Low Incomes Tax Reform Group.
A voice for the unrepresented.

Consultation: Proposals to tackle lower value tax debts
Response from the CIOT's Low Incomes Tax Reform Group (LITRG)

1 Executive Summary

1.1 The Low Incomes Tax Reform Group (LITRG), part of the Chartered Institute of Taxation, welcomes the opportunity to respond to the consultation[1] on proposals to extend an existing HM Revenue and Customs' (HMRC's) enforcement power to recover lower value tax debts from customers who have persistently not engaged with HMRC. This response builds on the issues raised in LITRG's response[2] to HMRC's 2014 consultation on the direct recovery of debts[3] and also our submission[4] addressing protections to be afforded to vulnerable taxpayers in response to the draft Finance Bill 2015 clauses concerning the direct recovery of debt.

1.2 We recognise HMRC's objective of improving the recovery of tax debts and increasing customer engagement in respect of unpaid tax. Where tax is genuinely due and customers have not engaged with HMRC despite repeated efforts to make contact, it is reasonable for HMRC to consider proportionate methods of collection. However, any new recovery mechanism should not come at the expense of appropriate safeguards, particularly as those most likely to be affected include taxpayers on low incomes, taxpayers who may be vulnerable or need extra support, and those who are unrepresented, for whom even tax debts considered by HMRC to be 'lower value' may cause financial hardship.

1.3 We also recognise the importance of maintaining public confidence that tax debts, regardless of value, are taken seriously and addressed appropriately by HMRC.

1.4 Our principal concern is not the use of automation per se, but the risk that a largely automated process may fail to identify cases in which individual consideration is required. Lower-value debts should not attract a lower standard of procedural protection simply because the amount involved is smaller in HMRC's terms. HMRC should therefore define clearly the indicators that will cause a case to leave the automated process and receive human review, including evidence of vulnerability, uncertainty over contact, a disputed or potentially inaccurate liability, affordability concerns and complex account ownership.

1.5 The consultation describes how the measure will apply to customers who 'choose' not to engage with HMRC in connection with their debt. In our experience there are cases where apparent non-engagement reflects barriers to engagement rather than an unwillingness to engage. Non-engagement cannot be assumed to be evidence of unwillingness to engage. It is not clear how a fully

[1] https://www.gov.uk/government/consultations/tackling-lower-value-tax-debts
[2] Direct recovery of debt consultation - response from the Low Incomes Tax Reform Group, 29 July 2014 https://www.litrg.org.uk/sites/default/files/files/140729-LITRG-response-DRD-FINAL.pdf
[3] See https://www.gov.uk/government/consultations/direct-recovery-of-debts - consultation document and summary of responses
[4] See https://www.litrg.org.uk/sites/default/files/150204_LITRG%20response_FB2015_DRD.pdf

automated process will enable HMRC to distinguish between taxpayers who deliberately refuse to engage with HMRC and those who are unable to engage because of a need for extra support, vulnerability, or practical barriers.

1.6 The proposed power should be used only where HMRC has established that the debt is legally due, correctly calculated and accurately reflected across its systems. Existing delays or failures in transferring information between assessment and debt-management systems create a risk that deductions could be made in respect of liabilities that have been amended, reduced or extinguished. HMRC should ensure that the necessary system improvements, controls and reconciliation processes are sufficiently robust before the power is implemented.

1.7 The process must adopt a transparent and fair approach to assessing affordability. HMRC should explain how affordability will be determined and the role that credit reference agencies play as part of this, where taxpayers have not engaged, to ensure that essential living costs and wider financial circumstances are properly considered. The absence of any protected minimum account balance is a particular concern to us. Taxpayers should have sufficient opportunity to challenge both the underlying liability and HMRC's affordability assessment before deductions commence.

1.8 The option to move over to another appropriate arrangement, such as Time to Pay, should be clearly signposted throughout the process, alongside other direct payment methods, so that taxpayers understand that there are alternatives to direct deduction from their accounts and are encouraged to make contact at the earliest opportunity.

