30 Monck Street
London
SW1P 2AP

T: 020 7340 0551
E: info@att.org.uk
W: www.att.org.uk

PROPOSALS TO TACKLE LOWER VALUE TAX DEBTS

Response by the Association of Taxation Technicians

1 Introduction

1.1 The Association of Taxation Technicians (ATT) is pleased to have the opportunity to respond to the HMRC Consultation on 'Proposals to tackle lower value tax debts' ('the Consultation') issued on 23 June 2026[1].

1.2 The primary charitable objective of the ATT is to promote the education and study of tax administration and practice. We place a strong emphasis on the practicalities of the tax system. Our work in this area draws heavily on the experience of our members who assist thousands of businesses and individuals to comply with their taxation obligations.

1.3 We would be pleased to discuss any aspect of this submission further. Relevant contact details can be found in Section 9.

2 Executive Summary

2.1 We were disappointed by the short timescale for the Consultation – just nine weeks, which spanned the summer holiday period. This has placed considerable pressure on stakeholders seeking to engage constructively across multiple consultations at the same time. The volume of consultations during this period has reduced the time available to analyse proposals in detail, gather evidence and obtain input from members. Our technical committees rely heavily on volunteers working in practice to provide feedback and insights. We were therefore disappointed that the consultation period coincided with the summer holidays, when many committees do not meet, restricting the ability of professional bodies to engage their volunteer networks.

Meaningful stakeholder engagement is especially important for a proposal such as this, which introduces a new power enabling deductions to be made directly from taxpayers' bank accounts and raises important questions regarding affordability, vulnerability and safeguards.

We therefore encourage HMRC to consider the responses received carefully and to undertake further stakeholder engagement where appropriate before finalising the design of the measure. We also encourage HMRC and HM Treasury to take into account the cumulative impact of overlapping consultations and to avoid, wherever possible, periods that coincide with major holiday periods when planning future consultation timetables.

[1] https://www.gov.uk/government/consultations/tackling-lower-value-tax-debts/proposals-to-tackle-lower-value-tax-debts

We support the overall objective of targeting lower value tax debts where taxpayers who are able to pay choose not to engage with HMRC.

Our overarching concern is that the effectiveness and fairness of the proposed measure depends upon HMRC being able to distinguish between taxpayers who have deliberately chosen not to engage and those who have not engaged because communications were not received, or due to vulnerability, ill health, accessibility needs or other personal circumstances (See Question 1).

We are particularly concerned that many of the proposed safeguards rely on taxpayers proactively contacting HMRC. We recommend that HMRC considers introducing a "confirmed contact" safeguard before a customer enters the automated deduction process (See Question 6).

We do not believe the proposed 14-day Pre-Deduction Notice (PDN) period is sufficient and recommend a minimum notice period of 30 days (See Question 1). This is particularly relevant given the period of time it can take for HMRC letters to be received in the post.

We also encourage HMRC to use this Consultation as an opportunity to review the wider debt management process. The most effective safeguard is to prevent taxpayers from incorrectly reaching the point at which direct deductions are considered. We have received feedback about debts being pursued where claims, elections or reallocations remain outstanding due to delays and errors by HMRC. We have also received feedback that there can be difficulties in contacting HMRC to resolve debt queries and that communication from debt collection agencies acting on HMRC's behalf is often poor. Addressing these issues would reduce the risk of taxpayers being drawn into debt recovery processes unnecessarily and help ensure that any new powers are applied only where a genuine tax debt exists and the taxpayer has failed to engage with HMRC. We believe these issues should be addressed before the proposed power is taken forward (See Question 1) In addition, HMRC should consider whether there are opportunities to improve knowledge of and access to Time To Pay (TTP) arrangements (See Question 4) and whether initiatives such as the Digitising Post Programme could provide opportunities to improve the existing process (See Question 6).

Given that the average individual debt within the proposed population is stated to be approximately £950, the proposed £5,000 upper debt value limit for individuals appears relatively high. HMRC should consider whether a lower upper limit would be more appropriate (See Question 5).

We believe that additional affordability safeguards are required. A protected minimum balance should be implemented and deductions should never place a taxpayer into an overdraft or increase borrowing (See Question 8).

We have significant concerns regarding the treatment of joint accounts. Whilst we welcome the proposed right of objection for non-debtor account holders, we do not believe this safeguard alone is sufficient. Joint accounts should only be considered once HMRC can verify that the funds are the debtor’s (See Question 10).

Finally, we note that a number of recent consultations have focused on debt management and collection, for example, mandatory direct debit arrangements for PAYE and VAT liabilities, and measures aimed at encouraging timely payment. We have concerns about how the performance of each measure will be assessed if they are rolled out close to each other in time. When determining implementation timelines, we urge the Government to give careful consideration to how the effectiveness of these measures will be monitored and assessed.

