Forty-Eighth Report of Session 2021-22

HM Revenue and Customs

HMRC’s management of tax debt

Introduction from the Committee

HMRC collects tax on behalf of the government, including chasing payments from taxpayers who do not pay their tax on time. On 20 March 2020, the Chancellor announced that, to help support self-employed people and businesses, payments of Self Assessment Income Tax due on 31 July 2020 and VAT payments due between 20 March and 30 June 2020 would be deferred until 31 January 2021 and 31 March 2021, respectively. As the economy went into lockdown, HMRC also paused most of its debt collection activity, sending fewer letters and ceasing field collection and enforcement activity almost entirely.

The wider economic impact of the pandemic, and HMRC’s decision to suspend most debt collection, has led to large increases in the amount of tax owed to HMRC. Tax debt increased from around £16 billion in January 2020 to a peak of £67 billion in August 2020, including deferred payments. This was far in excess of levels seen in the previous 10 years, although tax debt has reduced since then (to £39 billion as at 30 November 2021). Before the COVID-19 pandemic, HMRC managed around 3.8 million taxpayers in debt. But the pandemic, and associated restrictions, saw the number of tax customers in debt increase to around 6.2 million in September 2021.

Based on a report by the National Audit Office, the Committee took evidence on 17 January 2022 from HMRC. The Committee published its report on 26 March 2022. This is the government’s response to the Committee’s report.

Relevant reports

- NAO report: Managing tax debt through the pandemic - Session 2021-22 (HC799)
- PAC report: HMRC’s Management of tax debt - Session 2021-22 (HC 953)

Government response to the Committee

1: PAC conclusion: We are not satisfied that HMRC has a clear plan to tackle the mountain of tax debt which has built up during the pandemic.

1: PAC recommendation: Within the next six months, HMRC should develop, and share with the Committee, a plan to manage the increased levels of debt back down to pre-pandemic levels within a specific timeframe. The plan should include:

- ***Long-term forecasts for tax debt, including the target levels it will achieve at the end of each financial year with its planned resources.***
- ***Far more transparency about the level of write-offs and remissions HMRC is providing for. In particular, in what financial year the tax debts written off and remitted in each of the past five years were incurred, and HMRC’s targeted levels of write-offs and remissions over the next five years.***
- ***Contingency arrangements, detailing how HMRC will manage debt levels, and write-offs and remissions, under a range of scenarios, including if further variants of COVID-19 emerge.***

1.1 The government agrees with the Committee’s recommendation.

Target implementation date: September 2022

1.2 HMRC (the department) acknowledges it needs to communicate its plan to manage the currently elevated debt balance. Its approach is to collect debts, taking into account taxpayers' circumstances and making sure repayments are affordable. HMRC's consistent message to taxpayers is simple: if you can pay your taxes, you should do so – but if you're struggling, we will listen and do our best to support you.

1.3 The government recognises that the debt balance is partly driven by broader economic factors beyond HMRC's control. Therefore, the priority is engaging with individuals and businesses and bringing as much of the debt balance as possible into a managed position, such as a Time to Pay instalment arrangement, rather than targeting a specific debt balance value.

1.4 HMRC does not target levels of write-offs or remissions. They both occur when the relevant criteria are met and are affected by broad factors outside HMRC's control, such as the level of insolvencies in the economy. However, HMRC will share its expectations of revenue losses in the coming years in its plan, which will be shared with the Committee by September 2022. More information will be published in HMRC's upcoming Annual Report and Accounts.

1.5 HMRC responded quickly to the pandemic by temporarily pausing proactive debt collection activity, changing communications to ensure they reflected the situation that taxpayers found themselves in as a result of lockdown measures, and introducing a data-led collection strategy as debt collection restarted. HMRC will set out in the plan how it would operationally respond to an emergency, including a national public health issue, that impacts taxpayers' ability to pay their liabilities on time. However, the government cannot pre-judge what policy action it would take in hypothetical scenarios.

2: PAC conclusion: HMRC is not being ambitious enough in bringing down debt levels and securing the resources this will require.

2: PAC recommendation: There is a clear value for money case to increase debt management capacity. HMRC should set out how much more tax debt it can bring in with increased levels of capacity using private sector and public sector options and write to the Committee alongside its Treasury Minute response with its findings and the actions it is taking to maximise value for money.

