ICAEW
REPRESENTATION 52/26

TIMELY PAYMENTS IN INCOME TAX SELF-ASSESSMENT (ITSA)

Issued 03 August 2026

ICAEW welcomes the opportunity to comment on the Timely Payments in Income Tax Self Assessment (ITSA) consultation, published by HMRC on 23 June 2026, a copy of which is available from this link.

ICAEW has significant concerns over the proposals for more timely payment in ITSA under both potential reforms – ITSA payments through PAYE and direct payments on account (POAs).

On balance, there are more benefits under the direct POA option.

The PAYE option threatens to overburden and add cost for employers and pension providers with processing multiple additional PAYE coding notices, handling employee queries and increased contact with HMRC. PAYE codes are poorly understood. Taxpayers also have concerns over confidentiality, cash flow and the impact that having more tax deducted via PAYE will have on their reliable income source and financial commitments. In ICAEW's view, HMRC systems and customer support are not currently in a position to support this change. Put simply, mandating payment through PAYE is an unnecessary complication.

The consultation does not consider the behavioural impact if too much tax is applied to employment income – this must not be overlooked. There is a real risk that employees will respond by withdrawing or reducing their economic activity. In addition, pay increases will not deliver the desired effect if these trigger increased deductions related to other income sources.

Smaller and seasonal businesses in particular will feel the impact of earlier POAs on cash flow, but overall, there is more support for quarterly POAs with easements in place for new self-assessment income streams.

The transitional period will be very challenging and would need to be managed extremely carefully to avoid very high marginal rates and potentially encouraging a reduction in economic activity.

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This response of 03 August 2026 has been prepared by ICAEW's Tax Faculty.

Internationally recognised as a source of expertise, ICAEW's Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business. ICAEW Tax Faculty's Ten Tenets for a Better Tax System, by which we benchmark the tax system and changes to it, are summarised in Appendix 1.

Chartered accountants are talented, ethical and committed professionals. ICAEW represents more than 211,600 members and students around the world. 81 of the top 100 global brands employ ICAEW Chartered Accountants. 82% of FTSE 100 companies have an ICAEW member on their board. Founded in 1880, ICAEW has a long history of serving the public interest and we continue to work with governments, regulators and business leaders globally. And, as a world-leading improvement regulator, we supervise and monitor more than 11,500 firms, holding them, and all ICAEW members and students, to the highest standards of professional competency and conduct.

ICAEW notes that the consultation period is just six weeks and coincides with the summer holiday period. This is insufficient for a consultation that involves such a significant population of individual taxpayers. We encourage HMRC to allow sufficient time for consultation wherever possible, to ensure that stakeholders can provide comprehensive evidence and that robust conclusions can be drawn from the consultation process. ICAEW also notes that insufficient consultation periods are inconsistent with the Tax Faculty's Ten Tenets for a Better Tax System (Appendix 1).

KEY POINTS

1. PAYE is not the correct mechanism for more timely payment of ITSA – there are already too many problems with RTI, including disputed charges and incorrect or out of date PAYE coding notices. Employers and payroll providers should not have to take on the additional costs and burdens to facilitate earlier collection of income tax.
2. We can see the value of direct POAs throughout the tax year but suggest a quarterly scheme is adequate. A monthly scheme becomes too administratively onerous. Using the information provided in the making tax digital for income tax (MTD) quarterly updates seems logical but must remain voluntary on the basis that MTD was not intended to facilitate earlier payment of tax, the profits reported are not tax adjusted, and profits may fluctuate significantly throughout the year for some businesses.
3. If the proposals go ahead, agents will need full access to forecasting and the ability to review payments made and allocated. The compliance and penalty regime needs to be clarified, and the transitional arrangements will need to be carefully thought out to avoid a negative impact on the economy.
4. We also note that the payments for 2029/30 will be based on the 2027/28 tax year. The 2027/28 tax year is the final year in which basis period reform transition profits will be spread. It is essential that basis period reform transition profits are excluded for the purposes of estimating the 2029/30 tax liability.

