HM Revenue & Customs

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BY EMAIL ONLY

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Dear Dame Meg,

REPORT ON HMRC'S MANAGEMENT OF TAX DEBT

Below is an update on recommendations four and five from the Committee's report of 21 March 2022.

Segmentation and analytics

Over the last few years, we have been improving our segmentation of customers to give them a journey more tailored to their circumstances. Prior to this, all customers with debts for the same tax experienced broadly the same set of standard interventions, usually a series of letters containing escalating messages encouraging them to pay or contact us to discuss their circumstances and describing what action we will take if they do not do so. Tailoring our responses increases payments and the speed at which tax debts are resolved as we are giving the customer the information they need at the time they need it.

In 2023, we will be moving to six customer segments, each with their own tailored journeys across the four main tax regimes. These segments are based on ability and propensity to pay.

Ability to pay

During the pandemic, we developed the COVID impact score which assessed how much we thought a customer's ability to pay was impacted by the pandemic. We looked at their VAT and PAYE returns, and whether they had claimed government support, and compared this to a pre-pandemic baseline.

This was successful at highlighting the extent to which customers were impacted by the pandemic. As expected, those who we assessed as less impacted had higher payment rates than those who we assessed as more impacted.

We are replacing the COVID impact score with new and enduring ability to pay analytics. We are prioritising the implementation of ability to pay analytics for businesses, which we expect to go live early next year, as they account for a greater proportion of tax receipts and debts than non-business customers. The ability to pay analytics for non-business customers will be implemented later in 2023.

There are some externally available datasets that would enhance our ability to pay analytics. One example is credit reference agency (CRA) data, which has information we do not hold about assets and other, non-tax, liabilities. We recently piloted the use of such data (see below).

We will continually review and refine our ability to pay analytics and seek further data where it is cost effective in leading to an improvement in the accuracy of our segmentation.

Piloting private sector CRA data

We wanted to test whether additional data from CRAs would improve our assessment of ability to pay.

We obtained data from a CRA for 10,000 individuals with a Self Assessment debt of over £350. This data contained financial information such as credit card characteristics and missed mortgage payments.

Using the CRA data, in combination with our own internal data, has improved the accuracy and precision of our ability to pay analytics compared with just using our internal data. A big benefit was around the number of individuals we were estimating as having a high ability to pay. The CRA data was useful at showing those with no other liabilities or a good record of paying other liabilities.

We are still assessing whether the improvement is of sufficient value compared to the cost of purchasing, storing and using the data, particularly when compared to the return on other forms of investment across HMRC.

We also intend to obtain additional CRA data about small and medium-sized companies, to assess whether it improves our ability to pay analytics for businesses.

Propensity to pay

We have developed propensity to pay analytics which looks at customers' past payment behaviour to assess their likelihood of paying their tax debt in future.

As this is based on past behaviour, we only need to use our internal data to assess this.

When combined with ability to pay analytics, this gives a much more rounded and accurate picture of the customer's position and likely behaviour. For example, we can identify customers who we think have low ability to pay but will likely want to engage with us and we can target them earlier with the offer of a Time to Pay instalment arrangement.

Sector

When developing our segmentation approach during the pandemic, we considered including sectoral data. We concluded it was not a good or reliable proxy for a customer's circumstances compared with looking at their individual turnover and payroll changes.

This is partly because the impact of the pandemic within sectors was so varied depending on the relative strengths of the businesses. For example, in the retail sector some businesses had to close due to public health restrictions which sharply affected their cashflow. Some businesses successfully pivoted to online ordering and home delivery, so they did not see the same impact to their cashflow and some actually improved sales during the pandemic.

Looking at sectors can also fail to acknowledge impacts on ancillary businesses working in a different sector. For example, the airline industry includes a wide variety of supporting businesses. Airlines were clearly impacted by the pandemic but a focus on that sector would have failed to pick up the impact on the caterers, airport retailers, fuel suppliers and transport providers that form part of a wider, and equally impacted ecosystem.

We have reviewed the use of sector again more recently, and again the findings suggest this information provides little benefit in understanding an individual business's ability to pay. This is partly because the Standard Industrial Classification sector codes are very broadly drawn; the Office of National Statistics uses twenty sectors to cover the entire economy. While there is much more granular sub-sector data, we've found that this data tends to have more misclassification and businesses will often operate in more than one of these sub sectors.

<u>Cross-government data sharing</u>

We recognise that data held across government can be useful in assessing customers' ability to pay, and we routinely use data from other government departments and agencies such as Companies' House. However, HMRC already has rich, contemporaneous data and we need to balance the costs of obtaining, storing and analysing new datasets against its value in improving our segmentation.

We share data, often via the gateway in the Digital Economy Act, with other government departments to help them with their segmentation. We have also been involved in a pilot to identify customers with debts across multiple departments, including local authorities.

We have obtained the data on the pandemic loan schemes from the Business Energy and Industrial Strategy (BEIS), which we are starting to incorporate in our analysis. We are too early in our analysis to draw any conclusions about users of BEIS pandemic loans schemes and their ability to pay their tax liabilities.

Yours sincerely

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