

## **Fairness in government debt management: a call for evidence**

### **Response from the Low Incomes Tax Reform Group (LITRG)**

#### **1 Executive Summary**

- 1.1 We welcome the opportunity to respond to this call for evidence in relation to fairness in government debt management. As tax professionals with many years' experience in assisting low-income taxpayers, our expertise is principally in the area of tax and tax credit debts. These debts are, of course, mainly the responsibility of HM Revenue and Customs (HMRC). Our comments below are based on this specialist knowledge. We would be very happy to discuss the issues raised in this submission further with you if that would be helpful.
- 1.2 It should be borne in mind that tax and tax credit debt are unusual in the debt field because often the quantum of the debt itself can be inaccurate. This may be due to a lack of communication between HMRC and the debtor over a relatively long period of time, perhaps as a consequence of a life event that has caused the debtor to become unable to deal with matters such as tax or tax credits, or sometimes through erroneous calculation of the debt by HMRC in the first place. Therefore in our view, debt management must always allow for checking that the debt is correctly due and that all options for mitigation have been explored (which is usually done by discussion with HMRC to agree any final liability), as well as advice regarding payment of the debt itself.
- 1.3 We believe there should be a consistent approach to collecting government debt from all government departments which should be published as a formal 'Code of

Practice' and be publicly available. This should specifically cover the treatment and identification of vulnerable customers.

- 1.4 It is important that affordability calculations are carried out in exactly the same way by all government departments so that a debtor is clear as to what information they need to provide, and how to work out the various figures, regardless of who they owe the debt to.
- 1.5 Many vulnerable debtors will seek advice from third parties such as the tax charities or welfare rights advisers to assist them in making arrangements for repayments of debt. It would be extremely helpful if a quick and easy process could be established across government departments to facilitate the access advisers need to a debtor's overall position in these circumstances, so that they can advocate effectively on a debtor's behalf.
- 1.6 The online facility to create a Time to Pay (TTP) arrangement for particular tax debt offers another way of dealing with the problem to debtors who find speaking directly with HMRC Debt Management to discuss their debt very difficult. The self serve approach also reduces direct contacts with HMRC which is advantageous. We would urge HMRC to continue to develop and promote the tool, and for government to consider more generally other areas where similar tools could be created.

## **2 About Us**

- 2.1 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 on low incomes. Everything we do is aimed at improving the tax and benefits experience of low-income workers, pensioners, migrants, students, disabled people and carers.
- 2.2 LITRG works extensively with HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the system. Too often the tax and related welfare laws and administrative systems are not designed with the low-income user in mind and this often makes life difficult for those we try to help.
- 2.3 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.

### 3 General comments

- 3.1 We welcome the opportunity to respond to this call for evidence. As tax professionals with many years' experience in assisting low income taxpayers, our expertise is principally in the area of tax and tax credit debts. These debts are, of course, the responsibility of HM Revenue and Customs (HMRC) for the most part, although some debts arising from tax credits are transferred to the Department for Work and Pensions (DWP) both for collection and also ownership when a tax credit claimant starts to claim universal credit. We have made some general comments and then addressed the policy areas listed in the call for evidence where we believe we have some relevant comments.
- 3.2 It should be borne in mind that tax and tax credits debt are unusual in the debt field because often the quantum of the debt itself can be inaccurate. This could be because the premise on which the liability has been calculated is flawed or is open to a challenge which will reduce the liability itself. Delays in challenging the accuracy of a tax debt will usually result in the debt becoming due by default. Delays can arise due to a lack of communication between HMRC and the debtor over a relatively long period of time, perhaps as a consequence of a life event that has caused the debtor to become unable to deal with matters such as tax or tax credits, or sometimes through erroneous calculation of the debt by HMRC in the first place.
- 3.3 It is often not until a debtor gets specialist advice from a tax professional<sup>1</sup> or the tax charities<sup>2</sup> or, in the case of tax credits, a welfare rights adviser that they become aware that the quantum of the debt may be incorrect and open to challenge. In the meantime, it is likely that HMRC's Debt Management department will have taken steps to collect the debt. Sometimes this can get as far as court or bankruptcy proceedings before there is an intervention which may well reduce the debt to manageable amounts, or erase the debt completely in some cases. This has cost implications for HMRC as well as creating an extremely stressful situation for the debtor.
- 3.4 There are also many situations where the debtor believes the debt is incorrect but does not know the correct processes for challenging it. Over the years this has been fairly commonplace in tax credits and our colleagues at the tax charity TaxAid frequently see situations where this is the case in tax matters. TaxAid will often intervene for the debtors so the correct amount of debt can be properly established.