ANSWERS TO SPECIFIC QUESTIONS

ITSA payments through PAYE

Question 1: What are the benefits of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

5. This is primarily a benefit to HMRC as it improves cash flow, reduces the risk of non and late payment of taxes and it reduces time and cost by outsourcing the collection of taxes to employers and pensions providers. It is, however, a significant change from the current system and it is of course not as simple as just collecting the amount due earlier. It will impact how taxpayers manage their cash flow, financial affairs and investment opportunities.

6. More regular payments should in theory assist in closing the tax gap and improve engagement from taxpayers with HMRC and the tax system. From an individual taxpayer perspective, some taxpayers will appreciate not having large and sometimes unexpected tax bills a significant period after the income was earned.

7. Some taxpayers struggle to manage their money effectively and retain sufficient funds to pay their taxes, due to the time lapse between earnings and payment of tax. Earlier payment may help taxpayers better manage their tax affairs, minimise late payments and, in some cases, reduce ongoing tax debt. For those with straightforward affairs and regular income it is likely to be a welcome initiative, meaning they end the tax year without a large balancing payment or refund due. For taxpayers with simple circumstances there will also be no or very little additional burden as the extra tax will be collected by their employer via PAYE. However, this benefit will not apply to those with fluctuating, increasing, or decreasing self-assessment liabilities as the payments will be based on out of date information.

Question 2: What are the challenges of the proposed approach, or are there alternative suggestions that would achieve the same policy objective?

8. As set out above, we see significant challenges for those with fluctuating or unpredictable income and those whose financial affairs are deliberately aligned with the current tax system and deadlines. In some cases, it is not yet clear which tax year a payment may fall into and some income is not accessible even when paid or deemed to have been distributed to the taxpayer (e.g., interest on a fixed term account or a notional dividend on an accumulation trust) meaning additional funds must be sourced from elsewhere to fund the tax in advance. Where PAYE income is considered the reliable, stable income, deducting tax earlier could leave some individuals unable to meet their ongoing financial commitments during the tax year, even if the overall tax liability ultimately due does not change.

9. More regular payments and reporting will lead to more touchpoints with HMRC, more reconciliations and realistically more scope for incorrect payments and misallocations due to the volume of additional payments made and received by HMRC.

10. Currently taxpayers with PAYE income have the option to have their outstanding self-assessment income tax liability collected via PAYE during the following tax year, if the outstanding liability does not exceed £3,000 and the tax return is filed by 30 December (or 31 October if paper filing). While it would not necessarily accelerate the payment of tax as quickly as the proposed approach of mandating collection via PAYE, the current option to have the liability collected via PAYE could be extended both in terms of amount and deadline. This would benefit taxpayers who have simply missed the deadline and may have wanted to make use of this option. Greater promotion of this option or education could also help.

11. There is also a perception challenge for HMRC. Generally, it is not possible to offset liabilities between different heads of tax. Even though PAYE and income tax self assessment is income tax, they are conceptually different for taxpayers. If PAYE is used as the mechanism for collecting self assessment liabilities, taxpayers may start questioning why a VAT repayment cannot be offset against their income tax, for example.

Question 3: Should the government use, or give the option to use, anything else (for example, MTD quarterly updates and in the future, reputable third-party data) to inform the forecasting approach for this change?

12. We understand HMRC's preference is to use the last filed self assessment tax return for forecasting. There are, however, concerns this information is already likely to be out of date in view of the current UK filing deadline which is 10 months after the end of the tax year. Some of the estimates could therefore be based on data that is up to 22 months old when it relates back to the beginning of the tax year in question. This may not reflect the current position of the business.

13. MTD quarterly updates may provide a more accurate in-year picture of potential liability for businesses where profits do not fluctuate during the year. However, the estimated tax calculations are not tax adjusted and do not include all sources of income. There is some support for using MTD quarterly updates for this purpose as the information provided should be current and has already been gathered and reviewed by a taxpayer or agent. It also seems incongruous to be reporting income under MTD and paying tax in accordance with this proposal on different estimates for the same time period.