2.1 The government agrees with the Committee's recommendation.

Recommendation implemented

2.2 HMRC provided evidence to the Committee on 17 January 2022. Subsequently, at Spring Statement 2022, the government announced an additional £62 million over three years to fund additional staff in HMRC to help people and businesses pay their tax debts. This will raise an additional £1.8 billion for the Exchequer between 2022-23 and 2024-25.

2.3 In total, HMRC is recruiting almost 2,000 debt collection staff in 2022-23 to fill vacancies and utilise the additional funding granted at Spring Statement 2022 and previous fiscal events.

2.4 In addition, from September 2022, there will be a new contract through which HMRC places debt with private debt collection agencies (DCAs). This will allow HMRC to increase placements with DCAs by around £1 billion a year without increasing the cost to the Exchequer.

2.5 The government believes the information here, and provided at Spring Statement 2022, is sufficient for the Committee to be reassured that HMRC is taking action to maximise value for money and that a separate letter to the Committee is no longer required.

3: PAC conclusion: Rogue companies are exploiting the pandemic to profit at the expense of taxpayers.

3a: PAC recommendation: Alongside the Treasury Minute response to this report, HMRC should provide the Committee with a summary of substantive work it has undertaken to:

- ***Estimate the number of rogue companies at risk of defaulting and the value of the tax at risk.***
- ***Ensure commensurate resources are in place to prevent such fraudulent activity.***

3.1 The government agrees with the Committee's recommendation.

Recommendation implemented

3.2 HMRC has begun work to produce the first internal estimate of the scale and nature of risk posed by phoenixism. This is a complex piece of work because there are lots of factors that influence insolvency and determining if the insolvency is contrived or legitimate is difficult. This is expected by the end of May 2022.

3.3 This will inform improvements in the department's approach to identifying and mitigating this risk in the future, as well as aid in resourcing decisions. HMRC is fully committed to using the full range of powers at its disposal to tackle those that set out to abuse the system in this way.

3.4 HMRC is also improving its IT systems specifically aimed at managing insolvency compliance risks, including phoenixism, which will provide increased data in the future. The first release of this system is scheduled for May 2022, with further releases planned.

3.5 To strengthen HMRC's ability to tackle phoenixism, Schedule 13 and Schedule 16 of Finance Act 2020 provide enhanced powers to hold company directors liable for some debts owed to HMRC by their companies in specified circumstances. These include where there is deliberate behaviour and there has been avoidance / evasion or repeated insolvency. Schedule 16 relates specifically to HMRC Covid Schemes, where the department are recovering sums owed in respect of incorrect claims.

3b: HMRC should be prepared to bring the full force of the law to bear on those who defraud the Exchequer, and report publicly and regularly to Parliament on the numbers prosecuted.

3.6 The government agrees with the Committee's recommendation.

Target implementation date: April 2023

3.7 The COVID support schemes have helped millions of people and businesses through the pandemic. While most people have claimed the right amount, and many overclaims are the result of error rather than fraud, HMRC are alert to the potential increase in risk due to businesses carrying relatively large levels of debt from the pandemic, so where the abuse happens the losses from each case are expected to be higher. HMRC uses specialist compliance officers to address the risk posed by insolvency as well as tackling those that set out to deliberately abuse the COVID support schemes

3.8 HMRC is always prepared to bring the full force of the law to bear where appropriate. HMRC has a policy that sets out the circumstances in which its criminal powers are deployed, but also has a wide range of civil powers to tackle deliberate non-compliance including the ability to make individual company officers responsible for corporate debts where there has been deliberate, repeated behaviour to use insolvency proceedings as a way to avoid paying money owed.

3.9 HMRC also collaborates with The Insolvency Service, ensuring a robust approach to taking action against non-compliant directors, and those who abuse the insolvency regime.

3.10 HMRC is not a prosecuting authority. It carries out criminal investigations which are passed to prosecutors (eg the Crown Prosecution Service) to decide whether or not to charge with a criminal offence.

3.11 As part of its commitment to increase transparency, HMRC will explore options to publish information about its performance on responding to those involved in phoenixism.