---

<sup>1</sup> For example, members of the Chartered Institute of Taxation

<sup>2</sup> TaxAid ([www.taxaid.org.uk](http://www.taxaid.org.uk)) and Tax Help for Older People ([www.taxvol.org.uk](http://www.taxvol.org.uk))

- 3.5 Despite perhaps many conversations with HMRC's Debt Management staff where the debtor has tried to explain that the debt cannot possibly be correct, their comments have been ignored and debt collection procedures have continued. We believe this is because the Debt Management staff have very little understanding of how the actual tax debt is calculated and do not liaise often enough with their HMRC colleagues who calculate the tax due to check if what they are being told by the debtor could actually be the case.
- 3.6 In these situations the full force of HMRC's debt collection - and enforcement procedures, if necessary - will be activated because it is assumed that the underlying debt must be due. This lack of communication and understanding between the different sections of HMRC causes some very distressing circumstances for taxpayers and tax credit claimants, who often feel they are being ignored by HMRC and are caught up in a situation that is out of their control. (See case study 1 at appendix A).
- 3.7 Appendix B to this submission summarises some cases that our colleagues at the tax charity TaxAid have dealt with. They illustrate how incorrect debts can arise and how specialist advice can make sure the correct amount due is arrived at.
- 3.8 TaxAid recently analysed a small sample of 66 of their cases which involved debt and their findings were as follows:
- total debt across all cases: £232,093 (average debt = £3,516.56)
  - total remitted/cancelled as incorrect: £186,057 (average reduction = £2,819.05)
  - total debt payable after TaxAid help: £46,036 (average debt = £697.52)
- Therefore if there had been no intervention by TaxAid in these cases and they had gone straight to Debt Management for collection, the taxpayers would have repaid, on average, £2,819 more than was ultimately payable.
- 3.9 While we recognise to some degree the approach of HMRC to Debt Management as outlined in the case study on page 9 of the call for evidence, it is often not really the whole picture when it comes to dealing with tax and tax credit debts. There needs to be a greater responsibility on the collection side of HMRC to be satisfied that the debt is correctly due before pursuing enforcement action, particularly if the individual is disputing the amount owed. Perhaps liaison with HMRC's Extra Support Team could be helpful in cases where a person seems to be questioning the debt but is struggling to articulate exactly why they think it is not due? Before a debt is passed to Debt Management, could there be some kind of checklist developed to help officers identify whether any tax debt could be overstated? We have lots of ideas and would be very happy to discuss them in further detail.
- 3.10 Further, in our experience, as debtors do not always understand how to challenge a debt they think is incorrect, there appears to be a failure by HMRC in

communicating a debtors rights and options in a way that can be understood by a lay person. The limited guidance that is available in this area on GOV.UK is inadequate and incomplete (for example, we can find no mention of overpayment relief or special relief claims on GOV.UK other than in HMRC's own internal manuals which would not generally be referred to by non-tax professionals.)

- 3.11 The impact of the coronavirus pandemic on potential debt cannot be ignored. We welcome HMRC's flexibility around recovery of tax and tax credit debt during the current pandemic. We think HMRC should carry out some analysis on how that temporary approach has worked, including whether tax credit claimants have continued to repay and at what household income threshold they have found they needed to contact HMRC to relax recovery. Indeed, there is a concern that households may well find themselves more in-debted as the measures introduced during the pandemic response begin to be removed before their own financial position is restored to at least pre-pandemic levels so it may be necessary for some of this flexibility to continue.
- 3.12 Management of debt for Self Assessment taxpayers is likely to become very important in the early part of 2021. Many taxpayers will have taken advantage of the option to defer payment of their second payment on account relating to 2019/20 which was due in July 2020<sup>1</sup>. Some of these taxpayers will find themselves with a larger payment due on 31 January 2021 because of this deferral at the same time as having potentially less resources due to a downturn in their business income following lockdown.
- 3.13 For most, the tax bill due for the 2019/20 tax year will be based on an almost normal trading year as the effect of the coronavirus pandemic on most trades is more likely to be felt in 2020/21 than 2019/20. Therefore it will be vital that Debt Management are alert to the possibility of taxpayers being able to reduce their payments on account<sup>2</sup> for 2020/21 if appropriate, as the first of these becomes payable on 31 January 2021 too. This should then ensure that any discussion about tax arrears in the early part of 2021 is based on more accurate amounts with the first payment on account based not simply on half of the income tax and Class 4 National Insurance liability for the 2019/20 tax year.
- 3.14 It would also be sensible for HMRC to promote the option to set up a Budget payment plan<sup>3</sup> in advance of the payments on account becoming due so that