3 Overview of the proposed process

3.1 **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?**

3.2 We agree with the overall policy objective. It is important that HMRC has effective mechanisms to address situations where taxpayers who are able to pay their tax debts choose not to engage with HMRC. Failure to address persistent non-payment risks undermining confidence in the fairness of the tax system and may create a perception that some taxpayers can avoid their obligations through non-engagement.

The Consultation refers to concepts such as “non-engagement”, "persistent non-engagement", "choose not to engage", "repeatedly failed to respond", "HMRC attempts to contact them", "engage or co-operate", "refuses to pay", “ignore all communications”, “established debt” and "standard collection processes have been exhausted".

We believe that there needs to be clear and consistent definition and application of these terms, ideally in legislation or, as a minimum, in published guidance. Where possible, definitions should align as closely as possible with existing legislation. For example, ‘established debt’ is already defined under the Direct Recovery of Debts (DRD) measure in Finance (No. 2) Act 2015[2]. Aligning definitions with existing legislation would help avoid confusion and promote consistency.

Clear definitions are necessary to ensure that the proposed power is applied consistently and only to appropriate cases. We urge HMRC to use consistent terms and consider defining the terms noted above.

Distinguishing non-engagement from the inability to engage

One of our main concerns is that the effectiveness and fairness of the proposed measure depends upon HMRC being able to reliably distinguish between taxpayers who have consciously chosen not to engage from those who have failed to engage because communications have not been received, or because vulnerability, ill health, accessibility needs or other personal circumstances prevent engagement.

Our members regularly encounter situations where clients have changed address without updating them promptly. Often, a change of address only comes to light when an adviser is preparing the client's tax return or dealing with another matter, triggering an update to both the agent's and HMRC's records. This highlights the risk that a taxpayer may appear to be a persistent non-engager when, in reality, HMRC's communications are being issued to an outdated address. A similar position might occur in respect of outdated email addresses, should HMRC use electronic communication.

The Consultation acknowledges that HMRC may not always know when a taxpayer requires additional support, particularly where they have not engaged at all. We therefore welcome the ‘test and learn phase’. We also encourage HMRC to undertake further research with taxpayers currently in the debt management process. In particular, HMRC should seek to better understand:

- The extent to which communications may not have been received;
- Common barriers to engagement;
- The characteristics of those who genuinely choose not to engage; and
- Whether the indicators proposed in the Consultation would successfully identify vulnerable taxpayers and those requiring additional support, as well as characteristics of these taxpayers.

[2] https://www.legislation.gov.uk/ukpga/2015/33/schedule/8#:~:text=to%20the%20Commissioners.-,(5),grant%20permission%20to%20appeal%20out%20of%20time%20is%20to%20be%20disregarded.,-Information%20notice

We also encourage HMRC to use the 'test and learn phase' to test the effectiveness of the safeguards set out in the Consultation. We would encourage the phase to run for at least 12 months, but would suggest that a 24 month period might be more appropriate.

We believe HMRC should explore additional methods of verifying and updating contact details before a debt enters the proposed direct deduction process (see Question 6).

Pre-Deduction Notice (PDN)

We support the use of a PDN, this will act as an important safeguard.

As well as the detail provided in the Consultation, we believe the notice should:

- Clearly break down liabilities by tax type and tax year, as well as reconciling and explaining interest and penalties.
- Clearly explain how the deductions set out in the PDN will be allocated against the taxpayers' liabilities.
- State the final date for taxpayer action in a prominent position and in bold.
- Provide straightforward routes to alternative payment, should the debtor want to settle the debt before the end of the PDN period.
- Include clear guidance and contact routes for taxpayers who believe that they have received the PDN in error, or that there is an error in the stated liability.
- Provide clear guidance on the pause to a PDN available where the taxpayer either contacts HMRC and enters TTP or another arrangement or notifies HMRC that they require additional support.

For companies, HMRC should ensure notices are directed to the appropriate person within the company, especially given the short notice period. It may be that the person recorded on HMRC's systems has moved on from the company or does not have sufficient authority to take action. In such cases, correspondence may not initially reach the person best placed to deal with the query.

PDN Notice Period

We do not believe the proposed 14-day notice period is sufficient. There is a risk that the notice may not come to the taxpayer's attention in time, particularly where they are travelling, working overseas, experiencing illness or facing personal difficulties. Feedback from our members also suggests that it can take several days before HMRC letters are received in the post, even if they are addressed to the correct recipient.

The proposed notice period may not provide enough time for taxpayers to get their affairs in order. This is particularly relevant where taxpayers are paid monthly, as they may be unable to access the funds needed to settle the debt or make alternative arrangements until receipt of their next salary, pension or business income payment.

The Consultation itself acknowledges that taxpayers requiring additional support may only be identified after receiving a PDN. We therefore question whether 14 days provides sufficient time for taxpayers to seek support, provide relevant information or otherwise engage with HMRC before deductions commence.

We also note that the Consultation on the DRD power[3] originally proposed a 14-day period before funds could be transferred to HMRC but, following consultation, a 30-day period was ultimately adopted. Many of the concerns raised during that Consultation remain relevant to the proposed new powers.

