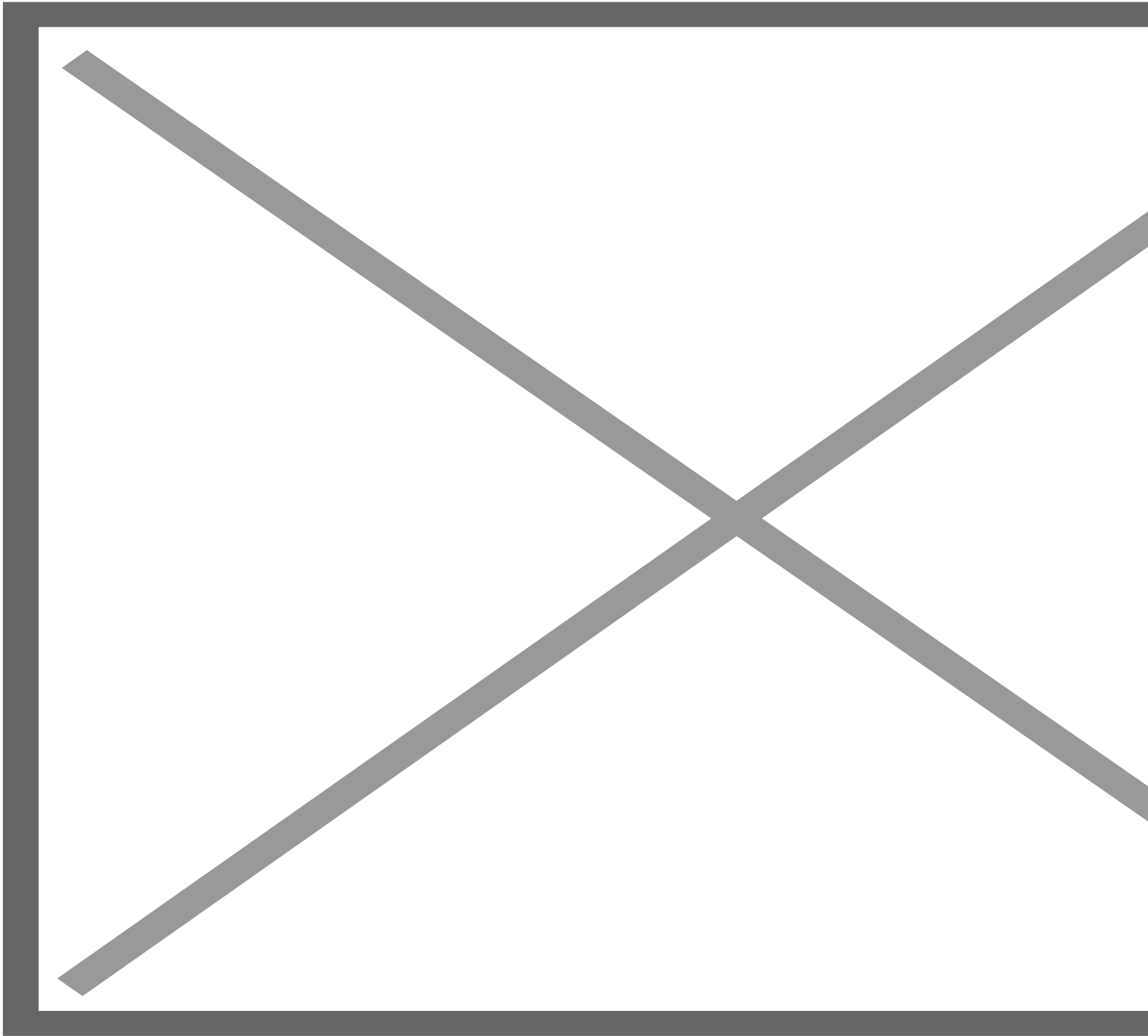


Practical assistance for struggling taxpayers

Large Corporate

OMB

Personal tax



01 July 2020

HMRC explains how individuals and businesses struggling with their tax bills in these challenging times can negotiate additional time to pay

Key Points

What is the issue?

The government launched a well-publicised series of support measures in response to the Covid-19 crisis, including the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme. However, HMRC is seeing increased demand for Time to Pay, a pre-existing support option for those struggling to pay their tax.

What does it mean for me?

HMRC typically has around 600,000 TTP arrangements in place covering about £2 billion of debt. Since March, the organisation has assisted over 60,000 businesses in agreeing some form of TTP.

What can I take away?

Before pursuing TTP, it may be necessary to have an honest discussion with clients as to the predicted viability of their business, particularly in those cases where the performance was not strong before the pandemic hit.

The financial implications of the Coronavirus pandemic continue to affect individuals and businesses, many of whom find themselves seeking support in ways they've never had to consider before.

The government launched a well-publicised series of support measures in response to the Covid-19 crisis, including the Coronavirus Job Retention Scheme and the Self-Employment Income Support Scheme. However, HMRC is also seeing increased demand for a pre-existing support option for those struggling to pay their tax – the Time to Pay arrangement, frequently abbreviated to TTP.

HMRC typically has around 600,000 TTP arrangements in place covering about £2 billion of debt. Since March, the organisation has assisted over 60,000 businesses in agreeing some form of TTP. As the name indicates, TTP is an arrangement which can be entered into if any taxpayer can't pay their tax bill in full and on time because of temporary financial difficulties. Agreeing TTP allows them to pay the amount owed over time by set instalments instead.

