



Call for Evidence Response

Timely payment

Date: 1 July 2021

Introduction

1. The Country Land and Business Association (CLA) is the membership organisation for owners of land, property and businesses in rural England and Wales. As well as agriculture and forestry, the CLA's 28,000 members operate 250 different types of business located in the rural area, covering over 10 million acres across England and Wales. They have a long-term interest in the rural communities and environment in which they live. Their businesses are often at the foundation of the local economy by providing homes, jobs, employment space and services to local communities.
2. The CLA welcomes this opportunity to respond to the Call for Evidence published on 23 March 2021.

General comments

3. A high proportion of the rural businesses owned and managed by CLA members are unincorporated, being carried on by individual sole traders, family partnerships and trusts – a point that will be generally true of the wider farming and rural economy. The proportion of farming businesses carried on by partnerships is much higher while relatively few will be organised as companies.
4. Many rural businesses that were primarily agricultural have been encouraged to diversify to develop additional non-agricultural income streams to balance any income volatility in the agricultural business. Diversified activities (that is, not just the agricultural use of land) centre on the economic use of rural property, including trading and letting activities. These may include activities such as running a farm shop, operating a B&B, running a holiday let or camping/glamping business or using renewable energy to generate electricity.
5. The more rural an area is, the higher the number of registered businesses per head of population reflecting smaller businesses. But it also means that these smaller rural businesses will require more ongoing support to effectively engage with the government's plan of timely payment whilst remaining profitable. The fact that diversified rural businesses have different income streams will necessarily complicate the issues they need to consider when preparing their accounts, such as whether to and what profits can be averaged, what can be deducted in calculating the tax payable and how losses are treated (depending on whether the income is from a trade or property) and whether they can make a claim for capital allowances. It is important that the plan considers the needs of these diversified rural businesses and does not introduce a layer of complexity into how these businesses are run that may impact on income/profitability and future growth in the rural economy.

6. A problem that will be found with many rural businesses, notably farming but also tourism and other sectors is the interaction between the new payment system and the seasonality of income and costs. It will be common for farming to incur costs on a year-round basis but see substantial income in quite short periods. That seems likely to lead to violent swings in digital accounts between quarters which among other things will give a misleading impression to the taxpayer as to his ultimate tax liability and so misdirect the business in managing itself. (In part, that is ordinarily handled by the annual stocktaking.) For farming, that impression has then to be overlaid by issues such as allowing for capital allowances and averaging of profits.
7. Changes to the timing of tax payments at a time when a lot of businesses are still trying to cope with the impact of the Covid 19 crisis and rebuild is going to have massive impact on taxpayers' cashflow and business recovery. Rural businesses have been struggling with cash already. A lot of smaller farmers are relying on government grants and subsidies to be able to survive. Making them pay tax more often is going to increase their administration burden as well the cost of professional fees.
8. We are not entirely sure what exactly is the government's plan as the timing of the tax payment, does this mean a quarterly tax payment? Or a monthly payment? Is the plan to align the MTD proposal for quarterly filing or reports of income and expenditure as well as the tax payment? As mentioned above, farming and rural businesses are seasonal, one summer quarter they may be making profits, but the next quarter they may make huge losses, what happens to the tax payment? Would businesses claim back the tax in the quarter when they are making a loss? This is not just an administrative burden for the taxpayer but also for HMRC to administer these repayment claims.
9. We consider that more frequent payments based on the previous year's profits may be simpler to build on from the current system. Currently, under income tax self-assessment a taxpayer pays tax twice in the year based on previous year's profits. Rather than more frequent payments on a compulsory basis, it would be preferable to extend the current system by allowing taxpayers to choose the basis on which they pay the tax due. This could be on a quarterly or monthly basis if that works for them but based on the previous year's figures. Timely payment based on the current year's profits is going to be chaotic for rural businesses. Farmers are very busy during the farming season and we just cannot see that they are going to have the time to get their books and records together for the accountant to prepare the quarterly or even monthly accounts to be able to work out their tax liabilities.
10. If the timely payment means that income tax is deducted from the sales when made based on a percentage for the sector (similar to the VAT flat rate for agriculture), then it works like VAT quarterly filing and payment, this may be easier to achieve as there would be less administrative work. But we must ask how accurate this percentage is, would be as there are over 250 different type of business activity in rural areas even if many are engaged in farming too. Are taxpayers allowed to make a lower than expected payment as they estimate their income tax bill will be much lower?