[3] https://www.gov.uk/government/consultations/direct-recovery-of-debts

In addition, adopting a different notice period from the existing DRD regime risks creating unnecessary complexity for both taxpayers and advisers. Greater consistency across HMRC's direct recovery powers would reduce the risk of confusion. For example, a taxpayer who has previously been subject to the DRD process may reasonably assume they have 30 days to engage with HMRC. Aligning the notice period with the existing DRD legislation would therefore improve both fairness and consistency.

We recommend a minimum notice period of 30 days, together with reminders through all available communication channels, including digital channels (such as the Business Tax Account (BTA) and Personal Tax Account (PTA)).

End of the process and customer communications

We welcome HMRC's proposal to issue a closing letter once deductions have been completed. Careful consideration should be given to the content of this communication to avoid confusion.

A taxpayer may have incurred additional liabilities while the direct deduction arrangement under the new measure was in place, or may have other outstanding debts that did not form part of the deduction arrangement. A statement that "the debt is cleared" could therefore be misunderstood as meaning that no other tax liabilities remain outstanding.

The closing communication should clearly identify the specific liabilities that have been settled through the new measure, including the relevant tax, period, interest and penalties. It should also provide a reconciliation showing how each deduction has been allocated. Our members regularly encounter situations where payments have been allocated incorrectly or unexpectedly between taxes and periods. Clear allocation statements would help taxpayers understand the allocation and identify any discrepancies. This communication should also be sent to agents where the taxpayer has one appointed.

The communication should also clearly explain any further action required from the taxpayer and provide contact details should the taxpayer believe that payments have continued in error or that an overpayment has arisen.

Multiple accounts

We have concerns regarding the proposal that HMRC may switch to an alternative account where deductions repeatedly fail. Where HMRC intends to change the account from which deductions will be taken, the taxpayer should receive advance notification and be given sufficient time to respond, seek support, enter into an alternative payment arrangement or exercise any available objection rights.

Where a change in an account occurs the taxpayer should be issued with a revised PDN with a new 30-day notice period before deductions start.

Wider debt management process

We believe HMRC should use this Consultation as an opportunity to review the wider debt management process. The most effective safeguard is preventing taxpayers from incorrectly reaching the point where the proposed direct deductions might be applied. Before introducing the proposed measure, HMRC should ensure that existing debt management processes operate effectively.

We frequently receive feedback from members that HMRC Debt Management teams pursue liabilities that are not ultimately due. This can occur where a claim or election is awaiting processing and would reduce the tax liability, or where a request to reallocate a credit from another tax account has not been actioned.

We have also received feedback that debt collection agencies acting on HMRC's behalf can be difficult for taxpayers and agents to engage with effectively. One cause of this appears to be the limited information provided in correspondence sent to debtors. Often, a taxpayer receives a letter requesting payment but is provided with little information beyond the amount allegedly outstanding.

In one particular case a limited company received a letter from a debt collection agency acting on behalf of HMRC in respect of a debt of approximately £50. Neither the company nor its agents were able to identify what the debt related to. The correspondence did not specify whether it related to VAT, PAYE, Class 1A or Corporation Tax. When the company asked its agent to investigate, the debt collection agency refused to provide further details because 64-8 authorisations do not extend to debt collection arrangements. By the time the issue had been resolved, the professional costs incurred significantly exceeded the amount of the debt itself.

When a debt collection agency contacts a taxpayer regarding a debt it is often unclear how the figure has been calculated. The amount may include tax, penalties and interest, making it difficult to reconcile the balance to a particular tax liability.

We continue to hear concerns that it can be extremely difficult to contact HMRC to discuss disputed debts, resulting in delays in resolving issues that may ultimately reduce or eliminate the liability.

Improving communications sent by both HMRC and debt collection agencies, availability and access of HMRC staff, reducing processing times and strengthening internal HMRC communication would help prevent unnecessary debt collection activity and ensure that the measures proposed in this consultation are applied only where a genuine tax debt exists.

The Consultation would have benefitted from providing more detail on the current debt management journey and the behaviours that would bring a customer within scope of the proposed power. In particular, if these proposals progress, we would welcome the publication of a detailed anonymised taxpayer journey illustrating:

- the point at which a debt first becomes overdue;
- all contact attempts made by HMRC and any Debt Collection Agency (DCA);
- communication channels used at each stage;
- the ability of a taxpayer (or their agent) to request that debt collection be suspended where HMRC has still to process a claim or election that would reduce or eliminate the tax liability;
- the timescales involved;
- the meaning of "engagement" at each stage;
- escalation triggers; and
- the circumstances in which the new power would ultimately be used.

Improvements to communication channels, contact verification and digital engagement may reduce the number of taxpayers progressing into the proposed measure.