1.9 The proposed 14-day notice period is too short. A notice period of at least one month should be set.

1.10 HMRC should consider the cumulative impact of this measure alongside other changes to tax collection and whether those changes may reduce the need for, or alter the appropriate scope of, the proposed power.

1.11 Given the significance of the proposals, we are concerned that the consultation document contains limited detail and that the consultation period is short, particularly as it falls over a holiday period and coincides with several other important consultations on similarly compressed timescales. This has limited the time and resource available for bodies such as ours to prepare a full response. We do not consider that the current level of detail or consultation period is sufficient for a proposal of this significance and would be concerned if draft legislation were brought forward before the issues have been fully explored through further engagement, formal consultation and scrutiny.

2 Responses to consultation questions

2.1 ***Question 1:*** *Do you agree with the proposed process to tackle lower value debts and do you have any comments on the illustrative process outlined above?*

2.1.1 We support HMRC seeking proportionate ways to recover genuine tax debts where taxpayers have persistently failed to engage. However, lower-value debts frequently affect taxpayers on low incomes, and there should be no assumption that a debt that is small in HMRC's terms is not significant to the taxpayer.

2.1.2 HMRC should ensure that recovery action is only taken where the underlying liability has been verified and should not proceed until the taxpayer has had a reasonable opportunity to consider HMRC's view and raise any objection. In our experience, Debt Management does not always refer back to the assessment side of HMRC to establish whether the debt itself is final and undisputed (we comment further on this under question 4). Some taxpayers do not engage because they genuinely believe they do not owe the debt, and sometimes they are right. For example, we do not think the extended powers should apply to Self Assessment late filing penalties where the tax return remains outstanding and the notice to file could still be withdrawn, leading to cancellation of the penalties.

2.1.3 It is stated[5] that HMRC will make more than 10 attempts to contact a taxpayer before issuing a Pre-Deduction Notice (PDN). We feel strongly that HMRC should attempt to contact a taxpayer using a range of methods in order to maximise the likelihood of successful contact.

2.1.4 The consultation states that these proposals are specifically targeting those who repeatedly 'choose' not to engage. In our experience, lack of engagement will not always be the result of an active taxpayer choice, and therefore HMRC should ensure process safeguards are established to protect taxpayers who are not making an active choice, or who may have extenuating circumstances. For instance:

- Cases where contact details are found to be incorrect/out of date.
- Cases where taxpayers have additional support needs that hamper their ability to engage.
- Other cases where a person is unable to engage with HMRC, for reasons outside of their control.

2.1.5 We set out further thoughts on the specific safeguards that may protect taxpayers who are facing engagement challenges, such as those mentioned above, within our response to question 6.

2.1.6 We are also concerned that the proposed 14-day period following a PDN may not give taxpayers sufficient time to understand the proposed action, seek advice or make appropriate arrangements. We comment further on this in our response to question 10.

2.1.7 The proposed measure must be considered alongside HMRC's other tax collection methods and wider changes to the tax system. In particular, the proposed introduction of the 'Timely payments in Income Tax Self Assessment' arrangements from April 2029, which will overlap with the existing Self Assessment payment timetable, in conjunction with the proposed new measure, could result in taxpayers facing multiple consecutive tax payment obligations and deductions. This may be particularly difficult for taxpayers on low or fluctuating incomes to manage and could make it harder for taxpayers to understand which liabilities their various payments relate to.

2.1.8 As well as considering the cumulative impact of its different collection mechanisms when assessing the affordability and operation of this measure, and before going ahead with this measure, HMRC should consider whether these other proposals detailed in paragraph 2.1.7 above may reduce the need for this new power.

[5] See https://www.gov.uk/government/publications/fiscal-events-2026-factsheets/tackling-lower-value-tax-debts-factsheet: it is stated that safeguards will include 'using this power after more than 10 attempts to contact customers to pay what they owe'.

2.1.9 The consultation provides limited information on the expected impacts, costs and benefits of the proposed measure. Before proceeding to legislation, HMRC should publish an assessment of the likely impacts on taxpayers, including those who are unrepresented, on financial institutions and on HMRC's own operational resources. The design of the safeguards and the interaction with other debt collection mechanisms should also be subject to further stakeholder engagement before the power is implemented.