Specific Comments

11. We have the following additional comments in relation to the Call for Evidence and have limited our response to those questions which are relevant to the CLA membership.

Main challenges of timely payment

Question 1. Do you have any comments on the benefits and challenges of timely payment?

12. As mentioned in the Call for Evidence, the main adverse effect on taxpayers would be the impact on cashflow. From our work with our members, we understand a lot of rural businesses are cash poor already. The requirement to pay tax more regularly (monthly or quarterly) instead of the current once or twice a year is going to add extra pressure on taxpayers' finances.
13. The calculation of tax liability in the year is going to create extra administrative burdens and cost to the taxpayer. We are not sure that accountants working in rural areas will have the extra resources to cope with the increase of demand for assistance in filing income and expenses schedules to enable payments to be made monthly or quarterly based on in year figures.
14. With the time pressure and extra cost involved, we are not sure how accurate these monthly/quarterly calculations of tax liability are as a lot of the adjustments made to determine the final taxable profit (e.g. capital allowances) are calculated at the year end. Also, farmers averaging is only considered when a full year's figures are available, which can change the tax position significantly.

Question 2. 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.

15. The rural sector is currently going through huge changes with Basic Payment Scheme (BPS - the biggest of the rural grants and payments that provide help to the farming industry) being phased out in England over a seven-year transitional period from 2021 to 2027. This has caused a lot of uncertainty and anxiety in the rural sector already as the new government scheme for grants has yet to be finalised. Coping with a new timely payment scheme with more frequent payments will only add even more pressure on farmers, with the potential for this to result in cash flow problems, at a time when the amount of government support through the BPS is being reduced. Diversified businesses, especially those with a tourist business in rural areas have been hit hard by the pandemic and are going through a period of recovery. We think it might take a couple of years before business grow to the level they were at before the pandemic.

International Comparators

Question 3. What are the relative merits and disadvantages of tax payment regimes in other countries compared to the UK's?

16. No comment.

Question 4. Are there examples of tax payment timings from other states or territories which the UK should consider?

17. No comment.

Question 5. 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?

18. No comment.

Overview of Current Regimes

Question 6. What are the advantages of the current payment timings? Are there any groups who rely more heavily on these than others?

19. Self-assessment has been around for a long time. Those taxpayers who are on self-assessment and file tax returns yearly are used to paying tax once or twice yearly. They normally put cash aside for the January and July tax payments. If their income or profits are at the similar level as previous year, then they can normally estimate their tax liability for the current tax year. For those with fluctuating income/profits year on year, it is difficult to estimate their tax liability. It will be even more difficult to estimate and predict and plan their actual tax liability based on the current tax year's profits under the proposed timely payment plan. We do not agree that it is easier to pay tax shortly after 'sales' are made or that it is going to make it more manageable for rural businesses to ascertain and pay tax that is due because these businesses experience fluctuations in their income and expenditure throughout the tax year that have an impact on their final taxable profit.

Question 7. What are the challenges with the current payment timings? Are there any groups who are challenged or disadvantaged more than others?

20. Obviously with the current system, taxpayers that are on PAYE benefit from the fact that their income tax is paid on account for them by their employer on a monthly or weekly basis, depending on how frequently they are paid. Self-employed taxpayers will pay their tax bills yearly or half yearly. Whilst the majority of employed taxpayers do not have to worry about self-assessment, some with additional income will only make an annual payment of any additional tax due. As mentioned in our general comments paragraph 5, diversified rural businesses have different income streams. Their accounts are more complicated to prepare because farmers averaging is available on farming profits only. It is important that the plan considers the needs of these diversified rural businesses and does not introduce a layer of complexity into how these businesses are run that may impact on income/profitability and future growth in the rural economy.