We would welcome further evidence regarding the characteristics of taxpayers whose debts remain unresolved following the existing debt recovery process. It is not clear from the Consultation whether non-engagement is primarily driven by deliberate behaviour, financial difficulty, incorrect contact information, personal circumstances or other factors. Understanding the underlying reasons for non-engagement is important when assessing whether the proposed power is likely to achieve its objectives and whether alternative solutions may be more effective.

Reconciliation processes and information

It will be important that reconciliation processes are in place to ensure deductions are allocated correctly against the relevant liabilities and that errors are identified and corrected promptly. Taxpayers and agents should be able to easily track direct deductions and allocations using digital services. Taxpayers and agents should also have access to clear information regarding the status of deductions and remaining balances.

4 Operational considerations for deposit takers

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

4.2 Deposit takers are best placed to comment on the operational and technical requirements that would be necessary to implement this measure.

From a taxpayer perspective, we would encourage HMRC to ensure that:

- The process is designed to minimise the risk of incorrect account identification. This issue is particularly relevant in farming and family-run businesses where multiple generations may live at the same address and share the same or similar names. We are not confident that such issues would always be identified by an automatic process and this could result in the tax being collected from an account that belongs to another taxpayer;
- Taxpayers receive timely notifications at key stages of the process;
- Deductions can be quickly suspended where a taxpayer enters into a TTP arrangement, raises an objection or errors are identified;
- Failed deductions are handled consistently, with clear rules regarding re-attempts, account changes and customer notifications;
- Overpayments and deductions made in error can be refunded quickly using the fastest available payment method; and

HMRC should also ensure that messaging, payment references and allocation information are presented consistently throughout the process. This will be particularly important where liabilities arise across multiple taxes.

HMRC should carry out checks before issuing a PDN and making direct deductions, including whether the taxpayer has already paid using an incorrect reference number. In practice, Class 1A and Class 1 references are often confused, and PAYE and Corporation Tax references can also be mixed up as payments are made to the same HMRC bank account.

We also encourage HMRC to work closely with deposit takers during the design and ‘test and learn’ phase.

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

4.4 See Question 2.

5 Scope of the measure

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

5.2 We agree that any new power should be targeted at customers who have persistently failed to engage with HMRC and should only apply to debts that are genuinely established and enforceable. We also agree that debts subject to active appeal, enquiry or compliance activity should remain outside of scope.

Established debts

The Consultation refers to debts that are "final and legally enforceable". We welcome this principle but believe HMRC should provide a clearer definition of what constitutes an established debt for the purposes of this measure.

For example, whilst a Self-Assessment liability may become payable on 31 January following the end of the tax year, taxpayers generally have the ability to amend a return for 12 months after the filing date. Consideration should therefore be given to:

- How HMRC will identify and process reductions (or increases) in liabilities that arise following amendments; and
- Whether debts should only fall within the new measure once relevant amendment windows have closed.

We also refer to our comment made above about HMRC's debt management staff often pursuing the collection of debt that is not ultimately due (see Question 1), as the result of delays in HMRC processing claims or elections that would reduce or eliminate the tax liability due.

Recent debts and exhausted collection processes

We are concerned by the use of phrases such as "typically, this means the debt would be at least several months old" and "subject to multiple contact attempts". These descriptions lack certainty. We believe that the conditions for entering the regime should be clearly defined, including:

- A minimum age of debt;
- A minimum number of contact attempts;
- The types of contact that must be attempted;
- Whether successful contact has been established (see Question 6); and
- The circumstances in which a case may be escalated.

Clear definitions would help ensure consistent application of the new measure and provide an important safeguard to taxpayers.

Particular care will be needed where debts arise across multiple taxes and are at different stages of the debt management process.

There is a risk that determining which debts are in scope of the new measure could become confusing for taxpayers, agents and HMRC officers. Clear guidance and communication will be essential, particularly where taxpayers have liabilities that remain within the standard debt management procedures. For example, where a taxpayer is already subject to direct deductions under the proposed measure and an additional debt subsequently falls in scope of the proposed measure.

Clear guidance is required on how these situations will be managed in practice. We do not believe taxpayers should be subject to multiple direct deduction arrangements at the same time, this would be confusing for taxpayers and HMRC. We comment further on affordability assessments and the treatment of multiple debts in our responses to Questions 8 and 9.

Existing arrangements and active engagement

The Consultation proposes excluding customers who are already subject to a TTP arrangement or other enforcement process. We support this proposal. It will be essential that HMRC systems can identify taxpayers who are actively engaging with HMRC across multiple taxes.

Our members continue to report situations where information held by different departments of HMRC is not always fully aligned or transparent. It will therefore be important that HMRC has a “joined-up” view of customer engagement and payment arrangements.

For example:

- Where a taxpayer has a TTP arrangement for one liability but not another, how will the measure operate?
- How will HMRC identify cases where a taxpayer is actively seeking a TTP arrangement, but it has not yet been formally agreed?
- Will engagement in relation to one tax regime be recognised when considering debts arising in another?