---

<sup>1</sup> Offered as part of the governments coronavirus support package for small businesses:  
<https://www.gov.uk/guidance/defer-your-self-assessment-payment-on-account-due-to-coronavirus-covid-19>

<sup>2</sup> see <https://www.gov.uk/understand-self-assessment-bill/payments-on-account>

<sup>3</sup> see <https://www.gov.uk/pay-self-assessment-tax-bill/pay-in-instalments>

amounts due can be spread over 12 monthly payments rather than being payable in the two 6 monthly instalments. This is an option that we think would be popular among many taxpayers if they knew about it, so HMRC need to publicise this option much more.

- 3.15 We believe there should be a consistent approach to collecting government debt from all government departments, including local government, which should be published as a formal 'Code of Practice' and be publicly available. This should then avoid situations arising whereby the approval or otherwise of a debt management plan is not dependent on who answers the phone (see case study 2 at appendix A) This should specifically cover the treatment of vulnerable customers.

## **4 Policy challenges as set out in the call for evidence**

### **4.1 *Affordability***

- 4.1.1 We think it is important that affordability calculations are carried out in exactly the same way by all government departments so that a debtor is clear as to what information they need to provide, and how to work out the various figures, regardless of who they owe the debt to. It is also important that the calculation factors in some disposable income to cover unexpected one-off costs that may arise and allows for reassessment (see 4.1.3 below).
- 4.1.2 For tax credit claimants who struggle to meet the repayment regime for their tax credit overpayment we have seen examples where HMRC only offer to negotiate different terms where the claimant has no more than £20 a week left after their essential household expenditure. Whilst we recognise, of course, the need to repay what is owed, for many this threshold is far too low and as a result there is a possibility that the household will spiral into further financial difficulty. It would be encouraging if HMRC could be more willing to offer greater flexibility on a case by case basis so that whilst still recovering the debt but at a slower rate, they also help claimants keep their financial head above water and deal with any one-off emergency expenses that arise.
- 4.1.3 A judgement as to how sustainable a proposed repayment plan is can only be made based on the facts at the time, and clearly the longer the term of the repayment the harder it is to assess whether it is a sustainable proposal. Therefore the key here is to make it easy for the debtor to approach the creditor and renegotiate the amount of the repayments if their circumstances change and the repayment plan becomes unsustainable. Debtors must be encouraged to do this as soon as it seems likely they will struggle to meet a payment, and they must be reassured they will not be penalised for making any change to the original agreement.

## 4.2 **Communications**

- 4.2.1 We agree that ‘the ability of creditors to help those who may be vulnerable or in financial hardship is often dependent on whether there is a dialogue between the parties’<sup>1</sup>. Therefore it is vital for the creditor to establish a constructive relationship with the debtor as soon as possible, and ideally with the first communication they send to the debtor. HMRC will usually send a letter and, sadly, the widespread use of standard letters can detract from setting the necessary tone to establish the constructive relationship.
- 4.2.2 Letters making the first contact about the debt need to be factual but they also need to explain that help and support is available if the debtor is vulnerable or suffering financial hardship and unfortunately this very important aspect of any letter is often at the very end – if it is included at all. We would like to see this in a much more prominent position in correspondence.
- 4.2.3 These first contact letters also need to explain clearly how the debt arose, referring to previous correspondence, if necessary. They need to provide details of who to contact (and how to contact them) should there be a dispute as to the quantum of the debt.
- 4.2.4 HMRC need to be more mindful of the effect that receiving a letter advising of a debt can have on an individual and word such letters accordingly. If the letter comes as a shock to the recipient or has a threatening tone, they may not read to the very end of the letter: if the information about help and support for those in difficulty is at the end of the letter, they won’t get to it.
- 4.2.5 Using letters as the main form of communication relies on the taxpayer database being completely up to date. Sending several letters to the same address when a response is not received may be indicative of the fact that the intended recipient of the letter is no longer at the address rather than an indication of non-compliance which is what HMRC assume in our experience. (Case study 5 at appendix A and the fourth example on appendix B illustrate how matters can escalate when this happens.)
- 4.2.6 Not receiving any response to a series of letters could also be indicative of a recipient who is vulnerable, perhaps someone with a mental health condition which makes them feel like they cannot deal with the situation being presented to them, or someone who is in an abusive relationship and who does not really ‘own’ the debt. Not receiving a response to correspondence

