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HMRC's management of tax debt

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Summary

The COVID-19 pandemic has changed the nature and scale of tax debt. There is an enormous task for HM Revenue & Customs (HMRC) to bring debt back from its current position (£39 billion) to pre-pandemic levels (£16 billion). To achieve this fairly, and without harming economic recovery, it will need to strike a difficult balance. HMRC must actively pursue those who can pay their tax debts but are choosing not to whilst also supporting individuals and businesses struggling to recover from the pandemic. In particular, we are concerned that rogue firms (phoenix companies) have been able to exploit the temporary restrictions on insolvency action and the availability of covid support grants and loans to embezzle large sums during the pandemic.

The number of taxpayers in debt increased by 2.4 million to around 6.2 million over the past two years. Over the same period, the average value of each debt increased by 60%, from £4,300 to £6,800. Repayment plans are now of longer duration, an average of 14 months, meaning many taxpayers will carry debts forward to their next tax bill. The ongoing economic impact of the pandemic has left more taxpayers in vulnerable circumstances and less able to cope with their debts.

HMRC did act swiftly at the beginning of the pandemic, and there is some evidence its actions have been effective in reducing the balance of tax debt from its peak of £67 billion in August 2020. However, HMRC does not know how long it might take to reduce the debt balance to pre-pandemic levels and the Department has not articulated a clear plan or set out a detailed timescale to give us confidence it can manage the challenge it now faces. The longer that tax remains uncollected, the greater the risk that HMRC will never be able to collect it. This is unfair to the majority of taxpayers paying their fair share and results in a loss to the exchequer.

Taxpayer debt does not sit in a vacuum and taxpayers may have many other pressures. This means HMRC will need: a better understanding of taxpayers' ability to repay debt; more effective communications with those taxpayers; and decide whether it should make more or less use of private sector firms to help collect debts.

Introduction

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.

Conclusions and recommendations

1. **We are not satisfied that HMRC has a clear plan to tackle the mountain of tax debt which has built up during the pandemic.** At £39 billion in November 2021, tax debt is more than double the £16 billion it was before the pandemic. HMRC must also manage an additional 2.4 million taxpayers who, on average, owe more money and require longer to pay. Despite the sums of money involved, HMRC could only provide a vague timeframe for when the level of debt will return to pre-pandemic levels. It has also not updated its forecast of debt at the end of the 2021–22 financial year to account for the recent 'Plan B' action taken by government. HMRC expects the debt balance at year end will be higher than the £33 billion it had forecast in September 2021, but could not say how much higher. The debt balance has reduced considerably from its high point of £67 billion at August 2020, but the debt which is left is likely to be the toughest to collect and rates of repayment have slowed. The main cause for bad (unpaid) debts is insolvencies and, while HMRC has increased the provision it makes in its accounts for bad debts, it faces an unknown backlog of insolvency cases.

   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.***

2. **HMRC is not being ambitious enough in bringing down debt levels and securing the resources this will require.** The longer a debt is left, the harder it is to collect. The increase in tax debt and the number of taxpayers in debt also increases HMRC's debt management workload. We are concerned that a lack of appropriately trained HMRC staff will lead to more debt going unpaid. HMRC's debt management team had made staff reductions before the pandemic to improve efficiency. Its planned recruitment in 2021–22 will only close the current shortfall in staffing of 300 FTE. HMRC makes limited use of private sector debt collection agencies to increase its capacity to work with specific customer groups. HMRC has additional funding over the next three years (of £40m, £60m and £90m) for "spend to raise" work but has not decided whether any of this will be used for debt recovery, despite this work bringing in at least £18 for every £1 spent. HMRC has been successful in securing additional funds from HM Treasury for time-limited recruitment, but we are concerned that the long-term uncertainty associated with this approach may prevent HMRC from planning effectively and protecting value for money. The Committee has raised this issue before on HMRC's compliance work, which also offers high rates of return.