14. Consideration must be given, however, to how the use of MTD quarterly updates may come across optically as considerable reassurance was offered by HMRC that the MTD quarterly

updates were not simply a mechanism for facilitating earlier payment of tax. Lack of trust in the tax system is currently a prominent issue and could be exacerbated by this suggestion. We would strongly suggest that the use of MTD quarterly updates must be optional.

15. The use of reputable third-party data in the future seems sensible. But it needs to be clear what period the data is for and whether it can realistically be extrapolated to apply to a future tax year. Any scope for matching errors between taxpayers' records needs to be successfully eliminated before this is introduced. We reiterate that the taxpayer needs to be able to manage and control the forecasting and cannot be held responsible for incorrect or late provided third-party data.

Safeguards

Question 4: What other safeguards should the government consider?

16. Most taxpayers impacted by this proposal will be reliant on their PAYE income as their stable and predictable source of income and this must be protected. Even those with a modest PAYE income, and significant investment income may rely heavily upon the more stable PAYE income as other sources can fluctuate and be paid less frequently. There is unlikely to be a safeguard that suits all within a certain group of taxpayers as individuals' circumstances vary considerably. The current proposal to use the existing 50% safeguard would need to be communicated much more widely than it is now, as while this may be well understood by employers and payroll providers – many taxpayers, including employees – will not be aware of this nor understand it and may be concerned that their entire PAYE income could be withheld, or even that they would need to fund their estimated self assessment income tax burden in advance via their employer. There is also the risk of taxpayers believing they have had their self assessment income tax liability withheld via PAYE only to be faced with an unexpected outstanding income tax liability at the end of the tax year due to the 50% limit on withholding.

17. It is unclear from the consultation how it is expected that this safeguard would work in practice (ie, whether it would be operated as it is now on a cumulative basis or whether withholding would cease within the tax year if it was not possible to collect in one pay period) and what communication or explanation employers would be expected to provide to their employees if the threshold is breached.

18. The considered view of members is that PAYE income should not be used for this purpose. It is not sufficient to introduce the measure with different or additional safeguards, especially if it is likely that different safeguards are required for different populations. There are various examples of why non-PAYE income can be irregular and unpredictable. Therefore, reducing an individual's stable income during the tax year could have various consequences, including impacting affordability for mortgage eligibility calculations or other loans. Rental income can fluctuate due to number of tenants and reliability of payment or amounts spent on maintenance and repairs, investment income may be paid out annually and in some cases not immediately accessible, and self-employment income can fluctuate due to seasonality, periods of growth or likewise periods of downturn.

19. Those with higher self-employment income and lower and more sporadic employment income may even find that the 50% threshold results in such a minor additional tax payment that it does not really impact their overall position, but means they have to invest more time in checking the accuracy of the information HMRC hold for little benefit to HMRC or the taxpayer. Likewise, some taxpayers may be willing to have more than 50% of their PAYE deducted to spread the tax on other income across the year. If this option were to be introduced, we would maintain that this must be voluntary and reversed at the taxpayer's request at any point.

Question 5: Which groups of taxpayers would find a different threshold helpful?

20. Those in receipt of pension income are particularly concerned about the proposals and the impact this would have on their regular income. Representatives of such taxpayers have suggested a 30% maximum withholding would be more appropriate. Other income is unlikely to be regular and therefore the scope for dealing with fluctuations in cash flow is low. Many pensioners receive both pension and investment income. Investment income typically does not accrue evenly throughout the year and some taxpayers' current investment strategies would be adversely affected by these proposals. This is particularly the case for those taxpayers who choose to reinvest particular receipts and choose to use other income or capital to pay the tax due at the end of the tax year. These proposals would impact the ability of some taxpayers to invest any surplus income which is currently incentivised by the government, as demonstrated by the forthcoming ISA changes which prioritise stocks and shares investments.

Impact on employers and pension providers

Question 6: Do employers and other payroll operators need additional safeguards for these changes?

21. Employers' main concerns are compounded by the current issues they face with PAYE codes which are regularly inaccurate, out of date and difficult to decipher. Feedback is that a high percentage of current telephone calls to HMRC's employer helpline are to deal with erroneous PAYE coding notices and fears are the proposals would increase this problem exponentially.

