



**Low Incomes
Tax Reform
Group.**

A voice for the unrepresented

15 September 2025

Dan Tomlinson MP
Exchequer Secretary to the Treasury
HM Treasury
By email: XST@hmtreasury.gov.uk

Dear Minister,

On behalf of the Low Incomes Tax Reform Group (LITRG), I would like to congratulate you on your appointment as Exchequer Secretary to the Treasury.

LITRG is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for those who cannot afford to pay for professional tax advice. We are aware that the CIOT President has written to you separately.

We are keen to continue the frequent engagement we had with your predecessor, both in his role as Exchequer Secretary to the Treasury but also as Shadow Financial Secretary to the Treasury, to ensure that the tax system works as well as it can for those unable to afford professional advice.

There are five key areas covered in this letter, summarised here and expanded on further below:

- HMRC's move to digital** – We support HMRC's digital transformation plans, as set out in the recent Transformation Roadmap. However, we wish to draw your attention to some of the challenges and considerations vital for low-income unrepresented taxpayers who rely on support from HMRC to get things right. Reducing support via phone and post, before digital services are at the standard required to provide the support needed and are accessible by all, risks damaging trust in the tax system and raises questions about longer term impacts such as on compliance and therefore the tax gap.
- HMRC customer service and Charter** – There is an important question about how HMRC balance targeted support with encouraging people to self serve digitally – without making it harder for those who need support to access it. More work needs to be done to measure the quality of interactions and whether taxpayers get the right answers and to ensure the HMRC Charter is embedded across the organisation as new policies and processes are developed and that HMRC are held to account against it.

CHARTERED INSTITUTE OF TAXATION
30 Monck Street, Westminster, London,
SW1P 2AP

REGISTERED AS A CHARITY NO 1037771

Tel: +44 (0)20 7340 0550
E-mail: litrg@ciot.org.uk

Web: www.litrg.org.uk

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3. **Making Tax Digital for Income Tax Self Assessment**— As yet, it is unclear what HMRC’s customer support model will be for unrepresented taxpayers. Details on how to apply for an exemption are not expected until October and we remain concerned about the free software offering. A soft landing on penalties would help people get used to the new system.
4. **False self-employment** – This undermines workers as well as the wider tax system. Reform of this area is long overdue and we welcome the government’s plan to consult on a new status framework for employment rights purposes. But to be effective, and for simplicity and coherence, any consultation on the issue must include tax.
5. **Penalties** – The presence of two different penalty regimes for late filing has the potential to be confusing and unfair – particularly so for lower income and less digitally capable taxpayers who are more likely to remain on the existing, and arguably harsher, scheme. Penalty reform should take place at the same time for all taxpayers and as soon as possible. Until then, we suggest measures HMRC can take to make sure that late filing penalties are fairer and more consistent for all taxpayers.

Expanding on these areas in more detail:

HMRC’s move to digital

Digital services, including guidance, offer clear benefits to both taxpayers and HMRC in administering the tax system. We broadly support HMRC’s digital ambitions as outlined in the Transformation Roadmap¹.

We have raised concerns about measures that push users toward digital self-service. Examples include the 2023 closure of the self assessment helpline and SMS deflection tactics, which can feel like blunt instruments. While these reduce short-term demand on phone lines, they risk long-term consequences such as reduced compliance and increased errors, ultimately burdening HMRC further.

We believe that if digital services are easily accessible and high quality, taxpayers will use them willingly. However, we are concerned that HMRC’s services, and guidance, are not yet at the standard required to support a more significant channel shift and ensure that taxpayers receive a good and successful digital experience. This approach risks eroding taxpayer trust in the tax system. HMRC’s own research shows customers are open to digital engagement if they feel supported. Rather than forcing digital adoption, HMRC may have more success focusing efforts on building good quality digital services, encouraging people to use them and supporting them to do so — prioritising the ‘carrot’ over the ‘stick’. There is also currently a proportion of the population who are unable to access HMRC’s digital services as they are unable to verify their identity – an often overlooked issue in HMRC’s digital narrative.

