



REQUIRING PAYMENT OF VAT AND PAYE — DIRECT DEBIT

Issued 13 August 2026

ICAEW welcomes the opportunity to comment on Requiring payment of VAT and PAYE — Direct Debit published by HMRC on 23 June 2026, a copy of which is available from this [link](#).

ICAEW has substantial concerns about the proposals to mandate payments of VAT and PAYE by Direct Debit. Concerns relate to the impact these measures could have on businesses and employers and the ability of HMRC to manage the collection and allocation process accurately and effectively.

We do not support the introduction of mandatory Direct Debit at this time. Too many businesses and employers consistently report inaccuracies on their HMRC accounts and the time frame to resolve these issues are not insignificant. Businesses and employers strongly oppose HMRC having the ability to automatically collect payments from their accounts. Businesses need to maintain control over their cash flow and processes.

A significant improvement in HMRC service performance and more support for struggling businesses are likely to result in better outcomes. We do not support any penalties or sanctions for not paying by Direct Debit where VAT and PAYE payments are made in full and on time. HMRC resources should instead be directed at tackling late and non-payments.

ICAEW

Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK
T +44 (0)1908 248 250 F +44 (0)20 7920 0547 icaew.com

The Institute of Chartered Accountants in England and Wales (ICAEW) incorporated by Royal Charter (RC000246)
Registered office: Chartered Accountants' Hall Moorgate Place London EC2R 6EA UK

This response of 13 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 8 weeks and coincides with the summer holiday period. This is insufficient for a consultation proposing measures that would impact most businesses and employers in the UK. 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).

© ICAEW 2026

All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact: taxfac@icaew.com

KEY POINTS

1. Requiring payment of VAT and PAYE by Direct Debit is not a suitable measure to tackle late payment and tax debt.
2. Whilst ICAEW fully supports measures to simplify the tax system and reduce the administrative burden, we do not believe this measure would achieve either of these goals. Automation of a process is only successful if it does not create more problems, and there are very real concerns that the use of Direct Debit would remove the safeguards and control businesses and employers currently have over their payments and result in many more errors and inaccuracies.
3. There are currently too many errors on customer VAT accounts and under Real Time Information for PAYE. These include misallocation of amounts; figures adjusted with no audit trail and tax liabilities offset against other heads of duty. HMRC's dashboard view often appears to differ between internal departments and not relate to what the customer can see. Reconciliation of the amounts is a laborious and resource intensive task for both customers and HMRC.
4. There are also practical reasons why mandating Direct Debit is not appropriate. Agents cannot set up Direct Debits on behalf of taxpayers; current PAYE references are not compatible with the Direct Debit scheme; payment caps may make larger payments impossible and Direct Debit schemes can be automatically terminated after periods of dormancy.
5. We do not support the implementation of a penalty regime or other sanctions for not making payments of VAT and PAYE by Direct Debit. Per the consultation summary, HMRC acknowledge that most taxpayers pay in full and on time and only a minority submit returns by the deadline but make payments late. There is no need to penalise taxpayers for their choice of payment method when they are meeting paying their liabilities on a timely basis. Consistent late payers may be encouraged to make use of the Direct Debit option where it would resolve operational issues, but imposing a Direct Debit scheme for all VAT registered businesses and employer is disproportionate. For many businesses this would mean significant changes to their approval and authorisation processes and remove the autonomy they have to manage their cash flow and transfers of funds internally. HMRC should instead continue to use the existing penalty regime to dissuade late payment and promote the Time to Pay arrangements to support struggling businesses.

ANSWERS TO SPECIFIC QUESTIONS

Question 1-9:

About ICAEW

6. We are responding to this consultation as a UK based professional body (England and Wales). The views offered are both of ICAEW and based on feedback from our members and volunteers, who themselves represent a variety of businesses and employers of differing sizes and across multiple industries.

Direct Debit for VAT

Question 10: Prior to this consultation, were you aware that you could make VAT payments by Direct Debit?

7. Most businesses are aware of the option to pay by Direct Debit but prefer to pay by other methods.

Question 11: If you currently pay by Direct Debit or previously have done, what benefits or drawbacks, if any, have you experienced?