2.2 ***Question 2:*** *Are there operational or technical considerations HMRC should take into account when developing this approach?*

2.2.1 The success of the measure to collect the debt and prevent any unnecessary impact on the taxpayer will rely on accurate and timely exchanges of information between HMRC and financial institutions (referred to in the consultation document as 'deposit takers').

2.2.2 Data quality will be critical to the efficiency of the proposed measures. HMRC should ensure:

- a robust data-matching process for verification of bank account information and third-party data before deductions are made;
- clear procedures for taxpayers to challenge incorrect deductions quickly with the financial institution as well as HMRC;
- appropriate safeguards for nominee arrangements and jointly held accounts, including robust processes to identify the liable account holder and protect the interests of joint account holders who are not responsible for the tax debt;
- accuracy of payment references and prompt and accurate allocation of funds on HMRC's part will prevent unnecessary deductions being taken;
- careful consideration of cases involving potential economic abuse or financial control, where taxpayers may be unaware that correspondence has been intercepted or that debts have arisen. Clarification is required as to how HMRC proposes to identify and address such cases.

2.2.3 Where there is any uncertainty or conflicting information in relation to the taxpayer's address, for example based on information received from credit reference agencies or other third parties, recovery activity should be paused while HMRC undertakes further checks and, where appropriate, reverts to its existing debt collection processes.

2.2.4 Clarity over the process and timeframe for identifying and challenging errors will be needed, including where the wrong account has been identified or an incorrect amount recovered, or deductions have been taken from an account belonging to someone who is not the subject of the measure (for example, as a result of poor data matching). In the latter case, the account holder may not have received a PDN and may therefore have no reason to know that the deduction is the result of HMRC action. They may instead believe that fraud or another unauthorised transaction has occurred. HMRC should explain how the deduction will be identified on their account, how the account holder can establish that the debt is not theirs, and whether they should contact HMRC or the financial institution in the first instance. Prompt communication between HMRC, the financial institution and the account holder, and prompt repayment where deductions have been made incorrectly, should be a priority, as delays may cause financial hardship. HMRC should explain whether any similar cases have arisen under the existing Direct Recovery of Debt powers, how they were dealt with, and how the lessons from that experience will inform the proposed process.

2.2.5 Where an incorrect deduction causes the taxpayer or another account holder additional financial loss, prompt repayment of the amount deducted may not, by itself, provide an adequate remedy. HMRC should set out the circumstances in which compensation will be available for reasonably foreseeable losses arising directly from an error, together with clear service standards for investigating the matter, correcting records and making repayments.

2.2.6 It is possible that, after an account has been identified for direct collection of instalment repayments, the taxpayer may unknowingly close the account or withdraw funds (we address the possibility of a deduction resulting in an overdrawn account in our answer to question 8). HMRC will need to consider how these circumstances will be dealt with and take steps to ensure mitigation of unforeseen consequences for the taxpayer's wider financial affairs, for example rejection of an application to open a new account or debanking by the financial institution due to perceived financial risk.

2.2.7 HMRC should also clarify how the measure would apply to fixed-term accounts, accounts with restrictions on withdrawals or accounts where a withdrawal may result in lost interest or other charges. Such consequences should be taken into account when deciding whether the account is suitable for deductions and when assessing the proportionality of the proposed arrangement.

2.2.8 It is helpful that HMRC intends to notify taxpayers when the debt has been repaid, but there should also be clear communication before each deduction is made. In particular, taxpayers should be told how much will be taken, from which account, and on what date, in a similar way to the advance notice commonly provided before direct debit payments are collected.

2.3 ***Question 3:*** *How can HMRC ensure the process of receiving, processing and transferring payments and instructions is optimised?*

2.3.1 Operational processes should minimise the risk of errors and provide certainty for both financial institutions and taxpayers. Instructions issued by HMRC should be clear, consistent and capable of being implemented without ambiguity.