---

<sup>1</sup> paragraph 53 of page 21 of the call for evidence document

should not automatically be taken as a refusal to interact with HMRC, but another method of communication should be tried.

- 4.2.7 It is also important to make it straightforward for a debt adviser or charity to advocate on a debtor's behalf and be able to contact the creditor and obtain information about the debt. The intervention of a third party in this way is likely to get the matter resolved sooner rather than later in the majority of cases.
- 4.2.8 HMRC's current 'trusted helper' scheme has very limited use as it is really only designed for friends and relatives to help someone navigate their Personal Tax Account<sup>1</sup>. On the other hand, more formal and wide ranging tax representation, through 'intermediaries' or the 64-8 process may not be appropriate either as the adviser may only wish to assist the taxpayer with a discrete debt issue. In any case, the degree to which HMRC will accept these and the processes by which the status of an adviser is verified by HMRC vary and are sometimes unclear, adding to the difficulty some debt advisers may have
- 4.2.9 Taking heed of GDPR requirements, it would be extremely helpful if a quick and easy process could be established across government departments to facilitate the access advisers need in these circumstances.
- 4.2.10 Communication between different departments within government bodies is also vital. In the context of tax and tax credit debt collection, this is particularly relevant to the Debt Management teams and the main taxes/tax credit teams within HMRC, as explained in section 3 above.
- 4.2.11 Communication with debtors can also be done indirectly, by developing online tools for example. HMRC have designed an online tool<sup>2</sup> which allows a debtor to arrange a time to pay arrangement provided they meet certain criteria which are explained at the outset. Our understanding is that this has very limited functionality at the moment and so cannot currently be used in a large scale way, but we believe this could potentially be a very useful way forward for dealing with debts that are not in dispute. It offers another way of dealing with the problem to debtors who find speaking directly with HMRC Debt

---

<sup>1</sup> In practice becoming a trusted helper involves a number of steps, one of which requires verification of the helper's identity, which has a success rate of less than 50%. Only 1,212 people became trusted helpers between 2017 and July 2019:

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/838130/Taxation\\_and\\_life\\_events\\_Oct\\_2019.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/838130/Taxation_and_life_events_Oct_2019.pdf)

<sup>2</sup> see 'set up a payment plan online' at <https://www.gov.uk/pay-self-assessment-tax-bill/pay-in-instalments>



Management to discuss their debt very difficult. The self serve approach also reduces direct contacts with HMRC which is advantageous. We would urge HMRC to continue to develop and promote the tool, and consider other areas across government where similar tools could be created.

