Timely Payments in Income Tax Self-Assessment (ITSA)

Introduction

UK Private Capital (formerly the British Private Equity and Venture Capital Association, or BVCA) represents 600 firms including the wider ecosystem of professional advisers and investors. Private capital consists of private equity and venture capital which makes long-term investments to grow British businesses and build a better economy. Private credit and venture debt also provide active and engaged debt finance to businesses.

The private capital industry backs 13,000 UK businesses, nine in ten of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024 located outside the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets. UK-based private capital specialists have raised £190bn of funds, known as dry powder, expected to be invested over the next three to five years.

We welcome this consultation and are grateful for the opportunity to respond. We recognise the Government's objective of bringing the timing of tax payments closer to the receipt of income and reducing the build-up of tax liabilities. However, it is very important that any reforms are proportionate, practical and capable of accommodating income that is irregular, volatile or difficult to forecast. In particular, we are concerned that the proposed changes will have unintended and damaging consequences for carried interest recipients and other taxpayers with highly variable income streams. We therefore strongly encourage the Government to ensure that any new regime provides sufficient flexibility, certainty and safeguards to avoid creating disproportionate administrative burdens, cashflow pressures and unintended penalties for compliant taxpayers.

New rules that tax carried interest as trading income were introduced from April 2026, raising the effective rate of tax from 28% to around 34.1%, including national insurance contributions. Most competitor jurisdictions apply a lower rate of tax to carried interest than the UK. In addition, the new regime introduces the risk of UK tax on carried interest received by non-UK executives, which is out of line with most other countries.

The UK's ability to attract and retain highly-skilled talent and ensure that private capital is effectively deployed into growing UK businesses is highly sensitive to changes to the tax treatment of carried interest. In this important policy area, the careful and constructive development of the new carried interest regime, explicitly recognising the unique characteristics of carried interest and the value of the private capital industry; along with pragmatic decisions not to introduce unnecessary or burdensome additional conditions was welcome. However the new regime comes with challenges for attracting talent and investment.

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It is important that the approach to tax collection does not undermine the carefully balanced regime or damage the UK's attractiveness as a destination for investment and growth.

Executive Summary

Whilst we acknowledge the Government's reasoning for exploring a reform to the way in which income tax is collected for those within self-assessment, we have a number of concerns regarding this proposal that we set out in this response. Many of these points align with concerns alluded to in the Government's 2021 "Timely Payments Summary of Responses" and the concerns we raised as part of our response on carried interest matters dated January 2025.

Our response is primarily focused on the impact of the proposed new regime on carried interest which, as the Government described in 2025, has "unique characteristics". The Government recognised the "long-term nature of the reward, with a typically lengthy period between award and payout" as a key characteristic in 2025. Carried interest is not simply another form of trading income. Although it is treated as a deemed trade for tax purposes from April 2026, the underlying returns continue to arise from investment activity and depend on investment realisations that are often outside the recipient's control.

Carried interest would be brought within the Payments on Account regime as a consequence of being treated as a deemed trade from 6 April 2026 onwards. However, due to the unique characteristics of carried interest, we consider that reforms requiring taxpayers to forecast and pay tax on anticipated in-year income would be particularly difficult to operate in practice. Carried interest only arises as part of a transaction, following a long-term investment, and the underlying investment activity is not something that can be reliably predicted or forecast. As a result, the proposed regime would require taxpayers to make regular forecasts of income that is inherently uncertain. In many cases, a carried interest recipient can make a reasonable estimate based on the information available at the time and still arrive at the wrong answer because an anticipated transaction is delayed, accelerated, or does not occur at all. In these circumstances, forecasting errors can arise even where taxpayers have taken reasonable care and acted on the best information available to them, because the timing and amount of future receipts depend on events that are often outside their control.

Importantly, our concern is not simply that forecasting carried interest is difficult. Rather, the nature of carried interest means that forecasting errors are often unavoidable, even where taxpayers have taken reasonable care and acted on the best information available. This gives rise to a range of practical consequences, including overpayments of tax, underpayments that may attract interest, cashflow pressures, increased administrative burdens, and the need for repeated adjustments and repayments. Any move to more frequent collection of tax would exacerbate all of these challenges.

The implications are not limited to the practical operation of the regime. Following the significant reforms to the taxation of carried interest that took effect from April 2026, there is a strong desire among industry participants for certainty and stability. Additional complexity, uncertainty around future payment obligations and the potential for taxpayers to incur interest charges despite having taken reasonable care risks contributing to a perception that the UK is becoming a more complex and less predictable environment in which to live, work and invest. This is particularly important in an internationally mobile industry where investment and talent are highly sensitive to changes in the overall tax framework.