2.3.2 Financial institutions should be given sufficient time to verify that the correct taxpayer, account and funds have been correctly identified before being required to act on HMRC's instructions to commence deductions. This is likely to be particularly important where accounts are held jointly or where there is uncertainty over the beneficial ownership of the account. We consider that no deductions should be taken from accounts other than those held in the debtor's sole name where there is any uncertainty when attempting to identify funds beneficially owned by the debtor.

2.3.3 HMRC should ensure there are effective arrangements for promptly notifying financial institutions where deductions should be suspended or cancelled.

2.4 ***Question 4:*** *Do you agree with the proposed debts and customers that should be within scope for this measure?*

2.4.1 As already mentioned, the process should apply only where the underlying liability has been correctly established and there is no outstanding dispute. Liabilities that remain capable of being amended, withdrawn or challenged should be excluded from scope.

2.4.2 We agree that customers with unresolved appeals or reviews will be automatically excluded from the proposed enforcement power pending individual consideration. However, we have concerns over how these cases will be correctly identified in a process which is intended to operate largely through automation given the scope for unintended errors and delays in this information being handled and relayed between departments within HMRC.

2.4.3 We are also concerned that the effectiveness and fairness of the proposed measure will depend heavily on the quality and timeliness of information shared between HMRC systems. In our experience, there are occasions where Debt Management activity continues in respect of liabilities that are subsequently reduced or extinguished because information has not been updated consistently across HMRC systems. Examples may include amended tax returns, claims or elections awaiting processing, or adjustments not yet reflected in the data available to Debt Management. Given that the proposed power involves direct deductions from bank accounts, it is particularly important that HMRC can demonstrate that liabilities are correctly identified and quantified before recovery action commences.

2.4.4 We understand that HMRC is investing in improvements to its debt management systems and would encourage HMRC to consider carefully how the proposed measure interacts with that programme of work. The risks associated with inaccurate or incomplete data should be minimised before the new power is implemented.

2.4.5 HMRC should clarify why this recovery route is appropriate in the taxpayer's circumstances, rather than using existing collection methods which may be less likely to have unintended consequences. For example, where a taxpayer has PAYE income, an explanation should be provided as to why debt collection is made through this measure and not through the PAYE system.

2.4.6 HMRC should also clarify how interest and penalties will be treated once a debt enters the proposed process, including whether interest will continue to accrue whilst deductions are being collected.

2.4.7 Further consideration should also be given to taxpayers who are insolvent, or at risk of insolvency. HMRC should explain how such cases will be identified and excluded where use of the proposed power would be inconsistent with established insolvency processes.

2.5 ***Question 5:*** *Do you envisage any issues with the proposed upper debt value limits? If so, what should the proposed upper debt value limit be?*

2.5.1 It would be helpful to understand how HMRC determined the £5,000 and £10,000 thresholds and why they are considered proportionate to these measures. We are concerned that individual taxpayers could suffer significant hardship as a result of direct deductions to recover debts of up to £5,000. We have noted the comment in the consultation document that the Dutch tax authorities restrict use of their direct debt recovery measures to debts up to €1,500 (approximately £1,300). The consultation does not explain why HMRC feel a much higher threshold is appropriate or proportionate.

2.5.2 HMRC's current policy is that the existing Direct Recovery of Debts power is only used for debts of £1,000 or more[6]. The proposed measure would apply to individual debts up to £5,000, despite the statement in the consultation document that 'the average debt for individual customers is around £950'. HMRC should explain why it considers the overlap that would apply to individual debts between £1,000 and £5,000 to be appropriate and necessary, and how it will determine which recovery process to use where a debt falls within the scope of more than one available mechanism. We are generally of the view that the two regimes should be mutually exclusive so taxpayers can understand which statutory process applies and the safeguards that accompany it. This might be achieved by introducing an upper limit of £1,000 on the debt to be collected under this measure, thereby removing any overlap between the two regimes. However, consideration will be required of the need for flexibility to mitigate disproportionate distortion created by a 'cliff-edge'.