- 4.2.12 We would urge more consistent issuing of regular statements of the debt position. All statements need to clearly show any payments made by the individual and clearly explain any additions to the debt. For tax credits, this is usually in the form of the award notice and payment schedule but, where there is an ongoing tax credit award, the repayments offset against the ongoing payments are often a source of confusion. In the case of tax debt, the current self assessment statements seem to be issued sporadically and are virtually impossible to understand. They often do not give a complete picture of the indebtedness.
- 4.2.13 We are also concerned about HMRC's plans to stop issuing paper statements in 2021. This could mean a person with a tax debt might only become aware of this for the first time when there is a contact from Debt Management which would mean the debt collection is fairly advanced. HMRC cannot assume everyone can access information about their liabilities via online systems. Having a paper copy of a statement might also alert friends or relatives to a debtors situation, and they may then be able to help resolve the situation.
- 4.2.14 HMRC does not always look at a taxpayer's overall situation and this can lead to misunderstandings and angst. For example, a taxpayer may have their self assessment debt referred to Debt Management, while a debt for PAYE that has not been paid over is not so referred. The taxpayer may believe they enter an agreement to pay off all of their debt only to discover later that they still owe HMRC some PAYE. This can also happen where a taxpayer has a debt due, but then receives a refund for a later tax year, and mistakenly assumes the outstanding debt has been settled before the refund has been issued.
- 4.2.15 Finally, when HMRC do get communications from debtors who are trying to stop future debts arising, they need to act on them properly. The effect of failing to do so can be devastating for taxpayers (see case study 3 at appendix A).
- 4.2.16 The development of a strand of government policy which looks to help build up financial resilience to minimise the recurrence of debt among debtors it interacts with would be a very interesting piece of work. Linking into something like the Help to Save scheme (as suggested at paragraph 62) to do this is worthy of further more detailed consideration; presumably the idea would be that when the debt has been fully repaid the debtor continues making payments at the same level as when they were paying off the debt but into a Help to Save account (provided all the relevant conditions are met). We

would welcome further input into discussions about such a scheme in due course.

#### 4.3 Vulnerability and financial hardship

4.3.1. It would be helpful to have a universal definition of vulnerability that was used by all local and central government departments as this would ensure consistency of treatment, but vulnerability itself is very difficult to define. It also needs to be recognised that vulnerability can be permanent or temporary (for example due to a family bereavement) The four drivers of vulnerability identified by the FCA<sup>1</sup> are a good start and could form the basis of more work in this area to develop a formal definition which was acceptable to all.

4.3.2. The issue of providing protection for vulnerable taxpayers was considered when the tax legislation relating to the direct recovery of debt from bank accounts was drafted. Paragraph 5(1) of schedule 8 to the Finance (no 2) Act 2015 requires that

*'...HMRC must consider whether or not, to the best of HMRC's knowledge, there are any matters as a result of which the person is, or may be, at a particular disadvantage in dealing with the person's Revenue and Customs affairs'*

before proceeding with action allowed under this schedule. Clearly this was drafted specifically in the context of action by HMRC but this could also be a starting point for developing protections for those who are vulnerable and have debts which could be applied more widely.

4.3.3. In the short term, it must be remembered that the economic consequences of the coronavirus pandemic that are currently being experienced are likely to lead to many people falling into debt for the first time. For example, if someone has lost their job or their self employed business has failed they could be facing multiple debt issues which they have never had to deal with before and many will find this frightening and overwhelming. Some will also want to protect their families from worrying about the debt and its potential consequences. Therefore the need for debt management techniques to be sensitive and flexible will be as important as ever, otherwise the effect on the mental health of the debtor could be very serious. (see case study 6 at appendix A).

---

<sup>1</sup> These are financial capability, financial resilience, health and life events – see paragraph 64 on page 23 of call for evidence document

- 4.3.4. HMRC have been undertaking a lot of work to improve support available to vulnerable customers across many of the directorates over recent months, and we have been pleased to have been involved in this. This is building on existing services for their vulnerable customers some of which are outlined in this call for evidence.<sup>1</sup> Some areas such as Customer Services, Compliance, and Debt Management have special Extra Support Teams (ESTs), however anecdotal evidence shows it is difficult for taxpayers to access direct support from the teams, and there is very little evidence that they work together to provide 'joined up' support. Rather, our understanding is that each team operates separately and there is no facility to 'hand over' cases to each other where further support is needed from a different EST. For example, if someone has received support from customer services EST to help calculate a correct amount of debt, but they cannot pay this, there is no automatic referral to EST in Debt Management. Whilst we recognise that someone may have a particular vulnerability that is relevant to the debt arising in the first place but not in relation to repayment, in some cases they will require support from both teams and the first EST team is likely to understand this and therefore the option for a warm handover to EST in Debt Management should be an option.
- 4.3.5. It would also be helpful for voluntary sector organisations to be able to refer appropriate cases directly to EST within Debt Management as they can do to customer services EST at the moment.
- 4.3.6. We would like to see more done to identify vulnerable customers quickly, to highlight the support available to them at an early stage and to make access to it more straightforward. It is worth observing that identifying vulnerability can sometimes take a bit of lateral thinking (see 4.2.5 and 4.2.6 above) and so this needs a change of culture within HMRC's Debt Management, where the default presumption appears to be that the debtor has funds but is refusing to pay, whereas in many of the cases we (and TaxAid) see this is not the case.
- 4.3.7. Where individuals are not very numerate or under stress, it can be challenging to work through figures on the telephone. (See case study 4 at appendix A). This can lead to outgoings being understated with the consequent effect that repayments are set at a level that is not sustainable. Such vulnerable people may not realise how little cash they will have to support their family until they are in a crisis position. This might be avoided if the debtor had more time to review their overall position