8. No comment.

Question 12: If you were aware of the facility to pay by Direct Debit but have chosen not to use this payment method, could you explain why?

9. The feedback we have received suggests a number of reasons why businesses may choose not to pay by Direct Debit. Some businesses wish to retain control over payment timing and cash flow and some may need to wait until customers have paid before they can pay HMRC. Other businesses have concerns about HMRC collecting the wrong amount or about payment allocation errors and inaccuracies on VAT accounts. There is a fear that mandatory Direct Debit payments would exacerbate these issues. There is also an overall lack of confidence that HMRC would resolve problems quickly if an incorrect amount were collected.

Question 13: The government expects that making payment of VAT by Direct Debit mandatory could deliver benefits for businesses, including greater automation and reduced administrative burden. What benefits, if any, do you expect this change could bring to your accounting processes or wider business operations?

10. Most respondents struggled to identify significant benefits for businesses themselves. However, in principle mandatory payment by Direct Debit should reduce HMRC's debt recovery costs, and it should help ensure that businesses pay on time. It should also reduce the risk of missed payments due to oversight or process failure. On the whole businesses are much more concerned that it would create additional problems if the incorrect amounts were collected or allocations do not align with the business' records. We do not think the potential benefits outweigh the significant risk and concerns we are hearing from businesses.

Question 14: What barriers or impacts, if any, might making payment of VAT mandatory by Direct Debit have on your accounting processes or wider business operations?

11. The same key concerns apply here including HMRC collecting an incorrect amount, HMRC failing to collect a payment when expected, incorrect allocation of payments between liabilities, inaccuracies within VAT accounts and difficulties recovering overpayments from HMRC. This could lead to increased monitoring requirements for businesses and cash flow disadvantages, particularly for smaller businesses.
12. There is also a broader concern that mandation of Direct Debit payments could amplify the impact of existing problems within HMRC's systems, if those issues have not been satisfactorily resolved before implementation.

Question 15: If you have chosen to use methods of electronic payment other than Direct Debit, are there particular benefits in your chosen method of payment that informed a decision to use these instead of Direct Debit?

13. Businesses value control over payment timing and flexibility in managing cash flow. Several businesses have inbuilt processes which require a review of liabilities before authorising payment. Businesses think that managing their own payments manually reduces their exposure to HMRC system errors which could result in the incorrect sum leaving the bank account automatically.

Question 16: Are you currently excepted from submitting VAT returns electronically?

14. No comment.

Question 17: What barriers or impacts might you face by making VAT payments by Direct Debit?

15. We are aware that agents cannot currently set up Direct Debits on behalf of clients. This is obviously a significant barrier for several businesses who outsource their complete VAT compliance (or equally PAYE compliance) to an agent, whilst recognising that these measures are in place to protect against the fraud and security risks involved with unauthorised mandates and therefore unlikely to change.
16. We would also suggest that detailed consultation with the banking industry should be undertaken. Some members have identified technical issues with the way the Direct Debit system works which means it is impossible to pay by Direct Debit in some circumstances. The

Direct Debit dormancy rule means that if a Direct Debit instruction is left inactive with no collection request for 13 months, banks automatically remove it as a dormant instruction. Not all customers will be aware of this or be notified by the bank that the instruction is being removed as it is designed as a fraud protection measure. If no VAT is due for a period of over 13 months, it is unlikely that the Direct Debit instructions would still be active if VAT is due in a new period. In addition, some banks prevent the creation of a new Direct Debit to the same payee after the instruction has been removed in this way.

Question 18: If you have set up a Direct Debit using VATC9 form or on your online VAT account and currently pay VAT by Direct Debit

- **comment on benefits of this method, if any, you have experienced**
- **comment on drawbacks, if any, you have experienced**

17. No comment.

Question 19: Are there any particular customer groups (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) likely to be disproportionately affected? If so, please explain how.