2.5.3 If the overlap referred to above is to remain and HMRC is to be free to choose which debt recovery measure to use, HMRC will be able to use the new power for debts between £1,000 and £5,000, thereby avoiding the protection of the £5,000 minimum account balance afforded to the taxpayer under the existing DRD measure (more comments on this aspect are set out in our answer to question 8). HMRC should explain how it intends to approach this choice and how it will ensure that the overlap does not result in taxpayers receiving different levels of protection depending on which recovery mechanism is chosen.

2.6 ***Question 6:*** *Do you agree with the proposed approach to identify and support customers when administering this proposed measure?*

2.6.1 As referenced under question 1, we feel strongly that there must be a suitable range of safeguards in place to ensure this power is, as far as possible, restricted to those taxpayers who are deliberately refusing to engage.

2.6.2 The consultation states that customers should not be forced through an automated process 'without human judgement where it is needed'. We welcome that commitment, but 'where it is needed' is open to interpretation. HMRC should define more clearly the circumstances in which a case must be removed from the automated process. These should include indicators of vulnerability, uncertainty regarding contact with the taxpayer, disputed liabilities, affordability concerns and other factors suggesting that automated decision-making may not produce an appropriate outcome.

2.6.3 Before concluding that a taxpayer has actively 'chosen' not to engage, HMRC should check for key indicators of barriers to engagement that would help decide whether a manual review is needed. The following indicators should form part of that escalation framework:

- previous contact suggesting additional support needs, even where ultimately the taxpayer has not previously required support from the Extra Support Team;
- returned or undelivered correspondence and failed electronic communications;
- recent telephone, digital or other contact (e.g. webchat) with HMRC;
- signs that digital communications have been accessed;

[6] See https://www.gov.uk/government/publications/issue-briefing-direct-recovery-of-debts--2/issue-briefing-direct-recovery-of-debts paragraph 4 - Safeguards: the regime includes an administrative safeguard of "only considering the use of DRD on those with tax and tax credits debts of more than £1,000".

- discrepancies in contact information;
- whether an agent or trusted helper is currently or has previously been recorded;
- records held by other government departments suggesting that the taxpayer is/is not engaging with government services;
- changes in circumstances which may explain a change in behaviour, e.g. bereavement, relationship breakdown;
- a sudden cessation of previously regular engagement.

2.6.4 Where these checks identify potential issues, inconsistencies or anomalies, manual intervention will be necessary to ensure appropriate safeguards are in place. This could, for example, include HMRC making telephone contact with the taxpayer.

2.6.5 We are concerned that the proposed process does not include the safeguard of a face-to-face visit, as is the case for existing non-corporate cases within the Direct Recovery of Debt regime. While we recognise that such visits may not be proportionate to the level of debt addressed by these proposals, it must be acknowledged that they provide an important opportunity to identify any vulnerability or other barriers to engagement which may indicate that recovery action should not proceed. They also allow a direct dialogue with the taxpayer to help establish why a liability has arisen which can help if someone has not understood the tax liability and may lead to the debt being resolved without the need for recovery action. Where HMRC proposes to rely more heavily on data and automation instead, care is needed to ensure these customers receive equivalent protection from HMRC, while respecting their privacy and ensuring that personal information is used only where necessary and proportionate.

2.6.6 It is proposed that HMRC may use data from other government departments and third parties to identify customers who may require additional support. We welcome these efforts, but in order for this to be effective, it must be recognised that data used for one purpose is often not suitable for another, and that information may not be reliable and up to date. Vulnerability is often situational and can change rapidly, therefore further assessment may be necessary.

2.6.7 Hidden vulnerabilities, including economic abuse[7], mental health problems[8], or where a taxpayer relies informally on family or friends to help them manage their financial affairs, may not be apparent from written records. In our experience there are cases where apparent non-engagement reflects barriers to engagement rather than an unwillingness to engage.

2.6.8 The PDN must include clear information on the role of the Extra Support Team, eligibility criteria for their assistance and how the taxpayer can contact them. We recommend that this measure should not be used to recover debts from a taxpayer who has previously received assistance from the Extra Support Team. The team should be engaged to contact the taxpayer in relation to the debt. This

[7] Research by StepChange Debt Charity published in February 2025 estimates that 1.6 million UK adults had experienced coerced debt at the hands of a current or former partner, family member or friend in the previous 12 months, with 58% of those affected not seeking help with their debts. See https://www.stepchange.org/Portals/0/23/policy/coerced/too-close-to-home-coerced-debt-report-stepchange-debt-charity.pdf .

