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

10/09/2026

Rt.Hon. James Murray MP
Financial Secretary to the Treasury
HM Treasury
By email: FST@hmtreasury.gov.uk

Dear Minister,

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

As you will be aware, LITRG is part of the Chartered Institute of Taxation (CIOT). 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 our CIOT President has written to you separately.

We are keen to continue the frequent engagement we had with you in your previous roles as both Exchequer Secretary to the Treasury and 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.

When we wrote to your predecessor, we highlighted concerns about HMRC's increasingly fast paced approach to transformation, especially in the digital space. This fast-paced approach has continued. Some of the consultations this summer have had short time frames to respond and over a period when lots of people are away. We want to be able to contribute and we want to do so with carefully considered evidence-based outputs, but the timings are, in some cases, really hindering that. This makes it hard for us to either give solid scrutiny of the proposals or warrant feeling consulted.

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

1. While HMRC's day-to-day customer service has improved in some areas, HMRC must be adequately resourced to provide the support and help taxpayers need. We are concerned that increasing pressure to use digital channels can make it harder for vulnerable or digitally excluded people and those with more complex circumstances to access the tailored support they need. We also believe greater focus is needed on embedding the HMRC Charter in practice and demonstrating accountability for Charter performance.

2. We remain concerned that unrepresented taxpayers face significant challenges when choosing and using commercial MTD software, with insufficient tailored support currently available from HMRC. We recommend extending the current soft-landing approach to MTD penalties as more taxpayers join the regime
3. We support HMRC making better use of third-party data, but believe stronger safeguards are needed to ensure transparency and accuracy. Taxpayers should be given clear copies of any third-party data relied upon by HMRC. As HMRC seeks additional compliance powers, it is essential that these are proportionate, properly targeted and accompanied by robust safeguards to protect taxpayers' rights.
4. The current rules for taxing the state pension are unnecessarily complex and create confusion for many pensioners. We recommend that HMRC and DWP work together to provide annual statements showing each individual's taxable State Pension amount. There should be a longer-term review of the taxation of the state pension, including whether PAYE could be operated on state pension payments. We are keen to discuss the forthcoming changes for certain state pensioners announced by the previous Chancellor.

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 support from an agent. Over the last few years, HMRC’s customer service, particularly via phone and post, has not been adequate for many people’s needs. Over the last year there have been some improvements, for example in wait times on phone lines, and HMRC deserve credit for this, but there is a long way still to go. It is important that HMRC are sufficiently resourced to provide the support and help that people require, especially as more people enter the tax system for the first time as a result of the government’s tax changes.

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 remain 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. This is something we have raised with HMRC and continue to observe.

HMRC’s Charter sets standards for taxpayer interactions, crucial for lower-income unrepresented 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. This year’s Charter Stakeholder Group survey again highlighted concerns about HMRC's delivery of key Charter standards, particularly *Getting things right*, *Making things easy* and *Being responsive*, alongside perceptions that HMRC are not held sufficiently accountable for their Charter performance. These issues can adversely affect trust in HMRC. We welcome recent initiatives, including compliance training and professional standards programmes, but believe further effort is needed to embed Charter principles consistently across HMRC's day-to-day work.

Making Tax Digital (MTD)

We remain concerned about HMRC's support model for unrepresented taxpayers and believe that the biggest barrier for unrepresented taxpayers joining MTD will be choosing appropriate commercial software.

We welcome the changes made to the software tool on GOV.UK but more needs to be done, as feedback we have from unrepresented taxpayers is that the high number of products makes choosing software incredibly daunting. We anticipate that, going forward, unrepresented taxpayers may need or want to change software products and will need more appropriate guidance and support from HMRC to be able to do this successfully.

We are concerned that there is currently insufficient tailored support for unrepresented taxpayers using MTD as they are required to contact HMRC through the usual self assessment channels. As taxpayers must use third-party commercial software they will not have the protection of HMRC's Charter for standards of service and behaviour where there are questions which aren't being dealt with appropriately by the software developers. This is an area where HMRC should acknowledge this potential gap in support and monitor any problematic areas with software developers to ensure that taxpayers get a similar standard of support as they would if HMRC had provided an online alternative.