21. Self-employed taxpayers, such as those that run rural businesses, have more uncertainty about their income, but some may want the ability to pay their income tax on account on a more frequent basis in a similar way to the payments on account for employees under PAYE. We strongly believe that this should be a choice for those under self-assessment rather than PAYE so that they can decide on the frequency of payment based on their personal and business circumstances and cash flow.

Question 8. 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)?

22. These taxpayers probably will incur additional costs (both in terms of the time they spend dealing with tax administrative matters and in professional fees to support them) of filing more returns a year which will make them financially worse off if they only have a small tax bill each year.

Question 9. Do you have any comments on specific challenges faced by low income or vulnerable taxpayers?

23. The same comments as our response to question 21 above apply here. These taxpayers should not be financially worse off as a result of the new scheme.

New ITSA Taxpayers

Question 10. Do you have any comments on the specific challenges faced by new ITSA taxpayers?

24. Any new timely payment scheme should be simple to follow otherwise the new ITSA taxpayers will struggle to understand their obligations for filing returns and paying tax on time. This lack of understanding might lead to penalties and interest.

Corporation Tax

Question 11. 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?

25. The existing payment timings for those companies not classified as large companies for tax purposes operating in the rural sector with seasonal income is more user-friendly as they only need to file their accounts and pay the tax once a year. This means they save money on professional fees and will also spend less time dealing with administrative work that takes them away from running the business than if they had to deal with more frequent payment timings. Those that pay tax once a year, nine months after their year end, will not suffer from any cash flow disadvantages that may occur if they had to pay tax more frequently and these payment dates do not accurately reflect their true tax liability due to fluctuating income throughout the tax year.

Question 12. 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?

26. Companies operating in the rural sector with seasonal income will be affected the most by any changes to the timing of their tax payments. They will find it more complicated and time consuming to manage their accounts and payment of tax more frequently. Small companies have been used to filing accounts and paying tax once a year. It is just adding an administrative burden to small companies if they had to file and pay

quarterly or monthly. Professional costs will also inevitably increase with more frequent calculations and payments.

Calculation of payments in-year

Question 13. Do you agree that if there is to be a more frequent tax payment regime, it should generally be based on current year liability?

27. We do not agree with this as we believe that this will not work for businesses in the rural sector due to their seasonal nature. This means that both their income and expenses can vary dramatically from month to month. Income might be higher in the summer season particularly for those businesses with tourism income or following the sale of crops after harvest, with lower income receipts during the winter season. Expenses might be higher in the quiet/winter season when the business has got the time to do remedial work. Investment in equipment and other capital assets maybe decided when they know how much profits they made for the year and whether expensive capital items should be purchased before the year end or after. More frequent tax payments based on current year figures, filed quarterly or monthly, simply does not give a true picture of the business's financial position and their tax liability. They could be making huge profit in one period and then losses in the next period. Would they be expected to pay huge amount of tax in one period and then claim back repayment next period? This is not only adding an administrative burden to businesses, but also adding pressure on HMRC.
28. The complexity of the tax system is challenging for taxpayers, with a lack of clarity in available HMRC guidance to assist them. Existing HMRC administrative and IT systems also causes difficulties as it can be challenging for taxpayers and their agents to resolve queries, inconsistencies in information held or in HMRC assessments. These issues combined cause time to be wasted by both taxpayers and their professional advisers. Taxpayers should be able to see their tax position and information held by HMRC in one place. HMRC's administrative and IT systems need to be improved before they introduce a more complicated reporting and payment system.

Question 14. 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?

29. Different calculation options to meet diverse taxpayers' needs might achieve its goal if designed well. However, this is going to be a challenge for the government to implement. Even with current tax system, we find that improvements can be made in many areas. Very often, both taxpayer and their advisors' time is wasted by just trying to make HMRC correct their records. It seems that different departments in HMRC do not talk to each other. Not all information held by HMRC can be shown in one place for the taxpayer or their agent. An authorised tax agent should be able to obtain their clients' income and tax information through their agent portal, but this does not seem to be happening.