In our view, the consultation therefore raises a broader question as to whether a forecasting-based Payments on Account regime is fundamentally compatible with the characteristics of carried interest. More generally, it calls into question whether carried interest, despite being treated as a deemed trade for tax purposes, should be subject to the same payment mechanisms as more predictable forms of income, or whether its distinctive features warrant a different approach.

We therefore repeat our principal recommendation from our previous submission that carried interest should be excluded from the Payments on Account regime.

However, we recognise that the Government's objective is to align the collection of tax more closely with the receipt of income. If the Government remains committed to bringing carried interest within the broader timely payment framework, we strongly urge the consideration of a "timely" payment on receipt. This would represent a more practical and proportionate approach.

We therefore suggest that one potential solution is for tax on carried interest to be paid within a certain time period of receipt, for example 60 days of receipt, akin to the collection of tax on UK residential property. Such an approach would still accelerate tax collection for the Government, while aligning the timing of payment with the receipt of cash proceeds, reducing reliance on speculative forecasting and avoiding many of the practical difficulties identified throughout this response. We would be very happy to discuss this suggestion further as we strongly recommend consideration of this idea - or others - that will allow a greater alignment of the payment of tax with the receipt of carried interest.

In reviewing the consultation we have identified the following key concerns associated with the reform:

1. Challenges associated with forecasting for irregular and variable return types;
2. Uncertainty around incorrect forecasts and any associated interest and penalty implications;
3. Significant changes in the tax payment profile compared to current rules and how potential repayments of overpaid tax would work; and
4. Increased complexity and admin burden for taxpayers and employment teams and HMRC.

Below we have addressed particular questions from the consultation where the above concerns arise and the impacts they would have.

We would welcome the opportunity to discuss these issues further and would be pleased to provide additional practical examples to support future consideration of this topic.

ITSA payments through PAYE

Question 2:

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

We recognise the Government's objective of aligning tax payments more closely with the receipt of income and making it easier for taxpayers to manage their liabilities. However, we are concerned that expanding the use of PAYE to collect Self-Assessment liabilities would increase reliance on forecasts of future income and tax liabilities.

This may be appropriate for taxpayers with relatively stable and predictable income. However, many individuals within the private capital industry receive a combination of PAYE income and more irregular sources of income, including carried interest and partnership profit allocations. In these circumstances, future liabilities can be very difficult to predict accurately. Importantly, forecasting errors can arise even where taxpayers have taken reasonable care and used the best information available to them, simply because the timing and amount of future receipts depend on events that are outside their control.

Increased PAYE deductions based on forecast liabilities could result in significant over- or under-payments of tax, even where taxpayers have acted reasonably and provided the best estimates available at the time. In practice, this could create cashflow pressures through unexpected fluctuations in take-home pay, increase the need for ongoing adjustments and reconciliations, and generate additional administration for taxpayers, employers and HMRC. These consequences would arise not from taxpayer behaviour, but from the inherent uncertainty associated with certain forms of income.

The Government acknowledged and took account of stakeholder feedback about the difficulties arising from bringing carried interest into the PAYE regime when it confirmed key policy aspects of the tax treatment of carried interest in June 2025: "reclassifying carried interest as employment income with PAYE obligations, respondents argued, would give rise to a number of practical problems".

We therefore request that any expansion of the PAYE collection mechanism should be approached very cautiously and should retain appropriate safeguards against excessive deductions based on uncertain future income.

Question 5:

Which groups of taxpayers would find a different threshold helpful?

As noted in the consultation, the threshold serves an important protective function by ensuring that taxpayers retain a sufficient proportion of their employment income to meet their ongoing financial commitments.

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This is particularly relevant for individuals with significant Self-Assessment liabilities arising from carried interest and other irregular income streams. Whilst such individuals may have substantial tax liabilities in a particular year, this does not necessarily mean that they have access to corresponding levels of liquid cash throughout the year. In addition, the timing and amount of carried interest receipts are often inherently uncertain and can depend on factors outside the taxpayer's control. As a result, taxpayers may be required to estimate future liabilities based on incomplete information and may arrive at materially different outcomes despite taking reasonable care.

Increasing the proportion of PAYE income that can be deducted to meet forecast liabilities could therefore create significant cashflow pressures for some taxpayers, particularly where forecasts subsequently prove inaccurate due to changes in circumstances rather than taxpayer behaviour. This could have practical consequences including difficulties meeting day-to-day living costs, managing financial commitments or accessing finance arrangements such as mortgages.