22. The volume of coding notices will increase and contact with HMRC will increase; frequent changes to codes will put a major burden on employers who are already experiencing difficulties with the RTI system and reconciling payments with HMRC's own figures. Employers are likely to be fielding many questions from employees about why they are suddenly seeing changes to their net pay, but employers will not have sight of the underlying detailed information which has led to the changes.

23. There are also significant concerns regarding confidentiality as the employer will be made aware that their employees have non employment income even if they do not know the extent or detail of it. This is information that should not be shared with employers as individual wealth or even side entrepreneurship should remain confidential from an employer. This knowledge may create bias, whether conscious or unconscious, especially within smaller organisations where the payroll is more likely to be run in house. Some members have expressed concerns that unscrupulous employers may even take this information into account when determining bonus payments or pay rises.

24. It is clear that the easiest way for HMRC to collect tax earlier is at source. Although outsourcing this obligation to employers and pension providers is a cost-effective mechanism for achieving the policy objectives for the government, it comes at a significant cost to business.

25. The proposals will place additional burdens on employers who will already be dealing with mandatory payrolling of benefits from 2027, will need to factor in changes to salary sacrifice via payroll from 2029 and are facing additional employment costs due to the increase in the rate of employer's national insurance contributions and increases in the National Minimum Wage. There is an admin burden and associated time cost to regularly amending PAYE codes via

payroll and dealing with employee concerns which should not be underestimated. Payroll bureaus are also likely to charge extra for this.

Question 7: What support or guidance might employers benefit from?

26. Employers would need very clear guidance on the implementation of this measure and how to communicate the changes to employees, as well as guidance on where to signpost employees who need extra support or instructions on how to change their tax estimates to amend their PAYE codes. Concerns over confidentiality need to be effectively mitigated and a clear idea of time scale from updating a forecast to an employer receiving a new PAYE coding notice should be published.

Question 8: Are there other impacts for payroll operators that the government should consider?

27. There are also concerns about how updating a forecast would feed through to the employer being notified of an amended PAYE coding notice and the timeframes for this. It is not difficult to imagine an employee who has diligently updated their forecast only to be frustrated that this has not led immediately to a change in the PAYE withholding. This could lead to disgruntled staff and low morale.

28. Those employers who are currently able to make PAYE payments on a quarterly basis (where the expected PAYE liability does not exceed £1,500 per month), may find they lose this entitlement if their PAYE is increased due to collecting more income tax. As this is likely to impact smaller employers more than larger organisations, there needs to be consideration of the impact on cash flow and the potential additional charges from payroll providers for running a monthly rather than quarterly scheme. We reiterate the concerns over confidentiality in such cases.

29. Small employers who are themselves subject to self assessment may also have the double burden of more timely payment of their own tax liabilities coupled with more regular payment of PAYE for their employees.

Impact on taxpayers with varying income

Question 9: What options should the government consider to support taxpayers who might move in and out of paying their ITSA liabilities via PAYE?

30. While income subject to PAYE is often a taxpayer's more stable income, such income can also be variable due to one off payments such as bonuses or commission, pay rises, periods of unpaid leave or moving employment. There is therefore the potential for taxpayers to move in and out of paying their ITSA liabilities due to fluctuating PAYE income as well as having a fluctuating self assessment liability.

31. Taxpayers who are impacted by these fluctuations must be made aware of when the additional PAYE withholding is starting or ceasing and what the likely impact this will have on their outstanding estimated liability. It is also imperative that taxpayers, especially those that are unrepresented, are made aware that in these circumstances a self assessment tax return will still required.

32. In order to give them greater control over their finances, it may be useful to offer such taxpayers the option to pay direct POAs rather than switch in and out of paying their ITSA liabilities via PAYE during the year. However, determining eligibility for this option (if it is not

open to all taxpayers) would be difficult as it will depend on how and what type of income is generated during the tax year, which cannot always be predicted in advance.