Given that the policy objective is to target persistent non-engagement, HMRC should ensure that taxpayers who are actively engaging are not inadvertently brought within scope.

Clear rules are needed to ensure that direct deductions are paused while a taxpayer is seeking to agree, or has applied for, a payment arrangement such as TTP.

Death and insolvency

We agree that deceased and insolvent customers should remain outside the scope of the measure.

HMRC should give further consideration to taxpayers whose affairs are actively managed by another person, such as under a Power of Attorney. Communications relating to the proposed measure should be sent both to the taxpayer and, where appropriate, to the individual authorised to act on their behalf. Otherwise, there is a risk that important correspondence may not come to the attention of the person responsible for managing the taxpayer's affairs.

Communication and perceptions

The Consultation focuses on lower value debts and introduces a new enforcement mechanism aimed at individuals and smaller businesses. Although we recognise that HMRC already has alternative enforcement routes available for larger debts, careful communication will be needed to avoid creating a perception that HMRC is focusing enforcement activity primarily on taxpayers on lower incomes with debts below the proposed upper debt value limits s.

Time to Pay arrangements

We believe HMRC should use this Consultation as an opportunity to promote TTP and review and make improvements to current processes.

Feedback from our members suggests that while shorter-term TTP arrangements can often be agreed relatively easily, the process can become more complex where a taxpayer requires a longer repayment period. In some cases taxpayers perceive that they are being encouraged to consider commercial borrowing as an alternative.

This may not always be the most appropriate outcome, particularly where a taxpayer is otherwise willing to engage and able to pay the debt over a longer period through instalments.

We encourage HMRC to consider whether there are opportunities to reduce barriers to entering TTP arrangements and extend the circumstances in which longer repayment periods can be agreed. Greater promotion of TTP could also reduce the number of taxpayers who find themselves in the position of being potentially in scope of the new powers.

5.3 **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?**

5.4 We do not believe that sufficient evidence has been provided to comment fully on the proposed upper debt value limits of £5,000 for individuals and £10,000 for companies.

The Consultation states that approximately 750,000 lower value debts, worth over £2 billion, are returned to HMRC each year. However, little information has been provided regarding the distribution of those debts. We therefore encourage HMRC to publish further analysis showing how debts are distributed.

We are particularly interested in understanding how the proposed £5,000 upper debt value limits for individuals was determined. The Consultation states that the average debt owed by individuals, under the £5,000 upper debt value limit, is approximately £950. Based on the information currently available, £5,000 appears relatively high when compared with the average debt that the measure is intended to address.

Whilst we are not currently in a position to recommend an alternative upper debt value limit with confidence, the limited evidence provided suggests that a lower upper limit may be more appropriate.

One possible starting point would be to consider the existing DRD conditions. DRD can only apply where the taxpayer owes tax debts totalling £1,000 or more, which HMRC has been chasing by post and by telephone. Applying a upper debt value limit of less than £1,000 would ensure that taxpayers cannot fall within both the new measure and DRD. This would provide greater certainty across HMRC's debt recovery powers and may reduce the risk of taxpayer confusion. We recommend that HMRC reviews the rationale for the existing DRD threshold and considers whether the evidence used to establish that limit might help inform the appropriate upper limits for this new measure.

We recognise that the higher upper limit of £10,000 for companies is intended to reflect the fact that companies may be subject to multiple taxes, such as Corporation Tax, PAYE and VAT. However, similar considerations may also apply to sole traders and other unincorporated businesses. We also note that the policy is presented as targeting lower value debts, and a upper debt value limits of £10,000 appears relatively high when viewed in that context.

Interaction with multiple debts

We are concerned about the practical operation of the proposed upper limits where liabilities come within scope of the new measure at different points in time.

For example, a taxpayer may receive a PDN in respect of one debt that satisfies all eligibility conditions. Whilst that process is ongoing, a further debt may exhaust HMRC’s standard collection processes and become eligible for inclusion within the new measure.

This creates uncertainty regarding:

- Whether a second PDN would be issued;

- Whether the debts would be treated separately or combined;
- How the £5,000/£10,000 upper limits would be applied; and
- Whether affordability would be reassessed.

We believe that only one active PDN and deduction arrangement should be in place for a taxpayer at any given time. This would provide greater certainty for taxpayers, agents and HMRC.

Further consideration should be given as to whether an existing PDN or deduction arrangement can be amended to take account of additional debts. Ultimately, whatever approach is adopted, we believe the total combined debt subject to the new measure should not exceed the relevant upper limits. It will be essential that HMRC is consistent in its approach, as this will be a key area of confusion and dispute.

Where a customer's total debt starts to exceed the upper limit, we believe HMRC should instead consider whether alternative recovery routes would be more appropriate.

Companies, groups and other structures

We also recommend that the upper debt value limits are applied by reference to the individual taxpayer or legal entity that owes the debt.