TTP arrangements can cover any amount owed to HMRC that has become overdue. There is no standard length or amount as each is specific to individual circumstances and completely bespoke, created on a case-by-case basis.

The application process

Anyone having difficulty paying a tax bill should contact HMRC as soon as possible, calling the HMRC's Payment Support Service on 0300 200 3835. At the time of writing, the Coronavirus helpline (0800 024 1222) is also live, providing access to similar support.

Some Self-Assessment taxpayers can apply for TTP online through a self-service portal. For everyone else, the negotiation takes place over the phone with HMRC. The focus of this conversation will be on the caller's financial position, establishing whether the TTP arrangement will represent the best payment solution and, if it will, setting that up. Clients should be advised to carefully prepare the information they will need for the discussion. This will include details of income, disposable assets and expenditure, the reference number of the specific bill they are concerned with and a record of any other debts outstanding to HMRC.

The taxpayer or their adviser (where designated) will firstly discuss, over the phone, whether TTP is needed. It must be determined that the arrangement is required given the caller's financial circumstances; e.g. if they have no assets they can realise to cover the debt.

Having established that TTP is required, the next stage is to negotiate how long this will be for and how much will be paid regularly. During the conversation, a direct debit will be set up for the payments, so even if they are represented by an adviser, the taxpayer themselves will need to be on the call. The instalments will last for as long as the individual or business needs, but as quickly as they can pay with the details of their income taken into account.

If the HMRC adviser establishes that the taxpayer is able to pay quickly in just a few instalments, this whole conversation could be quite short. If the situation is more complex, or less certain, the call could take much longer. A client should be advised to make the call when they have plenty of time to discuss their circumstances in detail, and given the private nature of the information that will be covered, in a suitable location.

Considerations for businesses

Where a business is concerned, the key factor in determining eligibility for TTP is not based on the sector or industry they operate in; rather, it is based upon the specific business's ability to pay and their unique circumstances.

HMRC will examine a business's entire tax position to assess the appropriateness of TTP. The more debts that a business accrues, the higher the risk of the business not being viable in the long term, which is exactly how any creditor would see it. TTP is not a tool to support businesses that are not viable in the long term. The financial difficulties the business is experiencing must be temporary.

In the current climate, the economic uncertainty caused by Covid-19 makes that judgement much harder to make. As a result, viability is being presumed in more cases, with the situation to be reviewed as the economic environment changes.

Before pursuing TTP, it may be necessary to have an honest discussion with clients as to the predicted viability of their business, particularly in those cases where the performance was not strong before the pandemic hit. Even where TTP is granted, it will not provide an indefinite solution to such problems.

How a TTP arrangement proceeds

In almost all cases, the payments will start immediately (on the day the arrangement is agreed), but in exceptional cases that first payment can be delayed. It is also rare for the negotiation itself to be deferred until a future date, as this is usually done when there just isn't enough certainty to know if a payment arrangement entered into is sustainable.

The payments are collected through direct debit and all monthly payments will be of the same value. Ensuring the plans are viable and sustainable is key to the conversation when setting them up. The monthly amount agreed is not just concerned with the repayment of the debt; it must ensure that it is possible for the individual or business to keep paying their upcoming tax charges while TTP is in place.

When TTP is agreed, one of the conditions is that future tax payments are met on time. The aim is to help businesses get back into regular payment of their tax as soon as they can, while having TTP set up for their accrued debts in the background, gradually paying it off.

Interest is always payable on the debt owed. This accrues from the due date to the end of the TTP arrangement.

If circumstances change, the individual responsible for a TTP arrangement should contact HMRC with details as soon as possible. If there is a positive change financially, the regular monthly charge may be increased to clear the debt faster. If the situation worsens, it may be possible to reduce them. Early contact is key to managing TTP effectively through any changes, and while there is not an assigned case worker for individual accounts, colleagues at HMRC will have immediate access to a full case history and be able to advise taxpayers based on up to date information on their specific arrangement.

On the whole, these arrangements work well for both parties and 90% of TTP arrangements complete successfully.

If it doesn't work

If HMRC is not able to agree a TTP arrangement for the individual or business applying or they fail to honour one once it is in place, e.g. by cancelling the direct debit, then it may proceed with some sort of enforcement activity. This could be court action, possible recovery through assets or insolvency proceedings. Such action will be taken only after HMRC has made earlier attempts to contact the customer and arrange collection of the debt. It will always be HMRC's preference to agree payment without the need for enforcement action.

In conclusion

TTP arrangements can provide vital relief for individuals and businesses facing a tax bill they are unable to pay. HMRC is handling an increased number of TTP agreements in the wake of the Covid-19 crisis and is acting with sensitivity to business needs given the level of uncertainty caused by the pandemic.

However, this solution should not be seen as a quick and easy fix. Advisers should highlight to their clients, both individuals and businesses, that a TTP will only be agreed if they can demonstrate their need for it and it clears the debt in an acceptable period. They should also encourage business customers to recognise that, while they are more likely to be accepted for the arrangement due to uncertainty caused by Covid-19, this not an indefinite solution to a struggling enterprise.

Interest is paid on the outstanding debt, so this is also not a 'free' solution. It is vital that agreed payments are made, as failure to continue these may force HMRC to instigate formal action to recoup the debt.

Clients should be encouraged to be proactive in monitoring their financial affairs with respect to the TTP arrangement, and to contact HMRC promptly if their situation improves or deteriorates. This will keep payments manageable with the aim of clearing the debt as quickly as possible.

Prompt contact and the supply of accurate information is key and will help ensure a successful outcome to any TTP request.