More broadly, we are concerned that increasing the threshold would place greater reliance on forecasting future liabilities, particularly in cases involving income that is inherently uncertain or difficult to predict. In these circumstances, the existing threshold provides an important safeguard against excessive deductions being collected in advance of income being realised. We therefore recommend that the proposed 50% threshold should be retained.

Question 8:

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

We note the assessment that these proposals are likely to create significant additional operational pressures for employers and payroll operators. More frequent adjustments to PAYE deductions will increase the administrative burden on payroll functions and are likely to generate a higher volume of employee queries where take-home pay fluctuates during the year.

We are also concerned that the interaction between PAYE and forecast Self Assessment liabilities could increase complexity for employers, taxpayers and payroll operators alike. In circumstances where future liabilities are inherently difficult to forecast, administrators may need to process frequent updates, corrections and adjustments as taxpayers revise estimates in response to changing circumstances. This creates greater scope for errors, misunderstandings and unintended non-compliance, notwithstanding a taxpayer's reasonable efforts to provide accurate information.

More broadly, the practical challenges associated with forecasting uncertain income types mean that the administrative burden created by the proposals is unlikely to arise solely at the outset of the process. Instead, it is likely to continue throughout the year as forecasts are amended and deductions adjusted. These implementation and administration costs should therefore be carefully considered when assessing the overall impact of the proposed reforms.

Potential reform of Payments on Account

Question 10:

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

Unpredictable carried interest activity

We recognise the Government's objective of bringing the timing of tax payments closer to the point at which income arises. For some taxpayers with relatively stable and predictable income, more frequent payments may be capable of operating effectively. However, we do not consider that a single forecast-based approach would be appropriate for all categories of Self-Assessment taxpayer.

In particular, we are very concerned that a monthly or quarterly forecast-based regime would not work effectively for carried interest. Although carried interest is now taxed as profits from a deemed trade from April 2026, the underlying returns continue to be generated from investment activity and remain highly dependent on investment performance and realisations. As we have set out in previous responses, there is a real risk that carried interest is never received, with only around 50% of private capital funds achieving sufficient returns to pay carry. These are long-term partnerships, with funds typically lasting for ten years or more, and if the returns do not hit the high thresholds demanded by investors, no carry is paid.

As a result, carried interest receipts are often highly irregular, with significant amounts arising in some years and little or no receipts arising in others. Therefore, it is near-impossible to predict or forecast with a meaningful degree of accuracy when carried interest will arise. As a result, forecasting errors can occur even where taxpayers have taken reasonable care and acted on the best information available to them.

For example, a fund might plan to exit an investment in a certain tax year generating carried interest, but the exit might be delayed or fall through for a number of commercial reasons such as economic downturn, underlying company issues, regulatory red tape. Alternatively, an unexpected exit might materialise from buoyant market conditions, a pre-emptive offer or liquidity needs. Venture capital funds typically hold minority, non-controlling stakes in portfolio companies. Unlike a controlling investor, a venture capital manager cannot decide, force or time an exit. Instead, realisations are largely dependent on the portfolio company's own trajectory and on external events outside the manager's control, most commonly a sale of the company, an acquisition, or an initial public offering. The timing of these events is in turn heavily influenced by wider market conditions. As a result, taxpayers will often have no reliable basis on which to forecast either the timing or value of future carried interest receipts.

This challenge is further compounded by the return profile of venture capital funds, where overall fund performance is often driven by a small number of highly successful investments rather than by the portfolio as a whole. It is therefore not possible to predict in advance which investments, if any, will ultimately generate carried interest, or in which year a receipt may arise. A forecast made in good faith at the start of a tax year can quickly become inaccurate as a result of a single unexpected exit, or the absence of a transaction that had been anticipated.

This volatility, coupled with the limited visibility and control that carried interest recipients often have over the timing of investment realisations, makes forecasting future tax liabilities particularly challenging and reinforces our view that the proposed regime is not viable in relation to carried interest. This reinforces our view that a forecast-based regime is not well suited to the characteristics of carried interest.

By way of illustration, assume a carried interest recipient receives carry on 1 April 2027 and is informed that no further investment exits are expected until June 2028. On that basis, they may reasonably reduce their payments on account for 2027/28 to nil, as no further tax liability is expected to arise. However, if an exit unexpectedly occurs on 1 April 2028, the individual may find that they have underpaid tax despite having made a reasonable assessment based on the information available at the time. Equally, a taxpayer may make payments based on an anticipated exit only for that exit to be delayed or not proceed at all, resulting in tax having been paid in advance of income that never materialises.