The Consultation proposes separate upper limits for individuals and companies, which suggests that eligibility is intended to be assessed at the level of the relevant taxpayer rather than across wider corporate groups or connected parties. Given that the measure already requires debts across multiple taxes to be considered, we believe this is the most practical and straightforward approach.

Attempting to aggregate liabilities across groups of companies, LLPs or other structures would add significant complexity and increase the risk of errors and disputes regarding whether a debt falls within scope of the new measure. The final rules should provide a clear and objective test based on the taxpayer against whom the debt is enforceable.

6 Safeguards: Protecting customers who require extra support

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

6.2 We welcome HMRC's acknowledgement that appropriate safeguards will be essential to ensure vulnerable customers are not adversely affected by the proposed measure. We also support the principle that, where indicators of vulnerability or support needs are identified, automation should pause immediately and the case should be subjected to manual review.

Distinguishing deliberate non-engagement from inability to engage

A key issue under the proposal is that HMRC may not be able to distinguish between taxpayers who deliberately choose not to engage and those who are unable to engage due to vulnerability, ill health, accessibility needs or financial distress.

Consider four taxpayers who all ignore HMRC correspondence:

- Person A has substantial savings and simply chooses not to pay.
- Person B suffers from severe depression and is unable to deal with correspondence.
- Person C has dementia and does not understand the communications received.

- Person D is experiencing significant financial difficulties and avoids contact with all creditors.

From HMRC's perspective, all four taxpayers may appear to be "persistent non-engagers". However, the appropriate HMRC communication and contact needs in each case may be very different.

More broadly, we consider that customers reaching the end of the debt management process are likely to fall into at least four groups:

- Those who have deliberately avoided communication.
- Those who have received communications, understood them and consciously chosen not to engage or pay.
- Those who have received communications but have not engaged because of vulnerability, illness, bereavement, financial distress or other personal circumstances.
- Those who have not received communications due to, for example, incorrect contact information.

The policy is a new measure intended to target the first and second groups. However, it is currently less clear how HMRC intends to distinguish these customers from the third and fourth groups.

We support HMRC exploring using additional data to identify extra support needs, subject to any legal restrictions. It should also be recognised that extra support needs may change over time and can be short term or long term in nature, which may require regular assessments to be carried out by HMRC.

Learning from Direct Recovery of Debts

The Consultation differs significantly from the existing DRD regime, under which face-to-face contact plays an important role in identifying vulnerability.

HMRC's 2019 Review of the DRD intervention[4] reported that 42 vulnerable taxpayers were identified through the DRD process. Of these, 29 were identified through face-to-face visits and a further 13 through telephone contact.

Whilst the total number of vulnerable customers identified was relatively small, the review nevertheless demonstrates the importance of personal contact in identifying individuals who require additional support, with 69% being identified through a face-to-face visit.

We therefore recommend that HMRC undertakes a detailed review of the DRD evidence before implementing this measure. In particular, HMRC should consider:

- What characteristics were shared by the vulnerable customers identified through DRD;
- Which safeguards were most effective at identifying vulnerability;
- Whether similar outcomes can be achieved without face-to-face contact; and
- What alternative safeguards could be introduced where face-to-face contact is not proportionate or possible.

We recognise that mandatory face-to-face contact would be disproportionate for lower value debts targeted by this measure. However, this creates a greater need for robust evidence that a taxpayer has genuinely chosen not to engage before entering the proposed automated process.

[4] https://www.gov.uk/government/publications/direct-recovery-of-debts-intervention-review/review-of-the-direct-debt-recovery-intervention

We are concerned that many of the safeguards outlined in the Consultation rely on the taxpayer proactively contacting HMRC.

The Consultation places significant weight on the number of communications sent and attempted by HMRC or Debt Collection Agencies. However, multiple communication attempts do not necessarily demonstrate that a taxpayer has received the communications or understood the consequences of failing to respond.

We therefore recommend that HMRC considers introducing a 'confirmed contact' safeguard before a customer enters the automated deduction process. Where reasonably practical, some form of verified contact should be established before the proposed power can be used. This could include:

- Acknowledgement of a communication through a Personal Tax Account or Business Tax Account (this could be tied into the Digitising Post Programme, discussed in our response to Question 1);
- Successful telephone contact;
- Engagement through an authorised agent, whilst recognising that the agent is not responsible for the payment of the tax debt;
- Evidence that digital communications have been accessed;
- Cross-government data sources where legally permissible; and
- Mechanisms which provide confirmation that communications have been received, including, the use of recorded delivery or requiring a signature receipt.

We believe that where HMRC has been unable to establish any 'confirmed contact' with a taxpayer, this should itself be treated as a potential indicator that additional support or manual intervention may be required.

The Digitising Post Programme may provide opportunities to better evidence taxpayer engagement and help distinguish between customers who are choosing not to engage and those who have simply not received communications.

6.3 **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?**

6.4 One option that HMRC could explore is allowing taxpayers to proactively notify HMRC of vulnerability, accessibility needs or support requirements through their Personal Tax Account or Business Tax Account. Consideration could also be given to incorporating questions regarding accessibility and support needs into relevant registration and sign-up processes.