---

<sup>1</sup> See paragraph 68 on page 24 of call for evidence document

#### **4.4 Disputes**

4.4.1 As outlined above at 3.4 above, disputes over the quantum of debts being pursued by HMRC are not uncommon. For tax, a better understanding of how the debt is calculated by Debt Management could resolve many of the disputes at an early stage and so make the collection process much smoother and less stressful. Also, early referral to a technical team when there is a query over the debt would make a similar significant difference to the management of tax and tax credit debts.

4.4.2 Often disputes arise due to poor communication as noted at 2.10 above, so we believe that strategies which improve this aspect of debt management would have a knock on effect in reducing disputes.

#### **4.5 Reporting and transparency**

We have no specific comments to make about this policy area.

LITRG  
17/09/2020

## Appendix A

### Anonymised case studies from TaxAid and LITRG

#### *Case study 1 (from TaxAid)*

Mr A had actively engaged with HMRC regarding the tax treatment of a payout he received following a road traffic accident and had the involvement of TaxAid to try to resolve the dispute. Despite this, debt management field force still turned up at his property demanding payment of a £35,000 debt claiming that he had been ignoring HMRC correspondence. Mr A has mental health issues and PTSD following the loss of a limb in the accident. Debt management should have been aware of their colleagues' contacts with Mr A and TaxAid and also his health issues and so put any collection action on hold temporarily.

#### *Case study 2 (from TaxAid)*

Taxpayer called to try to set up a time to pay arrangement but had a difficult call with HMRC and was unable to progress. However, when they called back the next day describing the same circumstances they were able to agree a suitable time to pay arrangement.

#### *Case study 3 (from TaxAid)*

Mrs C had two jobs and codings were incorrect which resulted in an underpayment. In the first year this happened, she paid the tax due and called HMRC to understand how it had happened and tried to make sure it didn't happen again. The solution should have been to issue a BR code on her second employment. This did not happen. So in the following year Mrs C received another P800 demanding payment of a tax underpayment that had arisen because of incorrect coding. She again called HMRC and was told it had been resolved and that the tax would be paid via her tax code, nothing further for her to do. However, this did not happen. Mrs C continued to receive P800s for the next two tax years and demands for these payments to be made to HMRC. Overall she contacted HMRC by phone on 8 separate occasions to try to resolve her tax position but was unable to. The stress of trying to resolve this together with the mounting debt left Mrs C with very poor mental health and at times feeling suicidal.

#### *Case study 4 (from LITRG)*

This is a website enquiry received via the LITRG website:

'Hello, I have an outstanding debt with HMRC. The Debt Resolution team has contacted me to review/reassess my current agreement (last agreement was in 2017). However I would prefer to communicate with them via letter correspondence only as I find telephone calls quite stressful and can not always think clearly when talking on the telephone and I expect they will want to negotiate the monthly repayments I will have to make, which I will find further stressful over a telephone call. Am I allowed to provide the information they have requested by letter correspondence, or do I have no choice'

*Case study 5 (from LITRG)*

This is a website enquiry received via the LITRG website:

'Hi my son recently got a debt collectors letter to our house, which I paid around £5,000, as I was worried. Apparently all the charges were for late penalties for not filing tax returns plus interest. Basically he went bankrupt in 2011 and unbeknown to him they gave him another UTR number, he is self-employed and pays tax at source through CIS, so he was not filling accounts under the new UTR number as he didn't realise he had it until a couple of years later when I investigated all these fines and late penalties. To cut a long story short the total of fines and daily penalties he has just had to pay from 2012 to Jan 2017 total over £7,000 and he is a father on a low wage and I just think this is criminal - he didn't even know he had this other UTR number. I paid the debt as he is so stressed with it. All correspondence to my son from the tax office went to my son's ex wife's address and she destroyed them and never let him know, it wasn't until she had a debt collection agency letter that she passed this on to us at our address where my son now lives.'