[8] The Money and Mental Health Policy Institute reports "Almost one in five (18%) people with mental health problems are in problem debt". See https://www.moneyandmentalhealth.org/money-and-mental-health-facts/ .

would help ensure that recurring difficulties are identified and addressed in a timely and sensitive manner.

2.6.9 Where HMRC identifies a potential support need from any source, there must be sufficient resource and appropriately trained staff to review the case and determine whether the proposed recovery action remains appropriate, and to enable direct human engagement where necessary. Additional data will not improve outcomes for HMRC or the taxpayer unless HMRC has the capacity to act appropriately on the information it receives.

2.6.10 As mentioned under question 3, care will be needed where recovery action involves jointly held accounts. It must be recognised that, in some cases, joint accounts may be used by individuals experiencing financial control or economic abuse, or by family members who are not responsible for the tax debt. Similarly, some accounts receive funds such as Access to Work payments or NHS funding which must be used only for specified purposes. Recipients of such payments should be specifically excluded from the measure to prevent the funds being taken to settle a tax debt instead of used for their designated purpose.

2.6.11 There are also confidentiality considerations where HMRC needs to communicate with a non-debtor joint account holder. HMRC should explain how it will ensure that the rights of the non-debtor account holder are protected without unnecessarily disclosing confidential information relating to another person's tax affairs.

2.7 ***Question 7:*** *Are there other suitable sources of information about a customer's potential support needs that HMRC might access in the absence of customer contact?*

2.7.1 We are cautious about relying on data alone to identify a taxpayer's need for support.

2.7.2 HMRC should be mindful that obtaining and using information from third parties for this purpose raises issues around necessity, proportionality and taxpayers' expectations about how their personal information will be used.

2.7.3 Particular consideration is needed where information suggests that a taxpayer may have lost mental capacity and another person is in the process of obtaining legal authority to manage their affairs. There may be a period during which neither the taxpayer nor an attorney or deputy is practically able to respond to HMRC. Evidence that an application for the relevant authority is in progress should therefore trigger a pause and individual review before recovery action proceeds.

2.8 ***Question 8:*** *Do you agree with the overall approach to affordability for the purpose of this measure?*

2.8.1 The proposed approach to assessing affordability raises a number of concerns. It is not clear how affordability will be assessed where a taxpayer has not engaged, what information HMRC will rely on and how the availability of funds will be determined. HMRC should distinguish between genuinely available funds and amounts that have been set aside for future essential expenditure or emergencies. A snapshot view of a taxpayer's income level, working status or account balances is not necessarily a reliable indicator of their ability to afford deductions[9]. Apparent surplus funds may

[9] See https://www.stepchange.org/Portals/0/23/policy/in-work-still-in-debt/in-work-still-in-debt-stepchange-april-2024-web.pdf (April 2024). The report by StepChange Debt Charity sets out that 21% of its clients in full-

be earmarked for accommodation costs, utilities, medical or care costs or other essential expenditure.

2.8.2 Greater clarity is needed on how HMRC will define financial hardship and what categories of expenditure it will regard as essential when determining affordability, for example how will HMRC prioritise tax or benefit debt against other debts and existing debt repayment arrangements.

2.8.3 The proposed 50% income cap requires further explanation, including how it will operate in practice and be kept under review to take into account the potential for frequent changes in a taxpayer's circumstances and normal fluctuations in affordability.

