HM Revenue & Customs

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By email

Dear Dame Meg,

Following the Public Accounts Committee session on Monday 17 January 2022, attended by Justin Holliday, Marc Gill and myself, I am writing to provide further information that we committed to send to the Committee.

Tax credits

Tax credits awards are finalised at the end of each tax year. Changes in income and other circumstances can lead to over- and under-payments. If a tax credits claimant has been overpaid, and this is outstanding when the award is finalised, this becomes a debt.

We notify claimants that they have a debt, and where there is an ongoing tax credits award we can recover it over time by taking deductions from their ongoing tax credits payments. We operate limits on the rate of recovery to prevent hardship. Where there is no ongoing tax credits award, we request direct repayment, with affordable payment plans being made available. We aim to maintain regular contact with all customers with a tax credits debt so they are aware of their situation, but this has not always been possible for all customers.

Every tax credits claimant with a debt receives an individual debt statement (TC1131) before their debt is transferred to the Department for Work and Pensions (DWP). This sets out the years the debt relates to and any interest and penalties.

We can remit tax credits debts where it is not value for money to continue to pursue them, and the age of the debt may be one of the considerations. We do not have the authority to decide to permanently forgive any debts after a set period of time, such as six years.

The decision that tax credits debts should transfer to the Department for Work and Pensions when a customer transfers to Universal Credit (UC), to be recovered from their UC payments, was made jointly between HMRC, DWP and HM Treasury. DWP have a number of ways to recover tax credits debt, and there are safeguards in place to prevent debt recovery from causing hardship. More information can be found at www.gov.uk/tax-credits-overpayments/universal-credit .

Self Assessment Time to Pay arrangements

From the beginning of 2021-22 to the end of December 2021, around 30,000 Self Assessment Time to Pay (TTP) arrangements were set up via the online service. This is an increase of over 75% compared to the same period in 2020-21, when around 17,000 were agreed. The busiest period for using the service is from the beginning of January to the end of March.

The average length of all Self Assessment TTP arrangements, those agreed online and via telephone, is currently around 14 months. The average for those agreed via the online service only, is around 8 months, which shows that not all customers seek the maximum available online self-serve repayment period of 12 months.

Debt collection agencies

I thought it would be helpful to provide some more information about our use of debt collection agencies (DCAs).

We use DCAs for extra, flexible capacity as the tax system does not create liabilities, and therefore debts, evenly throughout the year. For example, the majority of Self Assessment customers only have one liability a year, due on 31 January, resulting in a bulk of debt every February. Without DCAs we would need a higher level of staffing, which we might not be able to fully utilise across the year.

Only lower value debts are transferred to a DCA, after we have first made at least two unsuccessful attempts at collection. The DCAs only undertake desk-based activities, such as sending letters and SMS messages and making phone calls to seek payment or agree a payment plan. DCAs do not visit customers or use any debt collection powers, such as coding-out or Taking Control of Goods. If the DCA cannot collect the debt, it is transferred back to us to take any enforcement action.

The DCAs we work with are regulated by the Financial Conduct Authority and are bound strictly by our processes and guidance. We undertake regular reviews, for instance listening to their calls and looking at their messages, to make sure they follow our processes and guidance to the letter.

As set out in the National Audit Office's (NAO) report at paragraph 3.19, in 2019-20 the DCAs collected £467 million with a return on investment of 18:1.

Comparing internal and external collection

While we believe that our use of DCAs to provide additional debt management capacity gives value for money, it is not possible to directly compare the return on spend between DCAs and our internal collection activities due to the differences in collection activity and limitations in our data.

As set out above, DCAs only collect certain types of debt of limited value after we have tried to collect it, and they use only desk-based activities. We collect the whole range of debt types and values using a variety of additional powers as necessary.

In order to directly compare, we would need to be able to identify cases of the same type of debt and value that were not passed to a DCA and where we had not used any additional powers. Our current case management system does not allow us to identify debts in this way.

In our 2019-20 Annual Report and Accounts we stated we collect £205 for every £1 spent, which took into consideration all the amounts we collect and our total costs. This is not a like-for-like comparison to the activity undertaken by DCAs.

As set out in the NAO's report at paragraph 3.24, Budget 2020 gave us additional funding to tackle lower value debts, and this was based on an estimated return on investment of 18:1. These lower value debts are more comparable to the work undertaken by DCAs and we think the rates of return on internal and external collection are likely to be similar.

Yours sincerely

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY