

## **MTD – Voluntary pay as you go**

As well as the requirement to make a digital return and keep digital tax records, the Making Tax Digital (MTD) reforms introduce other changes to the way in which taxpayers interact with HMRC. One such change is the opportunity for taxpayers to make voluntary payments on account of their tax liabilities. Under the voluntary pay as you go (PAYG) proposals taxpayers will be able to, if they so choose, set aside money to pay their tax by making voluntary payments on account.

Some key points to note are:

- There will be no obligation to make PAYG payments.
- The payments will be flexible.
- HMRC claim the administration will be simple.
- Voluntary payments will be repayable.
- Payments and repayments will be made electronically.

### **Making payments – taxpayer chooses**

It will be entirely up to the taxpayer to choose whether to make payments on account and if so when and how much to pay. There will be no deadlines, no requirements for voluntary payments to be made at a fixed time and no minimum payment.

### **Allocation of voluntary payments – HMRC choose**

However, when it comes to deciding how voluntary payments are allocated, it is HMRC who decides rather than the taxpayer. The taxpayer pays into a pot and HMRC uses any money in the pot to pay liabilities as they become due. The argument for this is that HMRC can use the money in the way which best reduces any interest and penalties that a taxpayer may incur. However, this may not suit all taxpayers – some may wish to make payments on account towards their final self-assessment liability, but are happy to pay their VAT each quarter as it becomes due. Under the proposals as they currently stand this is not possible – payments can be made only against a taxpayer's liabilities generally rather than set aside for a specific liability. Not everyone is happy with this.

### **No interest**

Currently, there are no plans to pay interest on voluntary PAYG payments. Consequently, it may be better to open an interest-bearing account to save for future tax bills (particularly if giving an interest-free loan to the Exchequer does not appeal).

### **Start date**

The plan is to roll-out voluntary PAYG with MTD, making it available to unincorporated businesses and landlords with a turnover above the VAT threshold from April 2018, when they are bought within MTD.

### **A good idea**

The idea was well supported in principle and some taxpayers may like the idea of setting money aside to cover tax. There are alternatives, however, including the existing Budget Payment Plan.