Possible changes to timing and frequency of POAs

Question 10: What potential approach, including frequency of payments, would be most appropriate to achieve the policy objective, taking account of different taxpayer circumstances?

33. We believe that quarterly payments on account would be sufficient and support the policy objective of earlier payment of the income tax due. This is echoed in feedback received from our members who would support a quarterly POA scheme but view a monthly process as too burdensome.

34. We acknowledge that this may result in a sense of disparity between the two groups of self assessment taxpayers impacted (ie, those with PAYE income would be facing additional deductions on their self assessment income in line with their PAYE pay period (in the majority monthly), whereas those paying direct POAs would be required to switch to a quarterly payment scheme). However, if the policy aim is to facilitate earlier payment, we believe quarterly payments would best suit the needs of this group.

35. We would also suggest that HMRC publicises the voluntary Budget Payment Plan more widely in the interim to enable those who are keen to make use of this system to do so and to pave the way to more timely payment.

Question 11: What could the impact of more frequent payments be on taxpayers?

36. Some feedback received has suggested that this measure, combined with MTD quarterly updates, could stifle entrepreneurship and lead to closure of some businesses or encourage early retirement. This is due to the considerable increase in additional administration brought about by MTD coupled with a potential pre-payment of tax on estimated income, on the assumption of financial reserves that might not exist or be immediately accessible. This would clearly have a negative impact on the economy overall.

37. The key concern for several taxpayers is cash flow. This particularly impacts those with self-employment income. Paying tax sooner and more regularly may mean that such businesses may not have the cash readily available to reinvest in the equipment, stock or tools required for the business – customer invoices are not always paid on a timely basis and paying tax on income which may never materialise does not make good business sense.

38. Businesses with seasonal peaks and fluctuating profits may be particularly sensitive to changes to their cash flow. Regularly changing the forecasting is an additional burden and, without clarity at this stage on how exactly this would work, it is difficult to assess whether this would be sufficient to adapt to business cash flow challenges.

39. It is also unclear how compliance of the estimates and earlier payments will be managed. Concerns about interest on payments and a penalty regime also need to be addressed.

Changes to ITSA income

Question 12: If these changes were introduced, what additional measures could the government consider to support taxpayers when their Self Assessment income changes during the year?

40. While some taxpayers may feel it is positive to end the year without a significant balance of tax to pay, the mechanism for updating the forecasting needs to be foolproof and efficient. The consultation proposal was silent on repayment during the year, but we suggest this is addressed as part of the policy. Earlier repayment needs to be part of the proposal, especially if a taxpayer's circumstances change during the year and they find themselves in financial need, having paid tax on income they no longer expect to receive. Taxpayers are currently experiencing significant delays in receiving repayments. This proposal should not go ahead until the HMRC internal review of repayment problems is completed and the issues found resolved.

41. The consultation is also silent on losses. If payment is brought closer to the income being earned, then similar to the quarterly instalment payment regime for corporation tax, there needs to be a mechanism for repayment before the liability is finally established (see CTM92090).

Payments

Question 13: How else might the government support taxpayers to manage more regular payments?

42. Better customer service and ease of contacting HMRC would help taxpayers manage more regular payments by allowing them to resolve queries relating to payments or forecasting more efficiently. Customers who are confused by their liability will not want to make the next payment until they have managed to resolve their concerns which may mean direct contact with HMRC is required.

Question 14: Which groups of taxpayers might require additional support to access or use payment management tools?

43. The proposals will require a higher degree of engagement from taxpayers with HMRC throughout the tax year due to the forecasting requirement and the need to make tax payments more regularly. Taxpayers who are digitally excluded and those with additional needs will need additional support in order to understand these requirements and manage any obligations.

Transitional arrangements

Question 15: How might the government best support taxpayers to manage the transitional period?

44. We have considerable concerns about the transitional year. The current proposals could seriously impact cash flow for some taxpayers and impact their ability to meet their regular financial commitments. The transitional period must avoid creating tax debt which is in direct opposition to the purpose of the policy.