2.8.4 The example included in section 7 (Safeguards: Assessing affordability) of the consultation document describes how HMRC may set an instalment deduction plan of £250 per month for a sole trader with an annual profit of £30,000. While, on the face of it, the 10% figure quoted may be considered a reasonable rate at which to repay a debt, it should be clarified that these deductions would reflect more than 10% of that individual's net income after deduction of tax and National Insurance contributions[10]. Furthermore, the example assumes a regular monthly income for this sole trader, which is commonly acknowledged not to be the case due to the usual fluctuations associated with running a business, such as dealing with customer demand (or lack thereof), unforeseen expenditure etc., and also the need to make payments under the Self Assessment system. A fixed monthly deduction regardless of individual circumstances in any given month could lead to a wide variety of financial difficulties, e.g. an inability to continue operating the business, and hardship for the individual and their family.

2.8.5 HMRC should ensure any proposed affordability assessment takes account of receipt of benefits such as Universal Credit and other means-tested benefits.

2.8.6 The process and criteria for determining the rate and timeframe for the deductions should be clearly set out to ensure fairness, consistency and transparency. The framework should be sufficiently flexible to reflect individual circumstances, and the debtor should be entitled to request an alternative plan length if they feel they cannot afford the payments as proposed, or be offered the opportunity to transfer smoothly over to a traditional Time to Pay arrangement. The option to move over to another appropriate arrangement, such as Time to Pay, should be clearly signposted throughout the process, alongside other direct payment methods, so that taxpayers understand that there are alternatives to direct deduction from their accounts and are encouraged to make contact with the earliest opportunity.

2.8.7 If deductions are to be taken, HMRC could consider whether they should commence at a relatively low level before increasing where appropriate. This would reduce the risk of immediate financial

---

time employment were in a negative budget, demonstrating that employment does not necessarily indicate an ability to meet essential living costs or additional debt repayments. It also notes that, as of December 2023, 44% of those seeking debt advice were full-time employed, increased from 38% in 2021.

[10] A self employed individual would typically have an income tax liability of £3,486 and pay class 4 National Insurance contributions of £1,046, resulting in net income of £25,468 per year / £2,122 per month. A monthly deduction of £250 would reflect 11.8% of net income.

hardship and provide an opportunity for taxpayers who have not previously engaged to contact HMRC if, for example, the debt or affordability assessment is disputed.

2.8.8 Where the taxpayer is carrying on a business, affordability assessments should also take account of the need to meet essential business expenditure and maintain trading activity, as well as personal living costs.

2.8.9 We are concerned that, unlike the existing Direct Recovery of Debts regime where a protected minimum account balance of £5,000 is set out in statute[11], the proposals do not include an equivalent safeguard. We ask HMRC to provide an explanation for this, having noted the statement in the consultation document that the French authorities apply a protected minimum account balance as part of their own similar measures. For some taxpayers, even a relatively small (in HMRC's terms) or unexpected deduction could result in immediate financial consequences if insufficient funds remain to meet essential living costs. For this reason, we recommend that the additional safeguard of a minimum account balance forms part of the proposed measure.

2.8.10 When considering any protected minimum balance, HMRC should consider whether a single fixed amount provides sufficient protection in all cases. Taxpayers with dependants, disabilities, health conditions or unusually high essential expenditure may require additional protection from hardship.

2.8.11 The proposals do not clarify whether deductions could result in an account becoming overdrawn and, if so, how any associated charges or other wider financial consequences could be addressed. We recommend that overdraft facilities are not utilised to fund any instalment repayments taken under the proposed measure. The introduction of a protected minimum account balance would remove this risk.

2.9 ***Question 9:*** *Are there other suitable ways HMRC could systematically establish affordability across a high volume of cases?*

2.9.1 We question whether affordability can be established accurately through a wholly automated or systematic process. A taxpayer's ability to pay is not static and may change quickly as a result of fluctuating income, changes in household circumstances or unexpected expenditure. These factors are unlikely to be identified through automated processes alone. HMRC may wish to consider whether affordability assessments are to be repeated during the deduction period, the criteria which may trigger this action, and the circumstances in which they may seek to adjust deductions to reflect any changes in a taxpayer's circumstances.

2.9.2 Any systematic assessment should therefore be used only as an initial indicator. It should not replace individual consideration where there is a suggestion that the standard approach may produce an unfair outcome. HMRC should also monitor the operation of the affordability methodology to ensure it produces consistent outcomes and does not result in undue hardship for particular groups of taxpayers.