3.12 Alongside this Treasury Minute response, HMRC has written to the Committee providing a substantive update on recommendation 3a and 3b.

4: PAC conclusion: HMRC is far behind where it needs to be in making good use of data to manage debt effectively.

4: PAC recommendation: HMRC should write to the Committee within six months, to provide an update on:

- ***How much it has spent on the single customer record so far, how much it expects to spend to complete this work, and when it expects to complete this work.***
- ***The scope of its work with the rest of government to share data and take a more customer orientated approach, and the timeframe over which it expects to complete this work.***
- ***The results of its pilot test using private sector data and plans for further use.***

4.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

4.2 A single digital account for all taxpayers that is easily accessible and secure is a key component of a tax system fit for the 21st century. A unique customer record is needed to underpin the digital account and improve HMRC's understanding of the whole of a customer's tax affairs. Spending Review 2021 provided funding of £81.7 million for the Single Customer Account and £53.9 million for the Unique Customer Record. HMRC will write to the Committee with further information on costs and target completion dates.

4.3 HMRC will explore opportunities to share data across government to improve its understanding of taxpayers' finances. In particular, HMRC is working with the Government Data Exchange programme led by the Cabinet Office, which aims to easily, securely and responsibly share data across government. HMRC will provide more detail in its response to the Committee later this year.

4.4 HMRC is trialling the use of credit reference agency data to test whether the additional insight improves overall understanding of an individual's ability to pay their tax liabilities. The analysis of the trial will not be completed until Autumn 2022, so HMRC will respond to this recommendation in December 2022.

5: PAC conclusion: HMRC is not using all relevant data sources to understand how the pandemic is affecting taxpayer's ability to repay.

5: PAC recommendation: HMRC should identify and obtain the data sources which are most relevant to understand the ongoing impact of the pandemic on businesses. As a minimum we would expect HMRC to make use of sectoral data.

5.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

5.2 HMRC recognises the importance of using relevant data about businesses to understand their ability to pay their debts and that this is important beyond the impact of the pandemic. HMRC already has access to a lot of data about businesses through their various tax returns. HMRC used changes in turnover, visible from VAT returns, and changes in the number of employees and overall pay bill, visible from PAYE returns, when assessing how businesses had been impacted by the pandemic.

5.3 HMRC will combine its response with recommendation 4 and set out what data it is using, or planning to use, to assess ability to pay and why. Acquiring, analysing and using data has financial and opportunity costs, so it is important to consider the value for money of each data source.

5.4 HMRC will re-assess the extent to which sectoral data adds value to its segmentation approach. However, previous analysis has shown that it is less effective than business-specific data as impacts within sectors can vary widely.

6: PAC conclusion: We are concerned that HMRC is not doing enough to identify vulnerable people who need extra support with their debts.

6: PAC recommendation: HMRC should ensure regular and adequate training is in place for staff and it should carry out research to independently estimate how many vulnerable people are affected by tax debt and how effectively it is identifying those customers and write to us with its findings.

6.1 The government agrees with the Committee's recommendation.

Target implementation date: December 2022

6.2 The government agrees it is important to provide appropriate support to people who have a physical or mental health condition or are in difficult personal circumstances. The commitment to improve the support provided to these individuals is outlined in The HMRC Charter.

6.3 The majority of people who need some support or reassurance will be helped by HMRC staff without needing to be referred to the Extra Support Team. Only where HMRC staff identify the person has more complex needs will they refer them to the Extra Support Team.

6.4 HMRC will refine its mandatory training and guidance to identify people who need extra support and make prompt referrals to the Extra Support Team. All training and guidance are regularly reviewed to identify opportunities for improvement.

6.5 HMRC will continue to build its understanding and insight on people who need extra help. Working with the voluntary and community sector, HMRC is exploring opportunities to improve identification and handling of contact from people with emotional and mental health issues.

6.6 HMRC will identify independent research which will help estimate how many people could potentially be eligible for extra support, and how they may be better identified. The insight HMRC has developed already, shows that people move in and out of vulnerable situations. They also know some people will not engage with HMRC for support for a variety of reasons.

6.7 HMRC will continue to review take-up of the Extra Support Team and improve communications to raise awareness of the service.