*Case study 6 (from LITRG)*

This is a website enquiry received via the LITRG website:

'Since filing late theyve ordered me to pay £1800 I've paid over a thousand pounds so far which has crippled my family life. I lost my gateway code and password tried doing it by email and by post but both failed. In between my self assessment and all the hassle in trying other avenues my dad passed away I give up on life I suffer with anxiety and depression and being self employed didn't help, I was in a hole. I'm not the brightest of person so I've paid £160 a month effecting everything I have two children, other debts which I'm paying too , my partners dad passed four months ago we're paying off his funeral to, life has got too much to deal with. My relationship is so at breaking point I feel like their better off if was dead. I work my hardest to proved but its not working hmrc has wreaked my life this past year and I feel like a failure'

## Appendix B

### Tax case studies

Initial Debt	Summary of problem	TaxAid support provided to customer	Final debt owed
7,000	Customer ceased self-employment in January 2011 but HMRC not informed. Returns issued for 12/13, 13/14 and 14/15 and associated penalties but no requirement to file. Late filing penalties also raised for 2010/11 year, when was self-employed. From 2010 customer has suffered with respiratory problems, in and out of hospital for treatment and also had a pacemaker fitted. At the time of coming to TaxAid the customer was on a low income subsisting on state benefits	TaxAid contacted HMRC on behalf of the customer to advise of the date of cessation of self-employment and therefore have returns for 12/13,13/14,14/15 withdrawn, together with the associated penalties. TaxAid also completed the 2010/11 return and submitted a successful late filing penalty appeal.	0
11,769	Customer had been self-employed on and off for various years. She was in an abusive relationship and left the UK to live overseas with her children (one of whom suffered various health problems from birth). She also suffered from depression. At the time of coming to TaxAid she had no earnings and was living on benefits. She was looking after her ill husband. Her debt consisted of late filing penalties and determinations for years when tax returns had not been submitted.	TaxAid prepared and submitted successful late filing penalty appeals, completed the returns for earlier years and submitted these together with a claim for special relief which significantly reduced the customers debt. TaxAid then completed all outstanding returns for the customer to get her back up to date and assisted her in arranging a time to pay arrangement for her remaining tax debt.	2,096
3,406	Customer is self-employed builder from another EU country. English is not first language and has struggled to understand the UK tax system. A third party had assisted him with tax returns but these had been filed late. Debt consisted of late filing penalties and unpaid tax. Customer suffers with	TaxAid prepared and submitted successful late filing penalty appeals for the customer and advised them on the final tax debt to pay.	536

	mental health issues, as does a family member whom he frequently goes to visit in his home country.		
3,367	Customer is and has always been an employee under PAYE. Never self-employed and no requirement to file tax return for any other reason. In 2014/15 she had a PAYE underpayment of £53 because of duplicate allowances on job change. Underpayment not paid by customer because she had not received the initial P800 calculation due to several house moves in the period and so put into self-assessment for 14/15, which had also rolled over into 15/16. Late filing penalties had been raised for both years.	TaxAid contacted HMRC on behalf of the customer and asked for 15/16 tax return and associated penalties to be cancelled as no underpayment for that year and no SA requirement. TaxAid also requested non-pursuit of debt and late filing penalties for 2014/15 on grounds of financial hardship. This was successful.	0
27,000	Customer received assessment for 2014/15 regarding loans HMRC believed he had received in that year under the contractor loan rules. The initial assessment raised by HMRC was for £23,413 (plus interest) on the basis that they believed he had received loans in that year of £75,939. At the time of contacting TaxAid, the customer was not working due to stress and depression and had not opened any post for nearly six months so had not been aware of this debt until enforcement action was threatened.	TaxAid explained to the customer what the loan charge rules meant and assisted him in checking back over his bank statements and other documentation from the period to help him ascertain whether the amount asserted by HMRC was correct as it seemed too high to him. TaxAid then corresponded with HMRC on behalf of the customer as the stress he was experiencing made it impossible for him to engage directly. We presented the figures that the customer had provided to HMRC, which showed he had in fact only received loans of £22,467 and these were accepted, significantly reducing the debt owed to HMRC.	4,500