18. We do not support the implementation of Direct Debit payment for any customers. However, there will be particular challenges for those businesses who operate with overseas bank accounts, have complicated financial arrangements or group structures where the payment does not all come from the same account, or those who are subject to additional governance requirements e.g. charities.
19. Those customers who have entered into Time to Pay arrangements will need to be reassured that Direct Debits will not continue be automatically collected during these periods. Safeguards should be considered for such customers and others where payment automation might result in more rather than less tax debt.
20. Concerns were also raised regarding governance over very large VAT payments and a potential payment cap which may make Direct Debits impossible.

Question 20: What, if any, barriers might you face or impacts might you experience on your accounting processes/business if POA instalments were collected by Direct Debit?

21. No further comment.

Question 21: What benefits, if any, do you foresee if POA instalments and the balancing payments were collected by Direct Debit?

22. No further comment.

Question 22: If your VAT liability fluctuates above and below £20million within a tax year please explain the typical range, frequency of fluctuation under and over £20million and why this varies?

23. No comment.

Direct Debit for PAYE

24. Please note that several of the comments made under the VAT section apply equally to payments of PAYE.

Question 23: Prior to this consultation, were you aware that payments of PAYE could be made automatically by Direct Debit, following an RTI return?

25. We understand that listing Direct Debit as the primary method of payment has not improved take up of this option. The majority of employers are aware that Direct Debit is a method of payment available to them but in most cases have not chosen to pay this way, as it either does not suit their business structure or there are existing problems with their PAYE allocations under the Real Time Information (RTI) system and therefore a lack of confidence in the system.

Question 24: How do you currently make payments of PAYE to HMRC?

26. The majority of our members who responded have indicated that they pay electronically but prefer not to use Direct Debit.

Question 25: If you have previously not paid on time, or paid with an incorrect reference, can you explain why this happened and would Direct Debit have helped prevent this?

27. Direct Debit would only help if the correct amount was available in the correct account on the date of collection. Payments may be made late for more complex reasons than an operational delay or incorrect reference. On occasion, an employer must make an operational choice over their payments rather than incur a significant cash flow disadvantage, or a business is required to transfer funds from a different account before making the payment. Smaller employers may not have the financial capacity for significant overdrafts and failed Direct Debits can affect credit ratings and future business potential. In some cases, a missed payment may be an oversight or process failure, and it is in such cases that Direct Debit would help, but we view this benefit as minor when compared against the significant risks.

Question 26: If you were aware of the option to use Direct Debit but haven't done so, please could you explain why?

28. There have been significant problems with the RTI system since implementation, meaning employers often cannot reconcile the amounts due and paid with HMRC's figures or dashboard views. Very occasionally this is due to customer error, multiple payroll identifiers or using the incorrect reference - but much more significantly it appears to be due to systemic issues within the RTI system. HMRC has responded recently with a new dedicated G-forms for disputed charges, preparing Guidelines for Compliance to 'help employers avoid disputed charges under RTI' and amending some internal processes with regard to locked payments which were not consistently visible across teams.

29. HMRC often cannot explain how or why submitted amounts have been adjusted nor provide any real detail to unravel what automatic adjustments HMRC systems have made. Employers consistently report figures appearing on PAYE accounts, being amended by HMRC and then disappearing with no logical reason. As a result, the amount owed on a PAYE account can vary significantly from day to day with no communication. The audit trails are not transparent. We have heard reports of differences of more than £3 million appearing and disappearing on PAYE accounts.

30. The impact of this should not be underestimated. This can cause payroll professionals significant stress and worry when the figures they are responsible for producing bear no relation to the liabilities shown on HMRC's system. Such professionals understandably oppose HMRC mandating Direct Debit payments - from their perspective not only would there be the risk that their figures do not reconcile with HMRC's data, but HMRC will also be able to effectively take the amount HMRC deems to be due which could adversely affect the businesses they represent.

