Think Ahead ACCA

Consultation: Timely Payments

A public consultation issued by HMRC

Comments from ACCA to HMRC
13 July 2021
Ref: TECH-CDR-1977

About ACCA:

ACCA (the Association of Chartered Certified Accountants) is the global professional body for professional accountants.

We're a thriving global community of **233,000** members and **536,000** future members based in **178** countries and regions, who work across a wide range of sectors and industries. We uphold the highest professional and ethical values.

We offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. Our qualifications and learning opportunities develop strategic business leaders, forward-thinking professionals with the financial, business and digital expertise essential for the creation of sustainable organisations and flourishing societies.

Since 1904, being a force for public good has been embedded in our purpose. We believe that accountancy is a cornerstone profession of society and is vital helping economies, organisations and individuals to grow and prosper. It does this by creating robust trusted financial and business management, combating corruption, ensuring organisations are managed ethically, driving sustainability, and providing rewarding career opportunities.

And through our cutting-edge research, we lead the profession by answering today's questions and preparing for the future. We're a not-for-profit organisation. Find out more at **accaglobal.com**

For further enquiries please contact:

Glenn Collins
Head of Policy, Technical Advisory
& Strategic Engagement
glenn.collins@accaglobal.com

Lilly Aaron
Policy Manager- Europe
lilly.aaron@accaglobal.com

GENERAL COMMENTS

ACCA is required to work within its public interest remit, to pursue policy that will promote wider good rather than solely representing the interests of our members. We also set and maintain the standards of members operating within and advising private sector businesses on all issues, including those relating to tax reporting and compliance.

ACCA's report in September 2020, '[Foundations for a Sound Tax System]' identified three fundamental considerations which every tax system should strive for, and by which citizens can measure the success of governments and tax administrations in developing laws and processes. Government must consider simplicity, certainty and stability as the cornerstones of a good tax system. In the consideration of this reform, HMRC possesses the opportunity to build in greater simplicity, reducing barriers to compliance, offering greater accountability through transparency about what taxpayers owe and improving stability where counteracting measures can be reduced.

We would suggest that the three fundamental considerations - simplicity, certainty and stability - are used to support the reforms and the modernisation. As we recognise when describing these principles, "technologies change so the administration of tax systems will change. Improvements in technology can offer significant enhancements to both the efficiency and effectiveness of tax collection. Yet rushed or poorly thought through change can compromise those beneficial impacts" and consequently result in detrimental impacts on the economy and successful modernisation, and may result in a loss of trust in the tax system.

We would also suggest that to achieve the desired outcomes and modernisation it is vital that HMRC and the government ensures that sufficient time is built into any implementation timetable to allow for meaningful robust trials to ensure a modern sound tax system is simple, certain and stable.

In drafting our response to this consultation, ACCA surveyed 30 member practices representing 4,100 clients and held an in depth virtual roundtable discussion attended by over 40 practitioners across the UK in which members discussed in depth the challenges and opportunities for timely payment of tax and current challenges and complexities around customer interaction with current regimes.

Reaction to the proposals was understandably mixed but there was consensus that greater detail surrounding implementation would be necessary to assess and mitigate the range of impacts on customers. It is important that changes to the tax regime are made with clarity of purpose with a clear expectation of what is required of taxpayers and in return, the standards which HMRC will uphold. ACCA has worked closely with HMRC on the design and roll out of the new Charter and is keen to continue this work to ensure any new regimes are able to build trust in the tax system.