This challenge is materially different from that faced by many other Self-Assessment taxpayers. For example, a sole trader who loses a major contract will typically have greater visibility over their future pipeline of work and income. In contrast, carry holders often have little control over, or visibility of, the timing of investment realisations that give rise to carried interest. The position is particularly acute for former employees who may receive no advance notice that a carry distribution is imminent, and for carry recipients in fund of funds structures, where visibility of distributions from underlying funds is often extremely limited.

A more appropriate and proportionate approach could be to require tax associated with carried interest to be paid within a certain time period of receipt. This could operate on a similar basis to capital gains tax paid on the disposal of residential property. Such an approach would align with the nature of carried interest receipts and bring the tax payment timing point closer to the date of the transaction. It would also avoid the concerns associated with forecasting and avoid potential errors and corrections associated with attempting to predict an uncertain return and reduce the likely time HMRC need to spend on administering over/under payments.

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

Uncertainty around penalties and interest on forecast errors

It remains unclear how interest and penalties would apply where forecast liabilities ultimately prove to be inaccurate. This is a particular concern in the context of carried interest, where receipts are often highly uncertain and difficult to predict with confidence. Taxpayers may therefore find themselves under- or over-estimating future liabilities despite taking reasonable care and using the best information available at the time.

In our view, any future interest and penalty regime should recognise the distinction between genuine forecasting challenges and cases involving negligence, unreasonable assumptions or non-compliance. Given the inherent uncertainty associated with carried interest receipts, it will be important that taxpayers who have made reasonable estimates based on the information available to them are not disproportionately penalised simply because circumstances subsequently change.

We are also concerned that the application of interest or penalties in these circumstances may be perceived by taxpayers as an additional cost associated with carried interest, particularly where underpayments arise as a result of forecasting difficulties rather than taxpayer behaviour. In practice, this could increase the effective cost of the regime and may be viewed by affected individuals as a further increase in the overall tax burden associated with carried interest.

More broadly, UK Private Capital has consistently highlighted the importance of maintaining the UK's competitiveness as an international centre for private capital investment and fund management. As noted in previous discussions, any perceived increase in the effective tax burden associated with carried interest will weaken the UK's competitiveness relative to other jurisdictions.

This is particularly relevant following the recent reforms to the carried interest regime, at a time when affected taxpayers are seeking greater certainty and stability in relation to their tax treatment and effective tax rate. It is very important that the approach to Payments on Account does not undermine the new and carefully balanced regime.

Reduced investment capacity

In practice, asset managers reinvest a significant proportion of their proceeds into successor funds or co-investment opportunities in order to maintain alignment with fund investors. As a result, if they are to continue this commercial alignment, a large proportion of carried interest proceeds may not be available to fund payments towards future tax liabilities which may never arise. The proposed regime would accelerate the timing of tax payments to a time before carried interest has actually been received, with taxpayers potentially beginning to make payments from April rather than the current January deadline, effectively bringing forward tax payments by up to ten months. This could create significant cash flow pressures for carried interest recipients, particularly where executives have already had to invest substantial amounts into a successor fund.

A further practical challenge arises where exit consideration is not received entirely in cash. Investment realisations frequently involve shares in an acquiring company, deferred consideration, earn-out arrangements or amounts held in escrow. Similarly, in the case of an IPO, individuals may receive shares that are subject to lock-up restrictions and cannot be readily sold In these circumstances, a carried interest recipient may have a tax liability associated with the carried interest despite having limited or no access to the cash required to satisfy that liability. Requiring forecast payments on account in addition to such obligations would exacerbate these cashflow pressures and increase the likelihood that taxpayers are required to fund tax liabilities from other sources.

In some cases, taxpayers may need to borrow in order to meet their tax obligations which, in our view, would be a perverse outcome for the tax system to impose on individuals. This risk is particularly acute where carried interest proceeds have been reinvested into successor funds or where consideration has been received in a non-cash form and cannot readily be realised. Such outcomes could be largely avoided by aligning the timing of tax payments more closely with the receipt of cash proceeds from carried interest (as outlined above). The proposals would therefore impose additional financing costs, divert capital away from productive investment and risk reducing overall investment capacity.

To illustrate the cashflow burden on an executive, consider the following example where an individual receives £100k of qualifying carried interest on 10 April 2029. They would expect to pay tax of c.£34k on this return. However, under the proposed rules they would also need to retain a further c.£34k to settle payments on account, potentially beginning in April 2031 for the 2031/32 tax year. Because carried interest can arise unpredictably right up until 5 April 2032, no meaningful adjustment to the 2031/32 forecast can be made in advance. As a result, the taxpayer will need to withhold 68% of their proceeds to meet tax obligations, with any overpayment not returned, and therefore not able to be utilised by the individual, until nearly 3 years after the original event.

