment of interest across the taxes.

Question 10: What are your views on how voluntary payments might work for partnerships? Do you think partners will see the convenience of direct payment towards their total liabilities as outweighing a loss of a limited amount of confidentiality? (41 responses)

78. In general, respondents thought most partners would not want to give up confidentiality for the sake of convenience, although this view was not

universal. Those dealing with, or involved in, smaller partnerships were more concerned than those dealing with, or involved in, larger partnerships where there may already be tax payments being made and allocated to the partners.

79. It was thought that the process should be on an opt-in, electable basis only, possibly through a specific authorisation of a data feed to the partnership that could be set up through the individual's digital tax account. One respondent thought that all the partners needed to agree to this, as money would be coming out of the partnership bank account, whilst allowing different partners in the same partnership to make different choices was essential. Any system would need to be capable of dealing with the breadth of partnerships, from the smallest to the big firm partnerships.

80. Some couldn't see how confidentiality could be maintained if an individual's tax liability was passed to the partnership, as it would give some indication of non-partnership income. The thought was that if payments by the partnership were ever made mandatory, the voluntary payment should only be calculated on partnership income (ignoring the partners' other sources of income), although it was assumed this would be very difficult for any system to calculate.

81. It was thought that payment by the partnership does not necessarily need a data feed from the individual partner's account. The partnership could make a one-off bank payment from the partnership bank account to the individual partner's tax account as they currently do, or a standing order from the partnership bank account to the individual partner's tax account. These would be instigated by the partnership, with the onus on the individual partner to advise the partnership of what payment to make on their behalf. Many larger partnerships would have practice managers handling this already. In smaller partnerships there was thought to be a greater risk of loss of confidentiality.

82. A difficulty was observed where an individual is in more than one partnership. These partners may require some of the tax to be paid by each partnership. There would need to be some mechanism for the individual to state what percentage of their tax was to be notified to each partnership.

83. There was also an issue of how any repayment would be dealt with. Respondents asked whether a repayment arising should be sent to the partnership or to an individual partner? What about a request for a repayment of a voluntary payment before it has been allocated against a due liability - would a partner be able to request a repayment of voluntary payments made by the partnership?

84. A general comment was that, at this stage, trying to design a system that could deal with the nuances of partnerships and partners' own tax affairs is premature, and that MTD needs to be given time to bed in before such a regime is implemented for partnerships.

Government Response

85. The consultation response document [Making tax Digital: Bringing business tax into the digital age] states that partnerships may opt for data relating to an individual partner's profit share to be submitted from the partnership's quarterly update directly to the individual partner's digital tax account. Where such an option has been taken up, we plan to enable an *additional* 'opt in', by the individual partner, allowing a data feed to the partnership suggesting an appropriate voluntary payment in respect of that individual partner. No information will be passed to the partnership from the partner's personal tax account in relation to the partner's tax affairs.

86. Partnerships and their partners not covered by the opt-in arrangements may still choose to separately discuss and arrange voluntary payments (see question 11 below on third party payments).

Question 11: Do you think there are any special considerations that should apply to third party voluntary payments? (31 responses)

87. In general respondents thought it was reasonable to treat third party payments as payments made by the taxpayer. This arrangement would suit some customers and there was no reason to treat these payments differently.

88. Security was the key concern here, and provided HMRC has robust safeguards in place there did not appear to be any issues. Customers have a choice, and if they are uncomfortable with the processes applying, it is for them to ensure the third party transfer the funds to the customer first, rather than directly to HMRC.

89. Opinion was split over whether repayments should be made to the customer, or the third party who had made the payment. HMRC needs to make it clear to both the customers and any third party what the repayment policy is. It was also considered that it should only be the customer who should be able to request a repayment to avoid complications.

90. It was queried whether the third party would get access to the customer's digital tax account, or if there would be a facility to allocate a voluntary payment to others from within an individual's digital tax account. It was probably simplest for third party payments if the payer simply needs the unique taxpayer reference / identifying details of the taxpayer, and could make a payment over the phone/by BACS/via GOV.UK.

Government Response

91. We agree that a third party should be able to make payments on behalf of a customer. Data from a customer's digital tax account will not be shared with a third party.