---

[11] See Finance (No.2) Act 2015, Sch 8, Pt1, para 4(6)
https://www.legislation.gov.uk/ukpga/2015/33/schedule/8
and https://www.gov.uk/government/publications/issue-briefing-direct-recovery-of-debts--2/issue-briefing-direct-recovery-of-debts paragraph 4 – Safeguards.

2.9.3 HMRC should disclose to the taxpayer how affordability has been assessed and taxpayers should be able to challenge decisions based on their own accurate and up to date information. Again, transferring on to a traditional Time to Pay arrangement should be a clear and straightforward process.

2.10 ***Question 10:*** *Do you agree with the government's proposed approach to enabling customers to lodge an objection, the proposed grounds for objection and the timescales for doing so?*

2.10.1 We agree with the suggestion that a taxpayer should be able to object at any time between issue of PDN and the final deduction to pay off the debt, and consider this to be an important safeguard. In particular, the ability to object part-way through the process, even after the deductions have started, is important, recognising that the debtor may not notice for some time that the deductions are being taken. This will be especially important where taxpayers have not actually had sight of the PDN.

2.10.2 Within the PDN HMRC must provide clear and comprehensive information setting out how the debt has arisen, the proposed recovery action, the grounds on which the taxpayer may object, the evidence they may be required to provide and the timescales for doing so. Communications should recognise that many affected taxpayers will be unrepresented and that some may struggle to understand or respond without extra support.

2.10.3 The proposed 14-day notice period is too short. A notice period of at least one month should be set. Postal delays, incorrect address information, periods of absence or circumstances involving economic abuse may mean that taxpayers do not receive the PDN or have insufficient opportunity to understand its implications, obtain advice and make informed representations before deductions begin. This is particularly relevant to unrepresented taxpayers. Similarly, many taxpayers are paid monthly and so may not have sufficient time to understand the impact of the deductions and make any necessary financial arrangements.

2.10.4 Where it is found that earlier communications including the PDN, have not been received by the debtor, whether that be through no fault or inaction on their part, or as a result of failing to update their contact details, the process for communicating with the debtor must be restarted. For example, this might be the case where it is found that post or email address information is out of date or post was not received. There should be a clear and accessible mechanism for taxpayers to challenge presumed delivery of post and electronic communications.

2.10.5 Taxpayers should be able to object not only where they dispute the underlying liability, but also where they consider the affordability assessment to be incorrect or the proposed recovery action to have been applied in error.

2.10.6 HMRC should also retain discretion to accept late objections where the taxpayer has a reasonable excuse for failing to act within the normal time limits, particularly where vulnerability, ill health or communication issues have contributed to the delay.

2.10.7 Further detail is needed on how taxpayers will be able to identify the deductions within their bank records and challenge errors made by financial institutions in implementing HMRC's instructions (see our answer to question 2 above for further comment on this point). Joint account holders who are not liable for the tax debt should also have a clear route to raise concerns where they believe that recovery action has affected them unfairly.

2.10.8 Recovery action should be suspended while a valid objection is being considered. Where an objection identifies a wider issue with the underlying liability or the taxpayer's circumstances, HMRC should ensure the case is referred to the appropriate specialist team for individual consideration before recovery action resumes, noting the need to make provisions for this additional resource. Where an objection is upheld or deductions have been made incorrectly, HMRC should ensure that any funds are repaid promptly and that taxpayers are informed clearly of the outcome and any further rights of review or appeal.

2.10.9 Given the relatively low values involved, HMRC should consider whether there are practical barriers to taxpayers exercising appeal rights in practice, particularly where they are unrepresented or unable to obtain professional advice. Mitigations should be put in place to help people access their appeal rights including signposting to appropriate external tax charities.

2.10.10 We would like more information on how HMRC's existing powers to remit tax debts will interact with the proposed recovery process, including whether remission will be considered before the debt is categorised for recovery under the proposed measures.

3 About Us

3.1 The Low Incomes Tax Reform Group (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 the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.

3.2 LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.

3.3 The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

LITRG
27 August 2026