Whilst we recognise a great deal of work is underway in HMRC under the transformation road map to add new digital services and improve existing digital services, we are concerned that the rapid pace of digital development may harm user experience and erode taxpayer trust. HMRC’s increasingly fast paced and agile

¹ See LITRG press release, July 2025: <https://www.litrg.org.uk/press-release/litrg-reacts-hmrCs-transformation-roadmap>

approach often involves launching ‘minimum viable products’ with plans to refine them later². We have concerns that early users who encounter issues may be discouraged from using improved versions in future if they have a disappointing experience.

HMRC customer service and HMRC Charter

Unrepresented taxpayers rely more heavily on HMRC for support and assistance to meet their tax obligations as they don’t have the necessary support from an agent. Over the last few years, HMRC’s customer service, particularly via phone and post, has not performed adequately to meet people’s needs. With additional resources, wait times on phone lines seem to be improving, but it is important that HMRC remain sufficiently resourced to provide the support and help that people require, especially as more people enter the tax system for the first time. The recent increase in average call handling times suggests HMRC are dealing with calls that require more staff time to manage, likely due to complexity but also the need for more reassurance for those new to the system. This includes increasing numbers of state pensioners brought into the system as a result of frozen thresholds.

HMRC have committed, in the transformation roadmap, to providing targeted support for those who need it including having adviser-led services for those such as the digitally excluded, those with complex tax affairs or those who find themselves in vulnerable circumstances. This is welcome. However, we are concerned that by focusing on pushing people to self-serve digitally, HMRC are making it harder in some cases for those who need that targeted support to get to it – for example by using text deflection or encouraging people to hang up and go online.

Being able to contact HMRC is one part of the customer service journey but of equal importance is the service people receive from HMRC – whether digitally, on the telephone or in writing. There seems to be a focus on measuring ease of use and other contact metrics, but less of a focus on quality of advice and whether people get the right answer when they interact with HMRC.

HMRC’s Charter sets standards for taxpayer interactions, crucial for lower-income individuals who may struggle with complex tax rules. It promises fairness, respect, transparency and support—but must be actively used in order to maintain trust. We are concerned it is not fully embedded in HMRC’s daily operations and is rarely referenced in policy development. For meaningful impact, senior leaders should routinely ask whether the Charter has guided decisions. This would reinforce HMRC’s commitment to treating all taxpayers fairly and ensure the Charter underpins their work.³

Making Tax Digital for Income Tax Self Assessment (MTD for ITSA)

Like other stakeholders, we continue to have reservations about whether MTD will meet its stated aims of reducing the tax gap for small businesses and we remain concerned about the low numbers in testing and the

² Recent examples include the Winter Fuel Payment income calculator, which LITRG quickly identified contained a significant error and could have resulted in taxpayers incorrectly opting out of payments, and the MTD Software Choices tool, where we also have concerns regarding accuracy and usability, issues which have been raised with the relevant teams and we understand improvements will be made.

³ International examples highlight how stronger institutional mechanisms can support the effective implementation of taxpayer rights. In the United States, the IRS Commissioner is legally responsible for ensuring that employees are familiar with and act in accordance with the Taxpayer Bill of Rights.

reduction of the threshold down to £20,000 from April 2028. The most pressing operational concerns about MTD for unrepresented taxpayers are:

- HMRC's customer support model for unrepresented taxpayers. Despite only being months away from April 2026, we have heard very little from HMRC about what the customer support model will look like. Unrepresented taxpayers rely more heavily on HMRC for advice and guidance as they do not have an agent. Now that a decision has been taken to also require commercial software for the end of year tax return, the whole journey, including support, appears to be outsourced. It is therefore not clear what the scope of any HMRC support model will be and there is a concern that people will find themselves passed between HMRC and the software companies. Research published by HMRC (based on 2023/24 data) suggests a high number of unrepresented taxpayers are unlikely to have used commercial software to file tax returns previously. Many will have significant support needs in both choosing and using software, as well as understanding MTD rules. We are keen to work with HMRC on what the model should and could look like and to help identify what is needed to ensure software companies provide appropriate support for their users.
- Whilst we appreciate that HMRC have launched an interactive software choices tool to support people in choosing suitable software, the launch of the tool has been disappointing. We have provided feedback to HMRC and we understand that improvements will be made to the tool. This is helpful, but launching a tool that only covers part of the journey based on software available now could lead to people choosing inappropriate software, incurring additional expense and experiencing further stress. This is another example of the minimum viable product approach mentioned above.
- Applying for exemption from MTD. The guidance on GOV.UK for this is currently fairly basic although it has been revamped very recently: [Find out if you can get an exemption from Making Tax Digital for Income Tax - GOV.UK](#). HMRC plan to publish the details of the application process in October, which is a delay from April 2025 when we were originally promised this. It is important that HMRC deliver the exemption application process **no later than October** as if someone applies and they get turned down by HMRC there will be very little time - if any, depending on any appeal, etc - to then get software and begin to comply with MTD.

Given the struggles that unrepresented taxpayers are likely to face from April 2026 with understanding MTD rules, choosing software, signing up and submitting returns, we would encourage HMRC to have a soft landing on penalties so that no penalties are charged for a full MTD cycle. Whilst we appreciate that financial penalties are only applicable after accruing a certain number of points, we think a firmer commitment would provide reassurance to people.

We disagree with the decision for HMRC not to offer any free software of their own and encourage you to revisit it. If this decision is not changed then, in the absence of any HMRC software, it is crucial that HMRC carefully monitor the free software offerings from commercial software providers and ensure that each is genuinely free and not time limited, has sufficient support and that people are not subject to pressure to upgrade to paid packages.

False self-employment

The false self-employment of workers is a longstanding concern of ours. It can deny workers employment rights and also the certainty of having their taxes dealt with under PAYE. From experience and from our work with the

frontline tax charity Tax Aid, we know this can leave workers in very difficult situations, struggling to navigate the complex self assessment system.

Reform of this area is long overdue and we welcome the government's plan to consult on a new status framework for employment rights purposes. But to be effective, and for simplicity and coherence, it must be holistic and include tax. Without integrating tax considerations, there will still be gaps and inconsistencies that undermine outcomes for workers and encourage distortive hiring behaviour.

In the meantime, better and more tailored guidance would help workers understand the rules and distinctions, particularly in sectors commonly affected, such as care and construction. More robust enforcement by HMRC is also needed, targeting not only engagers but also those facilitating false self-employment, such as introductory agencies. These steps would go some way toward stopping the exploitation of workers.

Penalties

In April 2024, a new penalty regime began to be introduced for volunteers piloting the Making Tax Digital for Income Tax Self Assessment (MTD for ITSA) programme. These new penalties replace the existing regimes for late filing and late payment. This means that HMRC now have two different penalty regimes for taxpayers – one for those who are part of the MTD regime and one for those who are not.

The presence of two different penalty regimes has the potential to be confusing. It may also be unfair – particularly so for lower income and less digitally capable taxpayers, as they may be more likely to remain under the existing, and arguably harsher, penalty scheme that has been in place since April 2010. Ideally, penalty reform for all taxpayers would take place at the same time and as soon as possible.

Until then, there are a series of practical steps that HMRC can take to make sure that late filing penalties are fairer and more consistent for all taxpayers. These include: a more lenient approach towards first-time failures to file; ensuring GOV.UK guidance is better aligned with legislative requirements; improving information and processes around the ability to withdraw tax returns in certain circumstances; and automatic cancellation of late filing penalties for taxpayers outside of the self assessment criteria.

We would welcome the opportunity to meet with you to discuss these issues further.

Kind regards



Victoria Todd
Head of LITRG

Email: vtodd@litrg.org.uk