92. We expect most third party payments will be made separately quoting the unique taxpayer reference of the intended customer, however, as part of our

agile development of our IT systems and digital account we will review the opportunity to digitally direct a payment from one digital tax account to another, without compromising on customer confidentiality.

93. Any voluntary payment received into a customer's digital tax account will be treated as a payment made by that customer. Any repayment of the voluntary payment will therefore follow the rules applying to payments made by the customer. Going forward we will be reviewing those rules to ensure alignment across the taxes, with the basic principle that repayments will be made directly to the customer except where overridden by specific provisions, such as the banking industry standard where payments made by card must be repaid to that same card.

Chapter 4. Take up of voluntary pay as you go

94. This chapter considered what might increase customer appetite for making voluntary payments, and fed back some of the suggestions arising from earlier face to face events.

Question 12: What additional processes or measures would make customers feel more confident about making voluntary payments? (40 responses)

95. As already mentioned above, respondents generally felt take-up would be low, with incentives likely to have minimal effect. Some respondents felt there should be no incentives, stating that it unfairly penalises those who are unable to pay earlier, or might wrongly encourage those for whom earlier payment is unsuitable.

96. Agents currently advise their clients to budget for their tax bills. They might be more inclined to recommend voluntary payments to their clients if:
    - they were confident that requests for repayment of unallocated credits were easy to make, and dealt with quickly and efficiently. Whilst it was recognised that security checks of repayments were needed, it was thought there were far too many and that they took far too long
    - they were confident in HMRC's allocation of voluntary payments to liabilities - experiences under RTI had caused concern
    - interest was payable on unallocated credits

97. Interest was a recurring theme. There were some strong feelings towards HMRC's stance that no credit interest could be paid before the tax due date. Paying interest would encourage voluntary payments over simply saving money in a bank account, and it would undermine the accusation that HMRC is offering this facility not as a budgeting mechanism for businesses, but as a money making exercise.

98. It was acknowledged that paying interest on unallocated credits could encourage HMRC to be used as a bank, but to get around this HMRC could pay interest only once the money had been allocated against tax; any credits

that were repaid before they were used to meet a liability would not attract interest.

99. Messaging was a key theme, with suggestions for positive media coverage on the benefits, online advertising, and leafleting to potential customers. The current budget payment plan was underused because most people didn't know it existed. Additionally, HMRC needs to provide reassurance that repayments would be quick and easy, as cash flow would be a key reason for requesting a repayment.

100. The customer experience is important; a poor experience could put a customer (and all their acquaintances) off. HMRC needs to ensure payments are reflected quickly on the customer's record and that the direct debit facility is overhauled. As utility firms often give a small reduction in the charge for entering into direct debit arrangements, one respondent wondered if the same could be done for HMRC customers.

101. The consultation document at paragraph 4.3 flagged up four suggestions that had emerged through earlier engagement events. Only paying interest and speeding up repayment security processes met with substantive response. Monthly draws were not viewed favourably, and incentives similar to that used to encourage online filing of PAYE returns were seen as costly, and likely to be paid to those already engaging anyway.

Government Response

102. The government acknowledges that speed and reliability in both reflecting payments made on the digital tax account, and in handling repayments, are essential in building confidence in voluntary payments. We will be working with our IT partners to ensure our systems are responsive in these areas. Our customer engagement teams will also be working on messaging and guidance. Methods and speed of payment and repayment are being reviewed by finance and risking teams within HMRC.

103. We note stakeholders' comments on interest and voluntary payments. We have no plans currently to pay interest on voluntary payments, but will continue to review this. Another consultation response document "Making Tax Digital: Tax Administration" considers the alignment of interest across taxes, including repayment interest where a customer has overpaid an established liability.

Chapter 5: Earlier repayment of tax paid or deducted

Although not directly linked to voluntary payments, this chapter asked whether once businesses were reporting regularly to HMRC there might be the opportunity for earlier repayments to be made.

Question 13: Do you have any suggestions for the basis on which earlier repayments could be reasonably claimed? (27 responses)

104. Most respondents agreed that it would be inappropriate for relief for most claims to be given before the final figures for the year were known, as subsequent events could change the tax position. It was generally considered repayments should only be made against the expected final liability of the period.