45. A longer transitional period is likely to be more manageable financially and a shorter period may be unaffordable for some taxpayers and significantly reduce disposable income during that period. We consider a one-year transition period is likely to have a negative effect on growth by taking too much money out of the economy.

Question 16: Would the option to make voluntary pre-payments, ahead of implementation, be helpful?

46. It may be helpful to allow voluntary pre-payments in order to spread out the liability in some cases but is only going to be of value to those taxpayers with significant income or accessible financial reserves, or reliable and regular cash flow. If implemented, it must be very clear what those payments are for and how they are allocated, otherwise it will become an additional and confusing task to attempt to unravel and reconcile the amounts paid. It can currently take several years to resolve allocation issues. This proposal is likely to add to the complexity of these cases.

47. Taxpayers who are currently spreading transition profits from basis period reform through to the 2027/28 tax year (final liability due on 31 January 2029) may be unable to afford voluntary pre-payments until that transition has concluded.

Question 17: If changes were made, what transition period would be most appropriate?

48. We would strongly suggest a period of more than one tax year. However, we recognise that if this means implementation before April 2029, this could overlap with the basis period reform transition period. Where taxpayers are impacted by both these changes, this will lead to further complexity.

49. We would suggest bringing any reform in over a period of three years. While this would temporarily complicate rather than simplify the current system, any shorter time would have significant impact on finances of taxpayers, on entrepreneurship and on the economy.

Question 18: What other support would help ITSA taxpayers during the transition period?

50. Statement of amounts due and paid and allocation to the final agreed income tax liabilities for tax years need to be much clearer. The transitional period is going to add a layer of complexity to even the simplest tax affairs and without the help of an agent it is very often difficult to decipher what has been paid, what is still due and what has been allocated to which tax year's liability. Payment references need to be foolproof and compatible (ie, not too many numerals) with most banking systems to ensure payments are correctly allocated. For example, the direct debit system does not cope with the different references required for monthly PAYE and PSA payments at present and HMRC should ensure any new references do not encounter similar problems.

Newly registered, or returning, ITSA taxpayers

Question 19: How might the government best support new or returning taxpayers to make timely payments, when they start earning ITSA income?

51. We acknowledge that the current system for self assessment is sometimes not fit for purpose. Tax bill shock is still an issue for those new to self assessment who file their first return and then find they must pay 150% of the tax due for that year by 31 January the following year. This can contribute to businesses failing.

52. We are also conscious that any new measures do not discourage entrepreneurship and requiring an estimate of tax to be paid before the income has been generated is likely to do just that. Not all businesses make a profit initially – in fact many are loss making – and the current system is ideally set up to deal with this. Most businesses can't predict how successful they will be from the outset.

53. We support a reform of the current POA system which would enable earlier tax payment. Earlier education in tax would help with this and other issues customer face with the tax system. It is acknowledged that requiring taxpayers to register and advise of their self assessment income earlier means they can engage with HMRC at an earlier stage and not only once payments are becoming due or late.

54. We encourage consideration of a grace period before any POA is mandated, perhaps in line with MTD where new businesses are only mandated to use MTD after that income source has been included on a self assessment return. New businesses can choose to use MTD sooner and equally some businesses may choose to make POA sooner.

Question 20: How might estimating appropriate liability for new or returning ITSA taxpayers be achieved?

55. New and returning ITSA taxpayers may not have any previous taxable income or estimated profits to use for forecasting. A different mechanism for estimating liability would need to be introduced for such taxpayers.

56. There would need to be new requirements for them to provide information to HMRC on which in year liabilities might be estimated as a basis for payment. Taxpayers (whose income meet the thresholds) are not currently required to sign up for MTD until after their first self assessment tax return has been filed. It would be logical to extend the same easement to more timely payments with a different method of estimating applying in that period.

57. Once the first self assessment return has been filed, estimated future liabilities may be more accurate as there would be some data on which to base it.

Potential changes to POA criteria

Question 21: What could be the impact of reducing the POA threshold, or are there alternative ways to support taxpayers below the current threshold to achieve the timely payment objectives?