We welcomed the soft-landing approach to penalties for 2026/27 and recommend that this is also put in place for 2027/28 as more unrepresented taxpayers are obligated to join MTD.

Use of third-party data and increased powers

We recognise the value of HMRC making smarter use of third-party data and have noted the introduction of new powers to obtain such data on a more routine basis. However, we remain concerned that some of the safeguards proposed during consultation do not appear to have been fully adopted. In particular, we believe taxpayers should receive copies of any third-party data relied upon by HMRC in a clear and accessible format, both to support transparency and to help ensure the data is accurate.

We are also seeing consultations on expanded compliance powers, including the proposed introduction of a criminal offence for making reckless untrue statements. In response to the reckless untrue statements consultation, we called on HMRC not to proceed with the plans in their current form. We do not want to see criminal prosecution used in cases where taxpayer behaviour falls short of dishonesty. While effective enforcement powers have an important role to play in tackling non-compliance, it is essential that any new powers are necessary, proportionate, appropriately targeted and accompanied by robust safeguards to protect taxpayers' rights and maintain public confidence in the tax system.

Taxation of the state pension

We continue to be concerned by the complexity of the rules for determining the taxable amount of state pension. We receive a lot of questions from state pension recipients about this, so we know first-hand that it is a common source of confusion and concern.

The state pension is unlike other pension income. It is taxed on the accruals basis, rather than on a receipts basis, as is the case for private pension and employment income. In addition, no annual statement is produced to confirm the total taxable amount and how that amount has been calculated by either HMRC or DWP. Current written communications and guidance produced by HMRC and DWP do not make it straightforward for pensioners to understand their tax position and have confidence that they are paying the right amount of tax.

The issues identified by HMRC in their recent letter to the Public Accounts Committee illustrate the practical consequences of the complexity: HMRC have acknowledged that it has used incorrect state pension figures in end-of-year reconciliations and that these have also fed through into self assessment and simple assessment calculations, resulting in some pensioners paying too much tax. We are reassured that HMRC are working to resolve the errors identified and put measures in place to prevent them recurring, and we are pleased to have been asked to support HMRC with this work.

We recommend that HMRC and DWP work together to provide all state pension recipients with a statement confirming their total taxable state pension amount after the end of each tax year. This would give pensioners a clear and authoritative figure for reference when considering their tax position. It would also make it much easier for those completing self assessment tax returns to report their state pension income accurately, without having to work out the taxable figure themselves from weekly payment information. More broadly, we believe that this additional safeguard would help strengthen taxpayers' trust and confidence in the tax system.

Alongside this practical step, we think there should be a longer-term review of whether the state pension should continue to be taxed on the accruals basis, or whether moving to a receipts basis would better support pensioners' understanding of their tax position. Consideration should also be given to whether PAYE could operate on state pension payments, as set out in our 2025 Budget representation[1], or whether there are other practical mechanisms which would reduce the risk of pensioners facing unexpected tax bills or needing to understand complex reconciliation calculations.

We would also welcome the opportunity to discuss the changes for state pensioners which the former chancellor committed to bringing forward at Budget 2025. This measure was described as a way to "ease the administrative burden for pensioners whose sole income is the basic or new state pension without any increments so that they do not have to pay small amounts of tax via simple assessment". Little further has been shared as to how the measure will apply. We are concerned that, unless these changes are designed with simplicity and clear communication at their core, they could add further complexity for pensioners who may already struggle to understand how their state

[1] https://www.litrg.org.uk/submissions/2025-autumn-budget-submission-litrg-recommends-bringing-state-pension-paye

pension is taxed and whether the right amount of tax has been paid. The measure may also raise potential issues of fairness amongst different state pensioner groups and the wider taxpayer population.

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

Kind regards

Victoria Todd
Head of LITRG and Tax Technical