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.***

3. **Rogue companies are exploiting the pandemic to profit at the expense of taxpayers.** We are concerned that rogue firms have been able to exploit temporary restrictions on insolvency action and the availability of covid support grants and loans to embezzle large sums during the pandemic. In particular, there is an increased risk from 'phoenix' companies (whereby individuals continue the same trade through a series of companies that are wound up, usually to avoid paying debts). While the NAO found that HMRC held no data on the scale of phoenix activity in the past, HMRC asserted that the number of such companies has not increased. It was not clear to us how it can be certain that this is the case, or how much taxpayer money is at risk, without management information. HMRC is developing a strategy to combat phoenix companies and is beginning to use new powers alongside its existing approaches to identify, and bring sanctions against, individuals involved in this practice.

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.***

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.

4. **HMRC is far behind where it needs to be in making good use of data to manage debt effectively.** Over a decade ago, in 2009, HMRC told our predecessor committee that it planned to take an incremental approach to gradually link debts in different IT systems. This would create a single customer record, which we agreed was needed. Yet, 13 years later, HMRC still records details for different taxes on different IT systems and has no straightforward way to combine them. Current cross-government work to bring together all debts individual customers owe to government departments will not bear fruit within the next three years. When HMRC agrees a debt repayment plan with a customer, it seeks to consider their overall position, including expenditure and non-tax debts. But it currently has no means of knowing this until it speaks to them, while the private sector agencies with whom HMRC works, do access private sector data that can identify other customer debts. HMRC is running a pilot to determine whether purchasing private sector data would be cost effective. It is also exploring how to identify what methods of contact are most effective to tailor contact to individual taxpayers.

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.***

5. **HMRC is not using all relevant data sources to understand how the pandemic is affecting taxpayer's ability to repay.** The pandemic has had a varied economic impact, with some groups improving their financial position during the pandemic while others have been negatively affected. HMRC used data it already held, on business customers' revenue, staffing and use of employment support schemes, to identify how severely they were affected by the pandemic. However, HMRC has not used business sector data – and does not plan to. We believe that sectoral data is likely to become more important over time as the pandemic continues to affect business sectors differently and, as government support schemes close, data about which customers accessed these schemes will be less informative about their current situation. HMRC told us that it does not wish to drive any viable business to the wall by pushing them to repay debt too quickly, but we cannot see how HMRC will be able to make informed judgements about how hard it chases customers without understanding the context in which they operate.

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.***

6. **We are concerned that HMRC is not doing enough to identify vulnerable people who need extra support with their debts.** The pandemic has left more people in vulnerable positions, such as managing serious illness, bereavement and with low resilience to financial shocks. The Financial Conduct Authority has reported a 15% increase in the number of adults who met one of their characteristics of vulnerability. Yet HMRC has not seen an increase in the number of customers it identifies as being vulnerable. Around 1,400 customers currently access help from its Extra Support Team, a tiny fraction of the 6.2 million customers with tax debt. HMRC is adopting the vulnerability toolkit developed by the Cabinet Office to better identify vulnerable customers. However, we are concerned that, despite this, HMRC may be failing to identify vulnerable people, and that it may therefore fail to provide them with extra support because it doesn't understand actual need. HMRC acknowledges that the number of vulnerable customers it has identified looks lower than it would expect and that the take-up of some of its offers of support, such as the Breathing Space scheme, is low.

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.***

1 HMRC's capacity and capability to manage increased tax debt

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) on the issue of its management of tax debt.[1]

2. 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.[2] As the economy went into lockdown, HMRC paused most of its debt collection activity, sending fewer letters and ceasing field collection and enforcement activity almost entirely. It also moved staff from debt management to support taxpayers applying for employment support grants.[3] HMRC used this pause to refine the way it pursues customers who owe it debt. It adopted a more empathetic tone in communications with all customers and also began using its data to categorise (or 'segment') customers according to how severely they have been affected by the pandemic, which then informs how vigorously HMRC pursues them.[4]

3. The wider economic impact of the pandemic, and HMRC's decision to suspend most debt collection, has led to a large increase 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. Tax debt has reduced since then to £39 billion as at 30 November 2021.[5] However the total number of taxpayers in debt remains much larger than before the COVID-19 pandemic, and their debts are much larger also. The number of taxpayers in debt increased from around 3.8 million in January 2020 to around 6.2 million by September 2021, an increase of 2.4 million. Over the same period, the average value of each debt increased by 60%, from £4,300 to £6,800.[6]

HMRC's assessment of when and how it will return the tax debt balance to its pre-pandemic level

4. To bring the tax debt balance back to pre-pandemic level fairly, and without harming the economic recovery, HMRC needs to strike a difficult balance between providing time and support to individuals and businesses struggling to recover from the pandemic and actively pursuing those who are able to pay what they owe but choose not to. This will require careful planning.[7] However, HMRC was unable to provide us with a timeframe for when it expected to bring the tax debt balance back to pre-pandemic levels, beyond saying it would need a 'couple of years'. It told us its focus was on agreeing repayment plans with taxpayers in debt, rather than reducing the debt it was owed quickly.[8] In September 2021

1 C&AG's Report, Managing tax debt through the pandemic, Session 2021–22, HC 799, 17 November 2021
2 C&AG's Report, para 1.2, 1.3
3 C&AG's Report, para 1.5, 1.6, Figure 2
4 Qq 14, 15, 55, 56; C&AG's Report, para 1.9, 2.10, Figure 12
5 Q 16; C&AG's Report, para 7
6 C&AG's Report, para 2.3, 2.5
7 Qq 23, 25; C&AG's Report, para 3
8 Q 23

HMRC forecast that, by the end of the 2021–22 financial year, the tax debt balance would have fallen to around £33 billion.[9] However, it told us that it now expected the balance would be higher. It could not say how much higher as it has not updated its forecast since September 2021, not even to account for the recent Omicron variant of COVID-19 and the subsequent 'Plan B' action taken by government.[10]

5. While the debt balance has come down considerably from its highpoint of £67 billion at August 2020, much of this was deferred VAT payments and the debt collected so far has been from those most able to pay. There may be a group of taxpayers who will find it much more difficult to pay what they owe.[11] HMRC told us that, at the end of 2020–21, it increased the provision it makes to write off bad (unpaid) debts from around £8 billion or £9 billion historically to £15 billion.[12] The main cause for bad (unpaid) debts is insolvencies, and the increase was in response to two issues. First, the moratorium on creditor-led insolvencies means that far less debt was written-off in 2020–21 and 2021–22 than would have been in a normal year (around £2 billion less in each year), since businesses and individuals who would otherwise have been made insolvent could not be. Consequently, there will be a 'catching up' effect in the coming years that will see more write-offs. Second, the impact of the pandemic means it is likely some businesses will fail that otherwise would not have done, and they may owe tax debt when they do.[13] However, the increased provision for bad debt is based on a limited understanding since HMRC does not know how many insolvency cases need to be processed, how quickly they will be processed or the effect the delays in processing insolvency will have on its ability to recover debt.[14]

HMRC's debt management workforce

6. The substantial increases in tax debt, the number of taxpayers in debt and the duration of repayment plans will increase HMRC's debt management workload. New debtors may require support to agree repayment plans and debtors with longer repayment plans may require more contact with HMRC over the lifetime of their repayment plans. The average length of a repayment plan was around five months before the pandemic and was around 14 months at January 2022.[15]

7. HMRC acknowledges that debts become harder to collect the longer you wait to collect them.[16] We are concerned that HMRC does not have the level of staffing it needs to deal with its increased workload in a timely manner, and this will in turn mean more debt goes unpaid.[17] In March 2020, HMRC's debt management team had 3,975 FTE staff. This followed a series of staff reductions over a number of years; at March 2014, HMRC had 4,857 staff in its debt management team.[18] While HMRC is confident that it maintained performance with this reduced level of resources, we think it is hard to justify reducing the number of staff when HMRC has estimated that for each additional pound it spent on

9 C&AG's Report, para 2.22
10 Qq 16–18
11 Qq 31, 84, 118; C&AG's Report, para 13
12 Q33
13 Qq 29–31; C&AG's Report, para 2.31
14 Qq 30–31
15 C&AG's Report, para 2.19 and 3.8 to 3.10; Written evidence submitted by Jim Harra, Chief Executive and First Permanent Secretary of HMRC, dated 28 January 2022
16 Qq 31
17 Qq 61, 85–91; C&AG's Report, para 3.9, 3.10
18 C&AG's Report, para 3.11

increasing its debt management staff capacity, it would collect an additional £18 of debt.[19] Furthermore, there are indications that performance may not have been maintained. The NAO reported that HMRC wrote off more tax debt as uncollectable in the years running up to the pandemic. In 2018–19 and 2019–20 combined, HMRC wrote-off or remitted around £9.2 billion in tax debt, compared with a total of £8.4 billion in the previous two years.[20]

8. HMRC told us it was planning to recruit more than 1,000 debt management staff in 2021–22, but it was starting with a staffing shortfall. At September 2021, HMRC's debt management team had 300 fewer FTE staff than it had planned. It was awarded additional funding for 600 FTE staff for three years at Budget 2020. HMRC believed the 1,000 new staff it recruits would only be sufficient to close the existing shortfall after taking account of staff who retire or resign.[21]

9. HMRC also told us that in the 2021 Spending Review HM Treasury awarded it additional funding of £40 million, £60 million and £90 million over the three years from 2022–23, to undertake "spend to raise" work. However, it could not tell us whether it would use this funding for additional debt management work, saying it was still discussing how the money would be used with HM Treasury.[22] We think there is a strong value for money case for increasing investment in this area.[23]

10. In the past HMRC has been successful in securing additional funds from HM Treasury for time-limited recruitment, for example the additional funding secured at Budget 2020. But HMRC acknowledged that it had to make the case to HM Treasury every time it requested additional funding for this type of recruitment. Therefore, we do not see how HMRC can plan effectively for the long-term under this approach and are concerned that this uncertainty may prevent HMRC from protecting value for money, for example by being able to keep trained staff in the long term.[24] The Committee has raised this issue before on HMRC's compliance work, which also offers high rates of return. In our recent report on HMRC's Annual accounts, we concluded that resource constraints were limiting HMRC's ability to get the optimum level of compliance yield. We found that HMRC spent around £1.5 billion on enforcement and compliance activities in 2020–21 and generated a yield of £30.4 billion, and that HMRC's data indicated that it would increase this yield if it spent more on compliance, particularly if it increased its activities to ensure large businesses complied with their tax obligations.[25]

11. In addition to its own debt management staff, HMRC also uses private sector debt collection agencies to increase its capacity and work with specific customer groups.[26] HMRC works with these agencies through an arrangement called the 'debt market integrator', which is run by Indesser (a joint venture between the Government and TDX-Equifax). The agencies do not undertake field visits—they are limited to desk-based

19 Q 91; C&AG's Report, para 3.24; Written evidence submitted by Jim Harra, Chief Executive and First Permanent Secretary of HMRC, dated 28 January 2022
20 C&AG's Report, para 3.13 to 3.14
21 Qq 85–87; C&AG's Report, para 3.10
22 Qq 90, 91
23 Q 91; C&AG's Report, para 3.24; Written evidence submitted by Jim Harra, Chief Executive and First Permanent Secretary of HMRC, dated 28 January 2022
24 Qq 62, 120, 125, 129
25 Committee of Public Accounts, *HMRC Annual accounts 2020–21*, 37th Report of Session 2021–2022, HC 641, 11 February 2022
26 Qq 63, 64, 92

activity—and have collected £2.3 billion of tax debts since 2015; a return on investment of more than £18 for every £1 spent. HMRC currently has a budget of around £26 million per year to contract private sector agencies, and it expects agencies to collect almost £500 million of debt this year.[27]

27 Qq 63, 64, 92; C&AG's Report, para 3.19

2 HMRC's use of data to manage increased tax debt

HMRC's use of data to manage taxpayers in debt

12. In 2008, the NAO recommended that HMRC develop its IT systems to effectively provide it with a single customer record or view, either through one new system or by making progressive changes that allowed it to link debts from different taxes.[28] In 2009, following this recommendation, HMRC told our predecessor committee that it could not afford the estimated £250 million to develop an IT system which automatically linked the different tax records of each taxpayer alongside its existing commitments. It was therefore planning to link VAT debts to its main debt management system, as the first step in an incremental approach.[29] Thirteen years later, HMRC still records details for different taxes on different IT systems and has no straightforward way to combine or link them.[30] It has identified some benefits it might realise if it could achieve a single customer view, such as 'setting off' credits against debts. HMRC also told us it had made advances towards a single customer record or account in recent years, citing the personal tax account and business tax account as examples of progress. HMRC has been awarded funding to make further progress over the next three years. It believed it would be able to link data for the major tax streams within three years but it would still not be able to link or view data across all types of tax at the end of this three-year period.[31]

13. HMRC also told us it is working with other government departments, under the leadership of the Cabinet Office debt management function, towards having a single view of all the debts individual customers owe to any government department. HMRC understood that the Cabinet Office was leading some trials to advance this work and was exploring legal and legislative issues. However, HMRC told us it does not expect this to be achieved within the next three years and considered it a longer-term ambition.[32]

14. Historically, HMRC has made limited use of external data, but is currently trialling the use of credit data purchased from the private sector. HMRC told us that when it agrees a debt repayment plan with a customer (which it refers to as a 'Time to Pay' plan), it conducts a structured conversation with the customer to identify all of their income and expenditure, including any other debts they are repaying. Alternatively, if the customer has a 'single financial statement' (a standard output used across the credit industry, created during a structured interview with a creditor), HMRC will also accept this statement as the basis for agreeing a Time to Pay plan.[33] Until HMRC holds the structured conversation with the customer, it has no means of knowing whether that customer has other significant debts.[34]

15. HMRC does not typically use third-party information about customers' other loans or debts—for example, customer credit scores—because of the cost of the information.

28 C&AG's Report, Management of Tax Debt, Session 2007–08, HC 1152, 20 November 2008, para 8e
29 Committee of Public Accounts, Management of tax debt, Twenty-Sixth Report of Session 2008–09, HC 216, 9 June; para 3, 12 and 18 Qq 12; 97, 98
30 Qq 114, 121; C&AG's Report, para 2.4
31 Qq 114, 121
32 Qq 83, 114
33 Qq 68, 75
34 Q 82; C&AG's Report, para 2.15

It told us it may access credit information when it begins debt enforcement procedures against an individual customer, but it does not do this routinely or 'at scale'.[35] HMRC outsources some debt collection to private sector agencies, and these agencies do have access to credit data that identify other debts customers have.[36] Although HMRC does not currently use credit information routinely, it said it was undertaking a trial to determine whether purchasing credit data would be cost effective in its own debt collection work.[37]

16. HMRC is also looking more widely at how it can improve the efficiency of its debt management operations. It told us it is undertaking work to use its data to better understand which type of contact is most effective in bringing customers to repay their debts and target activity accordingly. For example, whether a particular customer is likely to respond positively to receiving letters or whether a field visit is likely to be required.[38]

HMRC's use of data to understand how taxpayers were affected by the pandemic

17. HMRC told us that it does not wish to drive any viable business to the wall by pushing them to repay debt too quickly.[39] Therefore, during the pandemic, it began using data it already holds on customers to inform how urgently it pursues them. Specifically, it uses data on business customers' revenue, staffing and use of the employment support schemes, to identify how severely they have been affected by the pandemic. It categorises (or 'segments') each customer as experiencing a low-, medium- or high-impact from the pandemic and then uses this categorisation to inform how vigorously it pursues the customer—the frequency and tone of reminder letters it sends to them and the speed with which it escalates through its debt recovery actions (sending various letters, then telephoning the customer, before passing the case over to field collections and eventually enforcement).[40] HMRC also told us that it is exploring how it can develop this approach, by looking at taxpayers' propensity to pay, alongside their ability to pay.[41]

18. There is evidence that the pandemic has had a varied economic impact, with some businesses and individuals improving their financial position during the pandemic while others have been negatively affected.[42] For example, companies in the hospitality sector have often been negatively impacted.[43] However, HMRC has not—and does not plan to—use business sector data in its segmentation of customers.[44] It told us that business sector is not as informative as we might imagine and provided us with the example of breweries. As a part of the hospitality sector, we might expect breweries to be very negatively impacted, and indeed, those that supplied pubs and the licensed trade probably were. But breweries that moved quickly into pump supply (supplying pumps to home brewers and similar) may be doing well, thus illustrating why sector is not a reliable indicator of impact.[45] Moreover, HMRC explained that businesses within the hospitality sector could

35 Qq 104–107, 110, 113; C&AG's Report, para 2.15
36 Qq 91, 92, 104–108
37 Qq 98, 109–113
38 Qq 41, 115; C&AG's Report, para 3.22
39 Q 28
40 Qq 14, 55, 56; C&AG's Report, para 1.9, 2.10, Figure 12
41 Qq 41, 115; C&AG's Report, para 2.16
42 C&AG's Report, para 2.25
43 Qq 42, 54
44 Qq 42, 54, 55; C&AG's Report, para 2.13
45 Qq 42, 54

still be identified as experiencing a high-impact from the pandemic by its segmentation work, but they would be identified on the basis of their turnover, staff data and use of government support schemes, rather than on the basis of the sector they operate in.[46]

19. Nonetheless, the pandemic continues to affect business sectors differently.[47] For example, with the Bounce Back Loan scheme there was considerable variation between industry sectors, both in their borrowing of Bounce Back Loans and in how their borrowing patterns had changed relative to other sectors since the pandemic.[48] But HMRC's segmentation of its customers does not include data on whether they accessed a Bounce Back Loan.[49] As government support schemes close, data about which customers accessed these schemes will be less relevant to their current situation, while sector data may still be relevant.[50]

46 Qq 55–57

47 Qq 42, 54–58; C&AG's Report, para 2.8, 2.13, 2.14

48 C&AG's Report, The Bounce Back Loan Scheme: an update, Session 2021–22, HC 861, 3 December 2021, para 1.5, Figure 5

49 Q 84; C&AG's Report, para 2.13

50 Qq 42, 54–58; C&AG's Report, para 2.8, 2.13, 2.14

3 Supporting vulnerable customers and managing rogue businesses

Vulnerable customers

20. The pandemic has left more people in vulnerable positions, managing debt alongside other problems such as serious illness, bereavement and low resilience to financial shocks. The Financial Conduct Authority reported a 15% increase in the number of adults who met one of its characteristics of vulnerability between March 2020 and October 2020.[51]

21. Despite this, and despite managing an additional 2.4 million customers with debt, HMRC told us it has not seen an increase in the number of customers it identifies as being vulnerable, demonstrated by the steady rate of customers its staff have referred to its Extra Support Team.[52] HMRC told us around 1,400 customers currently access help from its Extra Support Team. This is a tiny fraction of the 6.2 million customers with tax debt.[53] It also compares poorly with numbers before the pandemic, when debt management specialists in HMRC's Extra Support Team saw their caseload more than double, from 1,149 cases in 2017–18 to 2,867 cases in 2019–20.[54]

22. HMRC suggested that the number of customers its staff refer to the Extra Support Team may have remained stable because the wider changes it has made to its debt management approach, in particular taking a more empathetic tone with customers, has meant the need for extra support has not increased. It also noted that many of the new debtors will be businesses who receive support from an accountant or tax advisor, and do not require help from HMRC's Extra Support Team.[55] The Department told us that it tries hard to identify vulnerable customers by providing training and guidance for, and raising awareness among, its debt management staff. Moreover, it was strengthening its approach by adopting the vulnerability toolkit developed by the Cabinet Office debt function, noting it had introduced this in one of its debt management teams and would roll it out across the others.[56]

23. Nonetheless, HMRC acknowledged that the number of vulnerable customers it has identified is lower than it would expect and that the take-up of some of its offers of support, such as the Breathing Space scheme, is low (Breathing Space is the government's Debt Respite Scheme, by which HMRC abides. It allows debtors to pause debt pursuit activity for 60 days if an independent debt adviser agrees that they are eligible).[57]

51 C&AG's Report, para 2.37. The Financial Conduct Authority's characteristics of vulnerability are: Health (health conditions or illnesses that affect the ability to carry out day-to-day tasks); Life events (life events such as bereavement, job loss or relationship breakdown); Resilience (low ability to withstand financial or emotional shocks); Capability (low knowledge of financial matters or low confidence in managing money, and low capability in other relevant areas such as literacy or digital skills).

