# Modernising tax debt collection from non-paying businesses: HMRC call for evidence: CIOT and LITRG response

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The CIOT and LITRG have recently responded to HMRC's call for evidence which looked at modernising tax debt collection from non-paying businesses.

The call for evidence considered how HMRC can modernise its collection of tax debts to reflect the changing nature of the UK economy and new business practices, including businesses which operate in the UK without having a presence or physical assets here. It also sought views on HMRC’s approach to what appears to be the small minority of taxpayers who can afford to pay tax but do not engage with HMRC and hold off paying for as long as they can, forcing HMRC to resort to costly and time-consuming enforcement action.

The CIOT welcomed HMRC’s early-stage evidence gathering through the call for evidence. We said that, based on the evidence gathered, we would expect to see further consultation before any specific measures are announced. Our impression from reading the call for evidence is that there is little actual evidence of abuse and that, in the small minority of cases where intentional non-payment is evident, the answer is for HMRC to use their existing powers more fully. So, for example, if a business chooses not to pay, HMRC could use Direct Recovery of Debts (introduced in 2014), take control of goods or use security deposits.

While it is not clear to us that any extension of HMRC’s powers is necessary to target this small minority of businesses, if the evidence supports an extension, any new or extended powers must be subject to appropriate safeguards and oversight. An appendix to our response set out ten principles against which the CIOT considers HMRC’s use of its powers, sanctions and safeguards (and any proposed powers,

sanctions and safeguards) should be measured.

To help establish the level of tax debt that is outstanding and from which businesses, we suggested that HMRC should improve their IT systems so they are updated across the board as soon as the taxpayer has made their tax payment or agreed a Time to Pay arrangement. There are too many examples of people having paid or agreed time to pay but still being chased for the money, because HMRC's systems do not appear to be joined up, or are not updated in real time.

We noted that the new VAT penalty regime that is being introduced in January 2023, and extended to income tax in 2024 and 2025, may encourage more timely payment of taxes. We recommend that the impact of the new regime is appraised before making any further changes to HMRC's debt recovery powers.

In response to HMRC's question about how agents might play a greater role in helping their clients to engage with and pay tax due to HMRC, we pointed out that if a taxpayer has engaged an agent to look after their tax affairs, that adviser should already be informing them about their tax liabilities and the timing of payments, including late payment penalties and interest, as part of their compliance services. However, an adviser is not responsible for ensuring that their client actually pays the tax due. We also highlighted some difficulties agents can encounter engaging with HMRC where their client does want them to help them with tax debt issues.

LITRG's response concentrated on the part of the call for evidence relating to how collection of debt from non-paying businesses could be improved. We reminded HMRC that when a debt is not being settled and there is no engagement from the taxpayer, this could be indicative of there being underlying issues. For example, there may be barriers such as mental health conditions, a lack of numeracy or literacy skills, or a lack of understanding if English is not the person's first language. We recommended HMRC proceed with caution and with a greater awareness of what might be causing delay when pursuing collection of these debts.

We also advised HMRC that sometimes an apparent 'won't pay' case will be in that position because they do not agree that the debt is due but are unable to successfully dispute the quantum of the debt with HMRC as they simply do not know how to do this. In our view, HMRC's debt recovery staff need to be better able to deal with taxpayer queries about the cause or amount of the debt and should be aware of the options available to rectify incorrect debts at a relatively late stage, for

example by making late appeals and submitting late tax returns.

We also recommended that HMRC carry out specific research to better understand why some debtors tend to pay when enforcement action is either begun or threatened. We suggested that HMRC make their Voluntary Sector Taxes Resolution Service more widely available in the voluntary sector community to aid advocacy on behalf of debtors by specialists such as money advisers.

The CIOT's response is available here: www.tax.org.uk/ref891

The LITRG response is available here: www.litrg.org.uk/ref2614