31. Employer feedback is that there are still both new and longstanding historic issues. These only appear to be resolved when a named caseworker is allocated to the case and reviews the employer's account meticulously, often line by line. Even with such intervention, we have been made aware of such cases taking over 6 months to resolve. Other employers have reported issues with taxes being set off against other tax liabilities without communication with the customer, for example, VAT and corporation tax being allocated to PAYE, which is completely unacceptable and results in the customer using their own time and resources to try to unwind what has happened. Many such customers choose not to pay by Direct Debit because they want to maintain control over their payments and would not trust that the correct amount would be collected or allocated by HMRC. They want to avoid needing to expend more resources in trying to resolve issues when they inevitably arise.
32. Several members have suggested that, if Direct Debit were mandated, employers may seek to ringfence PAYE funds in separate bank accounts as a safeguard against unexpected collections.

Question 27: If you have used Direct Debit to make payments of PAYE to HMRC could you:

- ***comment on any benefits of this method***
- ***comment on any drawbacks of this method***
- ***indicate whether this remains your chosen payment method and, if not, what prompted this change***

33. No comment.

Question 28: If you currently pay PAYE by Direct Debit to what extent does the later payment date influence your decision to use this method, compared with other factors?

34. No comment.

Question 29: If it is made mandatory to make payment of PAYE by Direct Debit, what impact, if any, might this have on your business?

35. Employers are concerned about the consequences of HMRC collecting an incorrect amount or taking the correct amount more than once. The consultation is silent on whether employers would be notified of the payment due and if so, what the timeframe would be, and more importantly whether there would be a mechanism available to adjust this without consequence. The experience of how long it takes to rectify payment and allocation issues (some extreme cases have been going on for 14 years) does not give customers confidence that it would simply be a case of reversing an overpayment or cancelling a Direct Debit. There is real concern that HMRC having this level of control over a business or employer's cash flow could be catastrophic for some businesses.
36. Payment by Direct Debit would also prevent customers from making partial payments when they receive cash from customers. The PAYE due might not be immediately fundable if invoices have not been paid to the businesses on a timely basis. Direct Debit prevents businesses from managing their own cash flow which can be impacted by external influences. Payment difficulties may also arise if HMRC owes a large refund from another head of duty.
37. There is the additional risk that payroll or VAT returns then translate automatically into a payment whereas currently a manual authorisation process may mean the amounts are reviewed and errors spotted before the payment is made. It is not unusual for payroll adjustments to be made after RTI submissions, and it is not clear how any in year or year-end adjustments would interact with a Direct Debit scheme.

38. In reality, mandating payment by Direct Debit still imposes a manual check on most employers as they will want to check their account after the payment has been taken to ensure it is correct. There is therefore no reduction in the administrative burden for employers even if HMRC does collect the correct amount.
39. Other members have also expressed concerns that if businesses do rely on HMRC collecting the correct amount during the year they may end up having difficulties reconciling the payments made, or their account balance at a later stage.
40. Direct Debit is of course not free from fraud and security risk. The Direct Debit Guarantee allows for an immediate refund for unauthorised withdrawals but is it not clear whether this would apply to a disputed payment or incorrect amount collected by HMRC. Mandating the use of Direct Debit for most VAT registered businesses and employers would inevitably cause a major increase in its use, which in itself creates more opportunity for fraud and security risk. There is the potential for unauthorised mandates being set up and going unnoticed due to the volume of new mandates that would be needed across businesses. It would also provide more opportunity for repayment related fraud, especially where employers believe a refund is due from HMRC and are keen to get the repayment back on a timely basis.

Question 30: Are you currently excepted from submitting electronic returns for PAYE?

41. No comment.

Question 31: Please explain any barriers or challenges, if any, that you may face in making PAYE payments by Direct Debit?

42. We are aware that at present the Direct Debit system does not cope with the different references required for monthly PAYE and PSA payments. HMRC should ensure any new references do not encounter similar problems.
43. Several employers operate an internal approval process before funds are released to pay a liability. Such approval processes may or may not be independent of the RTI returns, meaning a manual payment process may be more appropriate. Depending on the sum due, there could be various levels of internal approval required to release funds or a requirement to request funds from a different part of the business. As already mentioned in the response to question 29, the payment process also serves as a useful prompt to reconcile back to the payroll submission.
44. A mandatory Direct Debit scheme would not be compatible with such approval processes. For some businesses, this is a large policy change that would require substantial internal engagement to amend.