105. However, some respondents commented that businesses are wary of quarterly updates as direct tax is an annual charge based on annual allowances. If HMRC saw benefits in the submission of quarterly updates, then it should see the benefits of issuing refunds as they accrue. By not issuing in-year refunds the usefulness of the quarterly updates is diminished

106. There was support for earlier payment of Research and Development tax reliefs, to help support customers making such investments where cash flow was critical.

107. There was also support for earlier repayment of tax deducted at source under the Construction Industry Scheme. As the quarterly submissions would form the basis of the tax projection, repayments could be made if the amounts held as credits exceeded the current estimated liability due. It was felt this would help promote the use of digital record keeping and quarterly updates, especially to businesses which might otherwise be exempt from the requirements. It was thought this model could be used for both sub-contractors and contractors.

108. Although the consultation document suggested it would be difficult to give relief for losses until the loss was crystallised after the end of the period, it was suggested there may be instances where the level of loss is sufficiently certain before they are fully crystallised. For example a terminal loss may be incurred and there may be overlap relief. This was also thought to be an important area for low income groups, who need to be able to access repayments.

109. Several respondents picked up on the theme in paragraphs 5.6 and 5.7 of the consultation document, where it was queried whether the opportunity for earlier repayments should be considered 'once digital record keeping and updating is firmly embedded'. It was felt HMRC should be taking things a step at a time, and that whilst there may be opportunities for earlier repayments in due course, it is premature at this stage.

110. Generally, respondents thought the current annual basis for direct tax did not lend itself to earlier repayments, but if in due course quarterly digital updates enabled tax to operate closer to real time, there might be the opportunity to move repayments based on reliefs and allowances to a quarterly basis.

Government Response

111. The government is grateful for the responses, which have provided many useful ideas which we would like to consider further. At this time the

government believes the most responsible course of action is to allow Making Tax Digital for business as a process to become firmly embedded before there are any changes to the current approach to in-year repayments.

112. We recognise that in some niche areas a case by case approach may be necessary; where this is currently operational policy we do not see MTD as presenting any obstacles to continuing this practice.

Chapter 6. Initial Assessment of Impacts

Question 14: Please tell us if you think there are any other costs or benefits not covered in the summary of impacts below, including any detail you may have. (20 responses)

113. Generally respondents saw limited other costs or benefits arising.

114. It was thought there should be an assessment of the cost to customers from paying money to HMRC, and the benefit to the exchequer of having use of the money, before the due date.

115. The primary concern was that the administration of voluntary payments, and rectification work dealing with any errors, would cause more cost than benefits to both the customer and HMRC.

116. Costs to HMRC were suggested to be staff time and investment in:

- developing digital software with an ability to allocate voluntary payments to appropriate tax liabilities
- developing a digital customer interface which discloses the allocation of voluntary payments to liabilities, and allows taxpayers to reallocate payments and request repayments
- upgrading the repayment mechanism

117. Notwithstanding the voluntary nature of the proposals, costs to businesses were expected to be concentrated around the direct and indirect impact of the potential loss of working capital, including reduced revenues as business opportunities were lost, and increased financing costs as short-term finance was needed to fulfil consequent short-term working capital needs. In addition, additional agent fees might arise as additional agent time is needed to reallocate payments to tax liabilities.

118. From the digital perspective, if there are incentives to customers for taking up voluntary payments, but voluntary payments are unavailable to the digitally excluded, it was considered thought should be needed on the equalities impact.

119. A suggestion was made that HMRC consider the impact of voluntary payments on levels of non-compliance.

120. Agents responding saw a benefit to their clients in helping them budget towards their expected tax bills, however they felt those who were most likely to benefit were probably the least likely to take it up, unless there were real incentives.

121. One respondent expressed concern that the impact assessment had suggested that voluntary payments were more likely to be taken up by the compliant customer; it was felt this implied those who did not take up voluntary PAYG would be viewed as non-compliant, and this could be reflected in penalties.