This illustrates how taxpayers may be required to retain significant amounts to meet forecast liabilities even where they have no reliable basis on which to determine whether those liabilities will ultimately arise.

Increased complexity and administrative burden

The proposed ITSA regime would result in complexities which would require taxpayers to engage with HMRC more frequently. For carried interest recipients, the amounts involved can be significant, meaning that forecast updates, adjustments and reconciliations could have substantial financial consequences for both individuals and HMRC.

This is likely to increase the administrative burden for all. Taxpayers may need to devote considerable time and resources to monitoring forecasts and updating HMRC as circumstances change, while HMRC would need sufficient operational capacity and specialist expertise to administer the regime effectively.

In particular, given the "unique characteristics" of carried interest, as identified by the Government, HMRC would need access to appropriately trained specialists with experience of carried interest arrangements to support taxpayers and ensure consistent and accurate treatment. Without such expertise, there is a risk of increased disputes, uncertainty and compliance costs.

Commercial behaviour distortion

We are also concerned that the proposed regime could create unintended behavioural responses, as taxpayers seek to manage the consequences of forecast uncertainty, interest exposure and accelerated tax payments.

For example, the new payment on account obligations, interest/penalties thereon and associated cash flow constraints could create pressure to delay an exit intended for February or March until after the 5 April, in order to delay tax payments by up to a year. A distortion driven by the design of the regime and its application to lumpy investment returns, rather than commercial preference.

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?

As noted in our response to question 11 it would be imperative that taxpayers are not penalised for understating forecasts on carried interest where the returns are difficult to predict year on year.

A further consideration is that carried interest distributions can subsequently be reduced or repaid under clawback arrangements. This is particularly relevant in fund structures operating a European-style waterfall, where carried interest may be distributed at an earlier stage of the fund lifecycle but subsequently become subject to clawback if later investment performance does not support the level of distributions previously made. In these circumstances, taxpayers could find themselves making payments on account based on carried interest receipts that are later reduced or repaid, creating an even greater risk of overpayment. This would compound the cashflow challenges associated with the proposed regime and further reinforce the importance of prompt repayment mechanisms where tax has been paid in excess of a taxpayer's ultimate liability.

It would also be imperative that HMRC repays any overpaid tax promptly following the year end or upon adjustment by an executive. We are aware that where large sums are repaid to taxpayers these can take up to 12 weeks to be returned due to HMRC security checks and other factors. If this practice continued under the proposed new regime, it would be an unfair outcome for taxpayers, and may lead some taxpayers to adopt an underpayment approach to protect cashflow.

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

Throughout this response, we have sought to highlight the "unique characteristics" of carried interest and the practical challenges these create within a forecast-based payment regime. Although carried interest is treated as trading income since April 2026, the underlying returns remain highly dependent on investment performance and transaction activity, making both the timing and amount of future receipts inherently uncertain. These features set carried interest apart from many other forms of income currently within Payments on Account.

The examples and considerations set out in this response demonstrate that these challenges are not simply matters of taxpayer behaviour or poor forecasting. Rather, they arise from the intrinsic characteristics of carried interest itself. In many cases, taxpayers can take reasonable care, act on the best information available to them and still arrive at an inaccurate forecast because the timing and amount of future receipts depend on factors outside their control. The practical consequences of this uncertainty include overpayments, underpayments, cashflow pressures, increased administrative burdens and the potential application of interest charges despite reasonable taxpayer conduct.

More broadly, it is important that the ongoing implementation of the carried interest reforms supports the Government's wider objective of maintaining the UK's attractiveness as an international centre for private capital investment and fund management. Following significant changes to the carried interest regime, taxpayers and investors are seeking certainty, stability and a tax framework that is practical to operate. Additional layers of complexity and uncertainty risk undermining those objectives, particularly where they arise without a corresponding improvement in compliance outcomes.

We therefore encourage the Government to consider carefully whether a forecasting-based approach is appropriate for carried interest. If the objective is to bring the timing of tax payments closer to the point at which income arises, we recommend a “real time” payment regime similar to that in respect of capital gains tax on residential property is considered as an alternative. Such an approach would better reflect the nature of carried interest, reduce the need for speculative forecasting and provide greater certainty for taxpayers while still supporting the Government's wider policy objectives.

Thank you for considering the views set out in this response. We would be happy to engage further and provide additional evidence or examples should that be helpful.

Yours sincerely,

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