Question 15. 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?

30. Using digital solutions to facilitate in-year calculation is a requirement for this scheme to work. However, currently 16% of rural premises do not have broadband. The government needs to invest in infrastructure in rural areas and make it possible for people living and working in the countryside to have access to fast broadband. We note that the Government has launched a £5bn new “Project Gigabit” that promises that more than one million hard to reach homes and businesses will have next generation gigabit broadband built to them in the first phase of this infrastructure project. This project is welcomed by businesses in the rural sector and, if it delivers, will benefit both rural businesses and those that live in the countryside. Without access to broadband or a reliable strong mobile signal, it is impossible for rural businesses to be part of the digitalisation process the government is proposing for the tax system. They will have to rely on their accountant to file returns for them. Again, more frequent filing and payment can only result in additional costs to taxpayers.

Question 16. 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?

31. For this group of taxpayers, the new timely payment scheme should only be optional. They should not be punished if the digital solutions are unavailable.

Question 17. 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?

32. No comment.

Question 18. Do you have any initial comments specifically on the impact of basis periods on more timely payment of ITSA?

33. If the basis period is simply based on a previous month or quarter, then it is not going to be very accurate for businesses with seasonal income. This will mean that businesses would pay larger amounts of tax in the periods where income is received, only to reclaim in later periods with a negative impact on their cash flow in the interim. This is time consuming for both the taxpayer and HMRC. This creates an administrative burden and cost for both businesses and HMRC.

Question 19. Do you have any initial comments on other reforms that could support bringing tax payment closer to the point of transaction?

34. We recommend the government should first improve the current tax system before thinking of creating a new system which is more complex and even more difficult for taxpayers to follow.

Making Tax Digital for ITSA

Question 20. 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?

35. Although it might seem logical for the MTD taxpayers to work out their tax liability and pay tax at the same time, we still think the basis of calculation is not going to reflect the true financial position of the business. The cash flow advantage will also be taken away by paying tax more regularly. Businesses might then struggle when they need cash for an emergency repairs, for example.

Question 21. 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?

36. As mentioned in our comments to question 34, this will be a particular problem for farming businesses.

Dealing with expenses under a more frequent payment regime

Question 22. 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?

37. Making non-MTD taxpayers report income and expenses will just create extra burdens and cost for them and we do not think that taxpayers should be financially worse off under this new scheme.

Question 23. Do you have any comments on potential interactions between reporting for Universal Credit and reporting for more timely payment of tax?

38. No comment.

Flat rate expense schemes

Question 24. Do you have any comments on the benefits and disadvantages of flat rate expenses?

39. Flat rate expenses might be easy to use for calculation purposes, but this will be seen as a penalty by those businesses who prefer to use real figures rather than a flat rate as it is more accurate and reflects their true business cost.

Question 25. What examples are there that work well and would be appropriate for Income Tax expenses that would not be captured through any MTD updates?

40. No comment.

Question 26. If there were flat-rate expenses, should they replace the actual expenses or only act as a proxy for in-year calculation?

41. This could work in a similar way to the VAT flat rate scheme so that businesses should be allowed to choose whether to opt in or not.

Question 27. If flat-rate expenses were introduced, should they be restricted to smaller businesses?

42. We agree that the flat rate scheme should only be available to small businesses as medium and large businesses might have the resources in-house to comply with the new scheme.

Annual basis of Income Tax and Corporation Tax

Question 28. Do you have comments on the impact and challenges of recognising annual reliefs, allowances, deductions, and other amounts?

43. This is going to be really complicated as businesses will probably have to consider reliefs and deductions five times a year, for example, four quarterly calculations and the end of year final adjustment.

Timing of payments

Question 29. Do you have any initial views on the benefits and challenges of monthly, quarterly, or other, payment frequency?

