Cabinet Office review of government debt management

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LITRG outlines its response to a recent call for evidence on government debt management.

The Cabinet Office recently published a call for evidence entitled ‘Fairness in government debt management’ (tinyurl.com/yxthzvvz). This was issued against the backdrop of the pandemic and represents the first step in the government considering how best to support people who have debts to government but who are vulnerable or facing financial hardship. The intention is to work together with interested parties to ‘build a fair, ethical and compassionate approach to debt management that focuses on getting people out of debt, not on getting debt out of people’.

LITRG’s response (www.litrg.org.uk/ref390) highlights practical issues regarding HMRC’s approach to debt collection and offers case study evidence of the effect on taxpayers.

One of the biggest criticisms of HMRC’s debt collection processes is its failure to check that the debt is correctly due before commencing collection action. Often when dealing with vulnerable taxpayers where apparent debts have been outstanding for some time, there are grounds to reduce or extinguish the debt which have not been explored. We give examples of this in our response, kindly provided by TaxAid.

One of the main reasons for this is the historic separation of duties between the tax side of HMRC (who calculate the amount of tax bills, issue penalty notices, etc) and the collection side (who receive information as to the amount outstanding and do not automatically receive details of how it has been calculated). We highlight this in our response and urge the Debt Management teams within HMRC to take greater

responsibility for the accuracy of the debt, including making sure any possible claims for mitigation have been considered (for example, reasonable excuse claims in respect of penalties, or claims for special relief).

As the financial effect of the coronavirus pandemic becomes evident, it is clear that meeting the self-assessment tax payments due in January 2021 is going to be very hard for many individuals and small businesses. We therefore called for HMRC to be flexible around both recovery of tax and tax credit debt and around payment options to continue. As such, the Chancellor's announcement on 24 September to allow online applications for 12 month time to pay arrangements in respect of the January 2021 payments was very welcome.

Other points discussed in our response include:

- a call to publish a formal code of practice to ensure consistency across government departments;
- the use of a standard affordability calculator when considering repayments for all government debts;
- easy access to information about debts for voluntary sector advisers, such as tax charities, welfare rights advisers and money advisers, so they can advocate effectively on behalf of debtors; and
- making better use of a self-serve option to arrange 'time to pay' agreements, such as an online tool.

We understand that the responses to the call for evidence will be published towards the end of this year with legislation possibly being introduced in Spring 2021.