

# Association of Accounting Technicians response to the HMRC call for evidence on Timely Payment

**Association of Accounting Technicians (AAT) welcomes the opportunity to provide a short response to this call for evidence on Timely Payment.**

## Introduction

AAT has over 5,000 licensed accountants who provide tax and accountancy services to more than 500,000 individuals and small businesses across the UK. One hundred of these AAT licensed accountants form a "Panel" that AAT utilises for consultation responses, surveys and focus groups and they were asked a series of questions relating to this call for evidence. Their responses form the basis of this submission.

## The benefits and challenges of Timely Payment

AAT members were unable to highlight any significant benefits to their clients that new Timely Payment arrangements would deliver, which was indicative of their uniform opposition to the proposals.

Significant concerns were raised about the impact on those already struggling to pay bills and manage cash flow, especially individuals and small business, many of whom are likely to find any new Timely Payment obligations extremely challenging.

As one member suggested, the challenges will be, "...Getting the information required, finding the time to do it all and the extra cost to clients."

Or, as another member more comprehensively responded, "...who does this help? There is added administration, increased costs, more payments to manage. The feedback from my clients to this has been entirely negative. HMRC need to understand that self-employed and small company incomes can vary wildly month by month so one month they may make 3k profit and the next month 5k loss. How do you know what the overall tax liability would be if they purchase a capital asset? ...It is difficult enough at the moment to manage two annual payments including payments on account for the self-employed. This may also be beyond the capabilities of many agents to support. Finally most start-up businesses do not make taxable profits in the first or second year so where is the benefit to them having to file more returns?"

AAT does not believe there is a sufficiently strong case to consider moving millions of self-employed individuals and small businesses to what would effectively be real time payments in as little as three years' time.

There does not appear to be a reasonable solution to the initial problem of many facing an obligation to pay two years' worth of tax in a single year. The likely scale of costs and challenges imposed on individuals and small businesses – including a likely increase in accountancy costs - is very difficult to justify for rewards that fall almost entirely to HMRC and the Government.

It is also worth highlighting that an increased frequency in reporting requirements will almost certainly lead to an increased number of errors – and associated penalties for individuals and small businesses that many can ill afford. This will especially be the case where an individual or small business does not have a regulated accountant to rely on for help and advice.

As a number of AAT licensed accountants highlighted in their survey responses last month, until Government resolves the issue of late payment (and no payment) to small businesses, many of their clients cannot be expected to pay the taxman money that they have not received themselves. For several years, AAT has campaigned for the maximum payment terms under the Prompt Payment Code to be halved from 60 to 30 days and for all organisations employing more than 250 staff to be compelled to sign up to the Code. The Government finally agreed to halve the maximum payment terms of the Code in January 2021 but the Code remains entirely voluntary which means it is unlikely to do very much to combat this £50bn+ problem<sup>1</sup>.

Finally, the impact and challenges of recognising annual reliefs, allowances, deductions, and other amounts will be enormous. Most businesses can make considerable capital investment. A one year carry back of trading losses would be complicated enough but if the new three year carry-back of trading losses were to be made permanent (as AAT has previously recommended it should be) the refund position for those that take advantage of this could be incredibly complex.

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<sup>1</sup> Hitachi Capital, 2019:

<https://www.hitachicapital.co.uk/news-media/late-payments-costing-uk-smes-at-least-515-billion-a-year/#:~:text=2%20September%202019%20%E2%80%93%20Almost%20a,according%20to%20research%20released%20today>

Likewise, changes to tax codes throughout the year could create uncertainty and complexity.

Capital sales and how they are accounted for will likely create problems too. As detailed below, the mere sale of a buy-to-let property now creates myriad headaches (and frequently penalties) due to 30 day reporting requirements so this would be magnified with the sale of a business and staged payments, which in some circumstances could mean the total amount due in tax may not be finalised for a substantial period of time.

### **Existing arrangements**

In seeking to establish what the benefits are of the existing payment timings for Corporation Tax, it is worth noting that from incorporation it often takes a significant amount of time not just to become profitable but to manage administrative affairs prudently and efficiently. As a result, the added cashflow benefits of existing arrangements can often be the difference between success and failure for start-ups. As one member highlighted, it is not as if these individuals are avoiding any form of tax payment as many will have VAT, PAYE, Council Tax, Business Rates liabilities etc.

Recent changes to the payment of CGT liability (payable within 30 days of a property sale) have been extremely challenging for accountants and their clients alike. This is reliant on clients setting up a CGT account online (which can take at least two weeks) within 30 days. Agents are prevented by HMRC from doing this for their clients, which means this deadline is often missed. Concerns have also been raised about the additionally challenging nature of the 30 day period over the Christmas period and in the current pandemic period of repeated lockdowns and tier measures.

These problems could be partly reduced if estate agents did more to highlight this requirement to sellers. The CGT account can be set up before a sale is concluded and advice given long before this date is reached. Media coverage around proposed changes to the CGT regime had not necessarily led to any change in behaviour but had led to an increase in CGT related enquiries to accountants. Inevitably the same would be the case if these requirements were replicated in other areas of the tax system.

### **Making Tax Digital**

AAT asked licensed members what they thought the benefits would be for MTD customers, of paying in-year instalments towards their tax bill, informed by their quarterly MTD updates.

*"I see no benefits for clients whatsoever"* was how one member saw it and many others responded similarly,

Other responses included; *"The only benefit I can see here is improved tax receipts for HMRC and the Government, for the business it will be added cost and complexity and will discourage more entrepreneurs from starting a business."*

In seeking to establish if there are customers for whom MTD updates would be a particularly unreliable guide for in-year tax payments, those with seasonal trades and those with long creditor and debtor days are an immediate concern. For example, many in the hospitality sector are likely to suffer as many rely on tax monies to sustain them through quieter trading periods.

### **Government manifesto commitments**

These Timely Payment proposals also appear to be incompatible with the December 2019 Conservative Party Manifesto which exclaims, *"We will keep costs down for small businesses"*<sup>2</sup> yet these proposals will probably achieve the opposite.

The manifesto also explains that, *"...the only way to fund world-class public services and outstanding infrastructure is to encourage the millions of British businesses that create the wealth of the nation"*<sup>3</sup> but the Timely Payment plans will arguably discourage business start-ups.

Poignantly, the manifesto also states, *"We understand the challenge of increasing running costs, especially for smaller firms, and are committed to reducing them"*<sup>4</sup>. These proposals will almost certainly increase smaller firms running costs, not reduce them.

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<sup>2</sup> p7, Conservative Party Manifesto

[https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba\\_Conservative%202019%20Manifesto.pdf](https://assets-global.website-files.com/5da42e2cae7ebd3f8bde353c/5dda924905da587992a064ba_Conservative%202019%20Manifesto.pdf)

<sup>3</sup> p25, *ibid*

<sup>4</sup> p32, *ibid*

Perhaps of most relevance, the manifesto also states, "...we will ensure that regulation is sensible and proportionate, and that we always consider the needs of small businesses."<sup>5</sup>

**Further information**

If you have any queries, require any further information, or would like to discuss any of the above points in more detail, please contact Phil Hall, AAT Head of Public Affairs & Public Policy:

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<sup>5</sup> p33, ibid