52 Q 59

53 Q 59; C&AG's Report, para 2.3

54 C&AG's Report, para 2.36

55 Qq 59, 60

56 Qq 60, 66

57 Q 59, 68; C&AG's Report, para 3.5

Rogue businesses

24. The pandemic has created a risk that some rogue firms have been able to embezzle large sums of money during the pandemic. There is a particular risk from so-called 'phoenix' companies, referring to the practice of individuals continuing the same trade after winding up a company, usually to avoid paying debts.[58] The pandemic has presented companies with the opportunity to borrow more money from government through schemes such as Bounce Back Loans or Coronavirus Business Interruption Loans.[59] And the temporary restrictions on insolvency action means that companies are able to continue building up debt for a longer period of time before action is taken. This means that a phoenix company might build up far larger debts than it would have been able to prior to the pandemic, before its directors liquidate the company.[60]

25. The NAO reported there was an increased risk from phoenix companies during the pandemic but found that HMRC did not hold data on the scale of phoenix activity (in terms of the number of companies or the financial value involved) and therefore could not monitor the changed risk. HMRC was not able to estimate the value of tax debt that was currently at risk.[61] HMRC told us it didn't think there was necessarily an increase in phoenix companies, but that the phoenix companies that did exist may embezzle larger sums.[62] We do not see how it can be confident in this assessment without historic and current data.

26. HMRC told us it is developing a strategy to combat phoenix companies and is beginning to use new powers alongside existing approaches to identify, and bring sanctions against, individuals involved in this practice.[63] The key tools it uses include: being able to attach company debts to the individuals who served as directors; referring directors to the Insolvency Service for potential disqualification; and requiring financial securities up front from new businesses that are created as the successor of an old business.[64] HMRC said it is keeping track of individuals who are potentially involved in phoenix activity (as indicated by their moving from company to company) and that this includes efforts to identify and track the 'controlling mind', not just the named officers, of the company.[65] It told us it is identifying the insolvency practitioners that phoenix companies prefer to use, and replacing them with more stringent practitioners.[66]

27. Phoenix companies are not the only type of rogue company HMRC takes action against. It also told us about its work to prevent criminals impersonating HMRC to defraud members of the public. HMRC said it was previously one of the most impersonated organisations, but its recent work in this area means it is no longer in the top 100. It worked with authorities in India to close a call centre making fraudulent claims but noted that this success is likely to have a temporary effect and that it will need to continue work in this area.[67]

58 Qq 32, 76; C&AG's Report, para 2.29
59 C&AG's Report, para 2.29
60 Qq 32, 76; C&AG's Report, para 2.31
61 Q 79; C&AG's Report, para 2.29, 2.31, 2.32
62 Qq 32, 76
63 Q 32
64 Qq 32, 76; C&AG's Report, para 2.30
65 Qq 76, 78–80
66 Q 76
67 Qq 69–71

Formal minutes

Monday 21 March 2022

Members present:

Dame Meg Hillier, in the Chair

Sir Geoffrey Clifton-Brown

Mr Mark Francois

Peter Grant

Kate Green

Sarah Olney

Angela Richardson

HMRC's management of tax debt

Draft Report (*HMRC's management of tax debt*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 27 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Forty-eighth of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Wednesday 23 March at 1.00pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 17 January 2022

Jim Harra, Chief Executive and First Permanent Secretary, HM Revenue and Customs; **Marc Gill**, Director Debt Management, HM Revenue and Customs; **Justin Holliday**, Chief Finance Officer, HM Revenue and Customs Q1–136

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

HMD numbers are generated by the evidence processing system and so may not be complete.

1 Adam Smith Institute (HMD0002)

2 Bantock, Mr Geoff (HMD0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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4th	COVID-19: Local government finance	HC 239
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8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
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35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
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44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
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1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
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42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928

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47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941