Government Response

122. The government notes the concerns expressed at paragraph 118 and will review its offerings to the digitally excluded regarding any future incentives. It also notes the comment at paragraph 121 and would like to confirm it was not the intention of the original statement to imply those not adopting voluntary payments were non-compliant; rather that those who were reluctant to comply with their mandatory obligations were unlikely to enter into a voluntary scheme.

123. A difficulty arises assessing the impacts due to the voluntary nature of the scheme. We have estimated for the purposes of this response that 10% of an assumed SA MTD population of 5.5 million customers will take up voluntary PAYG. We have applied this in determining the transaction costs to customers, and the exchequer impact.

124. We have looked at two alternatives for transaction costs to customers:

125. Where customers move to monthly payments there will be an increase from the current 2 to 12 payments per year, resulting in 10 further transactions. It is assumed that customers would generally only make monthly payments by setting up a direct debit. Therefore the costs to HMRC and to the customer will be negligible because the costs of a direct debit are negligible once it is set up.

126. Where customers are prompted to make (additional) early payments when they make their quarterly update, because the majority of SA customers have a period of account that matches the tax year they will be making updates at the end of April, July, October and January. We have assumed this will increase the number of payments from 2 to 4 per year (given most business customers will already be making payments by the end of January and July of each year). The cost to HMRC will be negligible, unless a very large proportion of customers make these additional payments by card, when the cost to the exchequer is estimated at around £5 million. The cost to customers will be negligible, regardless of the payment type.

127. Therefore, overall it is currently estimated that the transaction costs for HMRC and customers will be negligible.

128. We have also considered the impact on customers from the loss of working capital. We are of the opinion that those customers who require working capital are less likely to make voluntary payments, but where they do, because the money can easily and quickly be repaid to the customer the effect of a loss of a customer’s working capital is likely to be negligible.

129. The primary exchequer impact from voluntary earlier payment is interest earned. With an estimated interest rate of 1%, and with payments spread evenly ahead of the first and second instalment payment dates, it is estimated there would be a negligible benefit in year 1, rising to £5m in year 2.

Annex – List of respondents

Accounts Direct (Chester)
Albert Goodman
Ander Tax Ltd
Association of Accounting Technicians
Association of Chartered Certified Accountants
Association of Taxation Technicians
AW Tax Services Ltd
BDO
BHP
Blackadders LLP
Brian Tilbury & Co
Bullock Woodburn Ltd
Charter Committee
Chartered Accountants Ireland
Chartered Institute of Taxation
CKLG
Clive McGovern Ltd
Collins Accountancy Ltd
Copson Grandfield CA
Country Land and Business Association Ltd
Courts & Co
Crowe Clark Whitehill LLP
Deloitte
Digital Advisory Group
Disability Dynamics
Duncan & Toplis
Elizabeth Whiteley Accountancy Ltd
Federation of Small Businesses
Fenn Cox & Partners
Gibson Whitter
Grant Thornton
Greaves West & Ayre
Harold Smith Chartered Accountants
Hillier Hopkins LLP
HPH
Institute of Certified Bookkeepers
Institute of Certified Practising Accountants
Institute of Chartered Accountants in England and Wales
Institute of Chartered Accountants of Scotland
Institute of Financial Accountants
Intuit
IRIS

JJ Accounts Ltd
Johnston Carmichael
Keep Me Posted
Kingston Smith LLP
KPMG
Land Tax
Larking Gowen
Linklaters
Llyr James Chartered Accountants
London Society of Chartered Accountants
Longhill Accounting Ltd
Low Incomes Tax Reform Group
M&S Accountancy & Taxation Ltd
MHA MacIntyre Hudson
Moore & Smalley LLP
Morris Owen Chartered Accountants
National Farmers Union
Office of Tax Simplification
Patricia J Arnold & Co
PKF Francis Clark
PWC
Rayner Essex
RSM UK Tax and Accounting Ltd
Sagars Accountants Ltd
SAGE
Saint & Co
Sandisons
Society of Trust and Estate Practitioners
Tax Assist Accountants
TaxAid
The Act Store
Tilman & Co
Total Accounting Network
UK 200 Group
Whitefield Tax Ltd
Wolters Kluwer