SPECIFIC COMMENTS

Current Regimes

1. While many businesses commonly apportion a percentage of profits to budget for tax liabilities, during consultation a significant proportion of members highlighted that under the current system the turnaround time for HMRC refunds already negatively impacts cashflow and affects businesses' ability to plan effectively.
   ACCA believes HMRC's plans for reform around timely payment provide an excellent opportunity to modernise the tax payments and refunds, set the framework for a transparent tax payments and refunds system and to uphold the Department's Charter commitment to be responsive and improve customer build trust by bringing into line the relationship between HMRC and customers as creditors with HMRC's position when acting as a creditor.
2. There are certain benefits and challenges within the ITSA regime for newly incorporated or self- employed taxpayers. For those operating under the current ITSA regime, the first bill with payment on account can be a shock for many, particularly those not already receiving advice from a professional accountant. Members were keen to see the need for payment on account eliminated but highlighted that a requirement to enter a timely payment regime immediately may affect the ability to scale or in some cases, overall viability.

Principles, Opportunities and Challenges when Introducing Timely Payment

3. When considering options for regimes that may help minimise the burden of more regular calculation a majority of members were generally supportive of the fourth option providing estimations of liability spread throughout the year on a **quarterly** basis allowing customers to build up credits or debits on account with subsequent

payments adjusted to reflect under or over payment. Members were concerned about the practical operation of how relief would be obtained quickly and equitably for capital expenditure and how loss relief would be managed. Examples were cited for those businesses who are, because of fluctuating profits, utilising the averaging regimes. Additionally, ACCA is keen to understand what the implications would be for interest and penalty payments under this regime if modelled on that used for utility bill payments.

4. However, the calculation of reliefs and allowances on this basis may be significantly more complex. It is common for businesses to register large capital expenses within some years and none in subsequent years, rendering it difficult to produce accurate or useful in-year estimations. Members commented that they felt the main benefit would be largely to HMRC in receiving estimations of tax liabilities in advance while saddling businesses with additional burden of anticipating the reliefs and allowances they may claim.
5. Another key challenge surrounding the introduction of multiple calculation options to meet diverse taxpayer needs is that this creates additional layers of complexity within the system particularly where eligibility for certain schemes may not be immediately clear such as digitally isolated communities (particularly where identification falls regionally and may be subject to change).
6. It is absolutely vital that HMRC considers not only the impact on customers but the ability of the agent community to meet the administrative demands of timely and more frequent calculation and reporting of tax. The COVID19 pandemic has driven a number of short term changes in working practices of both taxpayers and their advisers, some of which will doubtless remain in the long term, while others will be reversed, or develop into entirely new ways of working. Although an increase in the use of remote resource may help with staffing needs in some practices, many taxpayers may still need face-to-face support in making the transition to new payment practices.

7. More broadly the COVID-19 pandemic has exposed the impact of increased compliance and additional time required to manage client requests for support from HMRC. The deferral of the self-assessment penalty deadline earlier this year was necessary in part due to the inability of agents and clients to manage the burden of more frequent reports and claims filed with HMRC. It is vital that HMRC considers the needs of the wider business communities and ensures the most vulnerable businesses are appropriately supported and listen to throughout pilot stages, while working collaboratively with professional bodies and their member networks to gauge appropriate mitigation activities.
8. 65% of members felt that flat rate expenses should act as a proxy for in year calculation. If HMRC were to pursue a flat rate regime, ACCA supports an option for flat rate estimations as proxy figures will allow customers to plan more effectively around the estimate while allowing the final bill to reflect actual expenses.
9. A primary challenge in handling timely payment is the additional time and resource required to manage more regular calculation and reporting (and where needed adjustment and reconciliation) under the proposed regime. It is important that HMRC brings about reform in alignment with plans for simplification of the tax system, making it as easy as possible for businesses to submit, correct and pay their tax bill. While we acknowledge the task of reform and modernisation is complex, we would encourage HMRC to keep at the forefront of its thinking that the cornerstones of a good tax system are simplicity, certainty and stability.
10. In addition, it would be beneficial to provide professional accountants with advance detailed guidance on how the new system might operate to allow them to give customers an expectation of any increased costs arising as a result of the changes.