For example, a taxpayer suffering from severe depression, anxiety or other health conditions may find it difficult to contact HMRC by telephone but may be more willing or able to provide information through a digital service. Providing a simple mechanism for taxpayers to notify HMRC of support needs could help reduce barriers to engagement and improve HMRC's ability to identify customers who may require additional safeguards.

Any such notification should not automatically determine eligibility for support. However, it could act as an indicator requiring manual review and prevent a customer entering an automated process until their circumstances have been considered. HMRC would also need to consider how such information could be appropriately recorded, maintained, periodically reviewed and shared across departments.

More generally, we believe that the absence of confirmed contact should itself be treated as a potential risk indicator (see Question 6).

7 Safeguards: Assessing affordability

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

7.2 We agree that affordability should be a central consideration within the proposed measure. We also recognise the practical difficulties HMRC faces in assessing affordability where a taxpayer has not engaged and therefore cannot provide the income and expenditure information normally used to agree a TTP arrangement.

Credit Reference Agency (CRA) data

To assess the usefulness of CRA data in this context, we recommend that HMRC undertakes testing to compare CRA affordability indicators against outcomes in existing TTP arrangements. For example, HMRC could assess whether affordability indicators derived from CRA data would have produced payment plans broadly consistent with those ultimately agreed through direct engagement with taxpayers.

Such analysis would assist HMRC in understanding both the strengths and limitations of CRA data and help identify circumstances where additional information or safeguards may be required.

It is also important that the use of CRA data does not adversely affect a taxpayer's credit rating or future access to finance.

Affordability assessment

The Consultation states that HMRC is considering applying the same broad affordability principle used for TTP arrangements, including that no more than 50% of a customer's disposable income should be used to repay debt. However, the Consultation also acknowledges that HMRC may not have access to the information normally required to identify a taxpayer's disposable income.

Whilst HMRC may hold useful information regarding income, profits or turnover, this information alone may not provide an accurate picture of affordability. It will not necessarily reflect current expenditure, responsibilities, changing family circumstances, other debts or recent changes in financial position. This would suggest that a different measure of affordability will be required.

Building in flexibility within the instalment plan

We support HMRC's consideration of flexibility within instalment arrangements.

A taxpayer's circumstances can change significantly during the life of an instalment plan. We suggest that affordability assessments are not treated as a one-off exercise. Instead, HMRC should build review mechanisms into the process so that changing circumstances can be identified and considered.

Examples of indicators that may warrant review include:

- Repeated failed deductions;
- Significant changes in CRA affordability indicators;
- Evidence of increasing reliance on overdraft facilities; and
- Information provided by taxpayers, agents or other HMRC teams.

Where such indicators arise, continued automated collection may no longer be appropriate and the case should be reviewed manually.

Protected minimum balance

We are concerned that the proposals do not include a protected minimum balance.

Whilst we recognise that affordability assessments are intended to determine an appropriate instalment amount, those assessments are based on historic and estimated information and cannot fully reflect future changes in a taxpayer's circumstances.

A protected minimum balance provides an additional safeguard against hardship and helps reduce the impact of affordability assessments that later prove to be inaccurate.

We note that the existing DRD regime contains a statutory safeguarded amount. We do not believe that the safeguarded amount used for DRD should be replicated directly, given the instalment based nature of this proposal. However, we believe that a lower protected minimum balance is necessary.

Overdrafts and borrowing

We do not believe deductions should be capable of placing a customer into an overdraft or increasing an existing borrowing position.

Allowing deductions to rely on overdraft facilities could create cash-flow difficulties, increase borrowing costs and potentially affect a taxpayer's future ability to obtain finance. Any affordability methodology should therefore be based on available funds rather than available borrowing capacity.

The Consultation would benefit from further explanation of how deductions will operate where an account has insufficient funds. In particular, HMRC should clarify whether deductions could result in an arranged overdraft being utilised, increase an existing borrowing position or trigger bank charges.

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

7.4 Given the nature of the proposed measure, we recognise that no automated affordability assessment will be capable of perfectly reflecting a taxpayer's individual circumstances. It will be important for HMRC to use multiple data points and have clear escalation criteria to take a taxpayer out of the automated process where there are indicators that there are affordability issues.

Finally, we recommend that HMRC undertakes extensive testing of any affordability methodology before implementation. The test and learn phase should compare predicted affordability outcomes against actual customer behaviour and TTP outcomes to ensure that the methodology produces reasonable and proportionate repayment arrangements.

8 Objections and appeals

8.1 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?

8.2 We agree with the proposed objection and appeal process, particularly the proposal that the right to object should remain available throughout the duration of the instalment plan and that deductions should be paused whilst an objection is being considered.

Given that the proposed measure may operate over an extended period, a customer's circumstances may change after the deductions have commenced. Maintaining the right to object throughout the life of the instalment plan is therefore an important safeguard. We also welcome the proposal that non-debtor joint account holders should be entitled to object where deductions are made from a joint account.