Question 32: Are there any impacts on particular groups of taxpayers (such as disabled people; people of different ethnic groups, age, sex or gender, marital status, sexual orientation, religion; or people with or without dependents) that need to be addressed? How do you suggest we can overcome these?

45. See answer to Question 19. In addition, we would like to highlight that family businesses and smaller organisations which operate a small in-house payroll may find a Direct Debit mandation conflicts with their internal organisational structure and methods of funding PAYE.

Question 33: Have you ever made a payment of PAYE over £20million?

46. No comment.

Question 34: If yes to 33, if you fluctuate above and below £20million please explain the typical range, frequency of fluctuation under and over £20million and why this varies?

47. No comment.

Question 35: If yes to 33, what is the lowest regular payment you have made in the past 3 years?

48. No comment.

INCENTIVES TO ENCOURAGE UPTAKE AND SANCTIONS FOR NON-COMPLIANCE

Question 36: What are your views on the use of penalties where VAT or PAYE is not paid by Direct Debit, including whether any penalty should apply on each occasion a payment is not made by Direct Debit, or if penalties should operate on a cumulative basis?

49. We do not support the introduction of any penalties where payments have been made accurately and on time, but not by Direct Debit. Penalties should focus on late payment or non-payment rather than the payment method used. Direct Debit is a useful method of payment but must remain optional. Sanctions are not the correct approach and will cause even more frustration and distrust of HMRC and the tax system. It is not logical for HMRC to expend time and resources penalising compliant organisations and taxpayers who are paying the correct tax by the deadlines imposed, as there is no actual loss to HMRC. This approach would not assist in closing the tax gap as there is no gap to address. The focus should be on encouraging those consistent late payers (where there is no dispute over the amounts due) to consider the Direct Debit scheme where it is clear that there is a process failure or oversight, however recognising that there are likely to be other reasons as outlined in this response why customers may not wish to implement Direct Debit payments.
50. We do not believe additional penalties are necessary given that a late payment penalty regime designed specifically to encourage timely payment already exists for both VAT and PAYE. HMRC already has penalties, debt management processes and 'Time To Pay' arrangements available to deal with those who repeatedly pay late. HMRC should explain why the existing measures are insufficient to address the behaviour it is concerned about.

Question 37: What challenges, if any, might arise from having different VAT or PAYE payment dates depending on the payment method used?

51. No real challenges in different payment dates were identified from the feedback received. Larger organisations are likely to have processes in place and different reserves to manage each type of liability, and smaller organisations might find a different payment date advantageous for cash flow reasons.

Question 38: What other incentives or sanctions could be considered to encourage people to pay VAT and PAYE by Direct Debit.

52. As stated, we do not support mandating payment by Direct Debit or imposing sanctions to encourage its use.
53. Businesses missing or struggling to make payments on time are likely to need more support rather than sanctions in order to help those businesses survive and protect the tax revenue when the cash does come in. Applying sanctions to struggling businesses does not help support the growth agenda.
54. A later payment date if paying by Direct Debit might be attractive to some businesses but it's unlikely to make a significant difference to those who currently pay the correct amount on time. For those businesses and employers whose cash flow is more market sensitive and sometimes means they are currently a few days late in paying this may be a good incentive and assist with avoiding late payment charges, though we would maintain this must remain optional. Direct Debit should be offered as a payment method to support businesses and employers in managing and simplifying their tax affairs and there should be no punitive measures if they choose not to use it.
55. Other feedback received suggests that improving HMRC standards would be a more effective incentive than introducing additional sanctions or token incentives. Participants highlighted that improvements in the following areas would foster greater confidence that HMRC will collect the correct amount:
- improving VAT and PAYE account accuracy;

- improving the payment allocation processes;
- improving visibility of amounts due;
- accelerating correction of HMRC errors.

56. If customer' experiences are that HMRC's service standards are improving, then trust in HMRC and the tax system will increase and Direct Debit might become a more realistic and popular option. However, until this happens, it will not be possible to incentivise the use of Direct Debit.

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](#)