58. The feedback we have received does not support reducing the POA threshold; in fact most taxpayers point to the need to increase the threshold as it has not kept up with inflation.

59. Several taxpayers are content to pay their balancing payment (where it does not exceed £1,000) at the end of the tax year as it allows them to retain control over their finances and cash flow throughout the year. As per the consultation, a large majority of self assessment taxpayers do file their tax returns and pay their tax bills on time. Some of these taxpayers have not chosen to make use of the option to code out their outstanding tax liability via PAYE (where it is less than £3,000) or a Budget Payment Plan but have no difficulty in managing their current payments and therefore are not keen to complicate their affairs, especially where the tax unpaid at the end of the year is minimal.

60. There is more support for introducing quarterly POA or changing the filing deadline to earlier than 31 January, recognising that a period of 22 months between the start of the reporting period and the filing and payment deadline is significant and perhaps outdated. That said, a mere movement of a month to the end of December would not be appreciated. There would need to be consultation to flush out other pain points such as how any changed deadline would interact with other key reporting deadlines and there needs to be a full understanding of the new end of year reconciliation process where benefits in kind are payrolled.

Choice between ITSA payments through PAYE and direct ITSA POAs

Question 22: In what circumstances could the government consider offering taxpayers with PAYE and ITSA income the choice between making ITSA payments through PAYE, or direct ITSA POAs, such as via Direct Debit?

61. We support having the choice of making ITSA payments through PAYE or direct ITSA POAs, although we recognise this also brings further complexity to the proposals. Having the ability to opt out of ITSA payments through PAYE would alleviate many of the concerns raised (eg, using the reliable, consistent income, affordability and cash flow issues and confidentiality concerns).

62. In this scenario only employees (or others with PAYE income) who had chosen the PAYE option would have the additional tax collected via PAYE. This means they are likely to be actively managing their forecasting and this should reduce the potential customer service demand that might otherwise be generated from this group. It would also be less burdensome for the employers as the taxpayers would have chosen this route and so be aware of the resulting impact on their net pay. We would expect employers to have to deal with fewer queries, although they may not be eliminated entirely.

63. The other option could be to pay direct POA on a quarterly basis where this is more suited to an individual's circumstances and tax affairs, however we maintain that the use of direct debit must be optional and all other methods of payment should remain available.

64. Keeping PAYE and self assessment income tax separate is likely to be preferable for some of the reasons outlined above, but also because many taxpayers see these as different liabilities and amalgamating them is likely to cause confusion.

65. If a choice is offered between two options, there would need to be clear guidance as to how this is communicated or notified to HMRC and whether a taxpayer will have an option to switch between the two options.

66. We recognise the value and ease of setting up a direct debit to manage simpler tax affairs. However, we maintain that this must be optional. Those with varied or seasonal income or even smaller sole trader businesses, may not have cash readily available or may need to move funds around to meet their tax obligations. They will therefore want to manage these payments directly, especially if they are regularly adjusting their forecasting, not least because it is not yet clear how these changes would flow through to the tax payment due and therefore impact the direct debit mandate. Failed direct debit payments can impact a taxpayer's credit score and it is important taxpayers are not disadvantaged in other areas due to these proposals.

Impacts on agents' role

Question 23: What would agents find useful to enable them to carry out their role effectively under the announced changes or possible reforms?

67. Agents would need to have full and uncompromised access to their clients' accounts including the ability to amend and update the forecast relating to the PAYE coding notices or direct POAs. Currently tax agents do not always have sufficient authority to view the details held by HMRC systems or the agent view is different to the HMRC or taxpayer view. This must be addressed before any change is implemented.

Support and guidance

Question 24: What support or guidance might be most effective for taxpayers with particular challenges and needs?

68. It is important that these proposals do not create additional tax debt as vulnerable taxpayers are likely to already have other non-tax debts or be struggling with financial commitments.