Cash-flow Impacts

11. When asked about the impact they believe timely payments would have on the cash flow of the business 50% of members (in a pool representing over 4,000 clients and businesses) believed this would negatively impact cashflow.
12. Professionals cited a variety of methods businesses currently use to budget for their tax bill. Among the most common were apportioning a percentage of profits for tax payments and producing annual estimation to provide an expectation while drawing on funds in-year to invest in business growth.

    While many businesses commonly apportion a percentage of profits, during consultation a significant proportion of members highlighted that while many clients plan for tax payments, obtaining refunds is a significant issue. Under the current system the turnaround time for HMRC refunds already negatively impacts cashflow and affects businesses' ability to plan effectively.
13. A number of sectors and business models were highlighted as being particularly vulnerable too disrupted cash flow under a new regime. In particular, members expressed concern for seasonal businesses or longer production cycles or supply chains such as those working in farming, creative industries and tourism sectors and those that are dependent on working capital to replenish stock such as hospitality and retail businesses. Much more broadly and more difficult to identify are SME's or newly self-employed individuals that are operating on lower levels of turnover or are managing set up costs as well as businesses and individuals suffering the effects of late payment with longer invoice payment terms, particularly in industries where payment is made infrequently for larger, long-term projects.

Additional comments

14. It is also vital that HMRC systems are able to accurately record and keep track of in-year positions. Anecdotal evidence highlighted a recent interaction with HMRC under

which the business was due to repay the capital amount and interest due. However, separate HMRC systems gave two conflicting figures for payment and the customers' records produced a third inconsistent figure. HMRC representatives were not able to resolve this concern, leaving the customer unable to make payment in a timely manner.

15. It would be helpful for businesses in managing estimated liabilities and cashflow if HMRC calculations (or estimations) based on RTI were able to be provided to the business much closer to real time, with confidence that data was consistent across HMRC systems. Although not explicit in the consultation document, we assume that all options are referring to payments on account in advance of the establishment of the liability, rather than actual calculation and establishment of a tax liability in the year. The distinction is fundamental to consideration of penalty regimes, which will need to reflect the impossibility of calculating a precise balance due as a proportion of the final liability in all but a tiny handful of cases. In order to avoid confusion, this distinction should also be made clear to taxpayers during any rollout of accelerated payments to HMRC.

16. On this point, the design of profits taxes (ITSA and CTSA) is entirely different to that of most other business taxes, which are transaction based. Although reporting periods for those taxes often aggregate transactions, the number and character of adjustments made to the underlying information is such that "accelerating payments" for those taxes will simply involve swifter reporting and payment after the transaction event, as subsequent events are less likely to alter the tax due in respect of that transaction. Changing payment frequency for those taxes would pose fewer fundamental difficulties in terms of establishing liabilities prior to payment, although again HMRC will need to allocate sufficient resource to communicating any changes to the taxpayers affected by them so as to avoid damaging public trust in the system.

17. We also urge HMRC to liaise closely with Treasury colleagues in modelling the impact on long term fiscal planning of accelerating tax payments to more closely

follow the economic cycle. Payment of taxes a fixed period after the underlying activity gives government a “buffer period” between sharp downturns in economic activity and the related reduction in tax receipts. Conversely, payment of taxes ahead of the completion of the relevant tax accounting period creates the risk not merely of reduced future receipts, but even of repayments of the amounts paid on account. Those with long memories will recall the flurry of CTSA QIP repayment claims made in October 2001 for large corporate returns covering the period to December 2001, while recent figures show £11.5bn in overpaid corporation tax was reclaimed for 2020/21, a jump of 26% from the previous year[1].

18. With regard to further exploration of this policy; while reaction to the proposed measures was mixed some members did feel that certain clients might wish to transition to more regular payment to help them manage cashflow over the long-term. While this does not mitigate the challenges for other business sectors, ACCA would be keen to work with HMRC to understand some of the benefits and challenges in more depth and help our members develop advance understanding of any proposals and impacts on their clients.

[1] https://www.cityam.com/exclusive-businesses-overpaying-corporation-tax-up-by-26-per-cent-to-record-11-5bn/