44. Calculating income tax quarterly is challenging. If it is calculated monthly, what is the basis of calculation? The previous year's figures or the previous month's figures? How long can taxpayers be reasonably expected to spend each month just to comply with this new scheme? Bear in mind that taxpayers on PAYE do not spend any time calculating their tax each month. Most of them do not need to file a self-assessment return either. It is not fair that the self-employed businesses and SMEs having to pay more professional fees to get their tax affairs up to date to comply with a more frequent payment regime if this is imposed on them.

Over-payment

Question 30. Do you have any comments about how over- or under- payments of tax could be resolved in -year?

45. Overpaying in one month to then have to apply to get the money back the following month just seems to be a waste of both the taxpayer's and HMRC's time. The extra administrative burden HMRC is going to have processing the repayment does not make economic sense.

Question 31. What systems and processes exist that would help to ensure protection against fraud and organised crime, whilst also allowing quick and easy repayment?

46. No comment.

Transition to any new regime

Question 32. How could more frequent payment based on current year liability be phased in?

47. The government should only think about this when the UK's tax system has been improved and further investment has been made on technology within HMRC's system to cope. The government should wait to see how MTD for income tax is working then gradually phased in timely payment when MTD had been proved successful.

Large Partnerships in ITSA

Question 33. 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?

48. No comment.

Current Tax Budgeting Methods

Question 34. What methods do taxpayers use to budget for their tax bill?

49. They regularly put aside cash in a separate bank account based on previous year's tax liability.

Question 35. Do you have any comments on what more HMRC could do to help taxpayers pay their tax on time?

50. Technology investment in HMRC system, more staff for customer services and regular training.

Cash-flow Impacts

Question 36. Do you have any comments on the positive and negative cash-flow impacts for businesses of more timely payments?

51. We can only see that there will be a negative cash flow impact that our members will worry about. None of our members have commented on cash flow advantages.

Wider economic impacts

Question 37. What wider economic impacts do you foresee from reducing the time between the income and the taxation?

52. No comment.

Customer groups

Question 38. Which taxpayer groups will be most or least affected by the cash-flow impact of more timely payments?

53. Businesses that have fluctuating income/expenses from month to month will be most affected by the impact of more timely payments. This would not be a positive change in the payment requirements for them.

Question 39. Are there particular ways in which accruals accounting might lead to greater impacts on certain groups or types of business?

54. No comment.

Case studies

Question 40. Do you have any comments on the cash-flow impacts on the case studies outlined above?

55. No comment.

Question 41. Is there a better way of grouping people to consider the level and nature of impact on cash-flow, outside of trades?

56. No comment.

Use of available cash-flow

Question 42. 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?

57. No comment.

Other taxes and duties

Question 43. Are there other taxes administered by HMRC that the government should consider for more timely payment of tax?

58. No comment.

Capital Gains Tax

Question 44. Do you have any initial comments on the opportunities and challenges of more timely payment of CGT?

59. The requirement to file returns and pay any CGT due within 30 days of the completion of the sale and paper returns for second returns is illogical. The tax due is difficult to

estimate and it is not clear when interest runs from and what a 'best estimate' really looks like. This 30-day filing and payment requirement is onerous, it duplicates effort and just advances cash flow without any benefit to the taxpayer. This adds to taxpayer's compliance costs and the time frame is too short in many cases, particularly as there remains a lack of awareness on the filing and payment deadlines. We would suggest that estate agents/land agents, solicitors and licensed conveyancers could help raise awareness by providing their clients with HMRC produced leaflets explaining the reporting and payment deadline at an earlier stage of any affected transaction.

Alternatives for facilitating more regular payment

Question 45. Is there anything else you would like to suggest to help progress the exploration of this policy?

60. No comment.

For further information please contact:

Louise Speke
Chief Tax Adviser
CLA, 16 Belgrave Square, London SW1X 8PQ

Tel: 020 7235 0511
Email: louise.speke@cla.org.uk
www.cla.org.uk