69. Low income or vulnerable taxpayers would need clear guidance and communication, especially if they are likely to either fall in and out of ITSA via PAYE or be affected by the 50% (or other) safeguard. For example, if PAYE withholding is stopped during the tax year because the 50% safeguard would be breached (as suggested by the consultation example), several taxpayers may assume they have paid sufficient tax for the year rather than it has stopped being collected. It must be unequivocally clear that even if these proposals are implemented, taxpayers will still need to complete a self assessment tax return and that there may still be a balancing payment to pay.

Question 25: What extra support or guidance might taxpayers who qualify for financial support from the government (such as Universal Credit) need?

70. The interaction must be clear to the taxpayer, including any impact on eligibility due to forecasting of estimated taxable income up or down during the tax year. Spreading the estimated tax liability throughout the year may be beneficial for Universal Credit claimants and avoids the impact of artificial changes in income that the current biannual POA system causes for such taxpayers. We would expect data to be shared between HMRC and the Department for Work and Pensions (DWP) to mitigate any other impact.

Question 26: What support or guidance might be most effective for tax agents?

71. As per the answer to question 23, digital agent access and the ability to update the forecasting information is key. Clear and comprehensive guidance on forecasting, including how often forecasts can and should be amended, the timescale for this flowing through to updating the PAYE coding notices changes or direct POAs due and the risks of inaccurate forecasting need to be explained.

Question 27: Are there are any additional comments you would like to make regarding the 'timely payments in ITSA' announced changes and possible reforms?

72. While it is recognised that the overall amount of tax due would not change under the proposals, there is a time value to money. Earlier payment of taxes, especially on an estimated basis, is

likely to have some behavioural impact. Some members have expressed concerns that the possible reforms might discourage entrepreneurship due to earlier POAs or disincentivise achievement or encourage a reduction in working hours to avoid the additional PAYE withholding in advance. There are already considerable concerns about the £100,000 earnings cliff edge for income tax purposes so proposals which potentially discourage or reduce economic activity must be weighed up very carefully before any decision is made to proceed. This is of particular concern for the transition period where the effective marginal rate of some taxpayers paying taxes both under the current regime and in advance could be extremely high.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory.** Tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament. A clear statutory basis ensures legitimacy, accountability, and public trust in the tax system.
2. **Certain.** As far as possible, the application of tax rules and compliance processes should be certain. Taxpayers should not normally need to resort to the courts to understand how the rules apply to their affairs.
3. **Simple.** The tax system should be easy to understand for all taxpayers and advisers. Complexity undermines trust, creates unfairness, and discourages compliance.
4. **Easy to administer.** Tax liabilities should be straightforward to administer for HMRC, agents, and all taxpayers. Taxes should be designed to work effectively in a digital environment, while administration must remain accessible to those with limited digital capability.
5. **Properly targeted.** Anti-avoidance rules and other targeted measures should be proportionate, clearly defined, and carefully scoped to achieve their policy objective without undermining simplicity or certainty. Poorly targeted measures add complexity and uncertainty, harming compliance.
6. **Stable.** Changes to the tax system should only be made when clearly justified by economic, social, or environmental goals. Transparent, purposeful reforms build confidence and move the system toward greater coherence and long-term stability.
7. **Subject to proper consultation.** Other than in exceptional circumstances, tax changes should be subject to open and meaningful consultation. Adequate time for stakeholder input improves policy quality, practicality, and public trust.
8. **Regularly reviewed.** Tax rules, reliefs, and policy-driven interventions should be subject to regular, transparent review to assess whether they remain relevant, effective, and aligned with current policy goals. Outdated or unjustified provisions should be reformed or repealed to maintain coherence.
9. **Fair and accessible.** The tax system should be fair and accessible in design and in operation, ensuring equitable treatment of taxpayers. Revenue authorities must exercise their powers proportionately, and all taxpayers should have timely access to HMRC assistance, independent appeal, and redress.
10. **Efficient.** The tax system should raise revenue in a way that minimises unnecessary distortions, compliance burdens, and resource misallocation. While all taxes affect behaviour to some degree, tax design should avoid cliff edges, unintended incentives, or inefficiencies that reduce economic wellbeing unless these serve a clearly defined policy aim.

For more information, please see Ten Tenets for a Better Tax System | ICAEW