Variation requests and engagement after entry into the process

We recommend that HMRC introduces a mechanism allowing taxpayers to request reasonable variations to a deduction arrangement without having to pursue a formal objection.

The policy is intended to apply to taxpayers who have persistently failed to engage with HMRC. However, entering the process may itself prompt engagement. A taxpayer may subsequently contact HMRC to explain their circumstances, request a different payment schedule, propose an alternative means of settling the debt or seek to enter into a TTP arrangement.

In such circumstances, HMRC should have a clear process for considering reasonable requests to vary or replace a deduction arrangement. Not every issue will warrant a formal objection and a more flexible approach may improve outcomes for both taxpayers and HMRC.

Objections and appeals

We broadly agree with the proposed grounds for objection. However, we believe that the grounds for objection should be sufficiently broad to allow taxpayers to challenge both the underlying application of the power and circumstances which arise after the arrangement has commenced. The appeals process should have sufficient flexibility to enable a taxpayer to appoint an agent (where unrepresented) or appoint a new agent, where that will allow the objection or appeal to be correctly resolved.

We are concerned that proceeding directly from an internal review to a tribunal or court appeal may be disproportionate given the relatively low value debts that this measure is intended to address.

We recommend that HMRC considers offering a further independent review stage before a matter proceeds to external appeal. This may help resolve disputes more quickly and at lower cost for both taxpayers and HMRC.

Joint accounts

We have significant concerns regarding the treatment of joint accounts.

Whilst we welcome the proposal that non-debtor joint account holders will have the same right to object as the debtor, we do not believe that this safeguard alone fully addresses the risks involved. We also have concerns over how the joint account holder will be identified and the potential scope for errors.

We believe that joint accounts should be excluded entirely unless HMRC can demonstrate that the relevant funds belong to the debtor

If joint accounts are included, we recommend that HMRC adopts safeguards similar to those used under the existing DRD regime, including notification rights for non-debtor account holders and appropriate recognition that some or all of the funds held in a joint account may belong to another person.

There are also practical issues regarding confidentiality and communication. HMRC will need to ensure that non-debtor account holders are given sufficient information to understand their rights and exercise their right to object, whilst maintaining confidentiality.

Interaction with Direct Recovery of Debts (DRD)

HMRC should ensure there is clear legislation and guidance covering the interaction between this measure and existing DRD powers.

A single liability should not be simultaneously pursued through multiple direct recovery mechanisms and taxpayers should be able to clearly identify which liabilities are subject to which recovery processes.

HMRC errors and overpayments

We welcome HMRC's intention to provide a remedy process where deductions have been taken incorrectly. However, further clarity is needed regarding what is meant by resolving cases "promptly".

Where deductions are made in error, affected taxpayers should be able to contact a specialist team directly. There also needs to be a process to address where deductions have been taken from an incorrect bank account. Given that deductions will have been taken directly from a customer's bank account, any repayment resulting from an HMRC error, incorrect affordability assessment or over-collection should be made using the fastest available repayment method.

HMRC should also consider the wider consequences of errors. Taxpayers may incur overdraft charges, experience cash-flow difficulties, miss payments to suppliers or suffer other financial consequences as a result of an incorrect deduction.

Complaints process

We agree that it is generally appropriate for complaints arising from this measure to be dealt with through HMRC's existing complaints framework.

However, given the nature of the proposed power and the potential financial consequences of deductions being taken directly from a customer's bank account, we recommend that complaints relating to this measure are handled by appropriately trained staff with access to specialist debt management teams.

We would also encourage HMRC to ensure that complaints identifying potential errors in the operation of the regime are escalated quickly.

Finally, HMRC should publish clear service standards for the handling of objections, complaints, repayments and correction of errors so that taxpayers and advisers understand the timescales within which issues can be expected to be resolved.

9 Contact details

9.1 We would be pleased to join in any discussion relating to this Consultation. Should you wish to discuss any aspect of this response, please contact us at atttechnical@att.org.uk.

The Association of Taxation Technicians

10 Note

10.1 The Association is a charity and the leading professional body for those providing UK tax compliance services. Our primary charitable objective is to promote education and the study of tax administration and practice. One of our key aims is to provide an appropriate qualification for individuals who undertake tax compliance work. Drawing on our members' practical experience and knowledge, we contribute to Consultations on the development of the UK tax system and seek to ensure that, for the general public, it is workable and as fair as possible.

Our members are qualified by examination and practical experience. They commit to the highest standards of professional conduct and ensure that their tax knowledge is constantly kept up to date. Members may be found in private practice, commerce and industry, government and academia.

The Association has more than 10,000 members and Fellows together with over 7,000 students. Members and Fellows use the practising title of 'Taxation Technician' or ‘Taxation Technician (Fellow)’ and the designatory letters 'ATT' and 'ATT (Fellow)' respectively.