HM Revenue & Customs

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Dame Meg Hillier
Chair, Public Accounts Committee

By email only

30 November 2022

Dear Chair

Thank you for your letter of 3 November 2022. The responses to your queries are enclosed below.

<u>Recommendation 1</u>

It is not feasible to provide meaningful long-term forecasts of the level of the tax debt balance in future years with confidence, not least because of the uncertainty about the output of the UK economy.

Despite clearing over 80% of the tax debt peak that built up during the pandemic, the tax debt balance grew during the first half of this financial year to £44.6 billion at 30th September 2022.

An increased level of non-payment has resulted in the flow of new debt exceeding the rate at which we are clearing debts. The main reason for the increased level of non-payment is likely to be the difficulties facing individuals and small and medium-sized enterprises paying their ongoing liabilities in the current adverse economic conditions.

We expect the tax debt balance to rise to around £49.8 billion in March 2023.

We do not maintain data to determine which year the underlying tax charges remitted or written-off relate to. We continue to monitor the levels of tax debt remitted or written-off and we do not expect overall losses to return to pre-pandemic levels in 2022-23.

A combination of factors including the moratorium on insolvency activity during the pandemic, and HMRC's prioritisation of staff onto supporting Covid schemes, resulted in a two year hiatus in remission and write off activity.

Despite resuming full scale enforcement and insolvency work in spring 2022, there is a lag before this activity crystallises as losses.

Forecasting future levels of losses is innately challenging, not least because insolvency write-offs are not solely in the control of HMRC, as outside creditors will also initiate insolvency action.

Below is a detailed table of remissions and write-offs of tax debts over the last five years expressed as a percentage of HMRC tax receipts.

Year	Remissions	Write-offs	Total Losses
2017-18	0.1%	0.6%	0.6%
2018-19	0.1%	0.6%	0.7%
2019-20	0.1%	0.6%	0.6%
2020-21	0.1%	0.3%	0.3%
2021-22	0.1%	0.3%	0.4%

As reported in the 2021-22 HMRC Annual Report and Accounts the receivables impairment rate was 28%.

Recommendation 3a + 3b

Further to our response to recommendation 3a in May 2022, we estimate that the combined VAT, Corporation Tax and PAYE losses related to phoenix fraud are in the range of £400m to £600m per year based on analysis of a three-year period covering 2017-18, 2018-19 and 2019-20. This represents 10-15% of total losses reported in the Annual Report and Accounts.

We are currently unable to produce an estimate for later years due to the impacts on company insolvencies from temporary legislation introduced by the government to support businesses and mitigate the economic impacts of Covid-19. We plan to produce further estimates in Autumn 2023 for 2020-21 and 2021-22 once the impact of Covid-19 has stabilised.

The complexity of phoenix fraud means that these estimates are very uncertain. Work is ongoing to refine and develop our estimation methodology. These initial estimates are subject to change and are intended for internal use in HMRC.

We will include our approach to phoenix fraud as part of our plans to manage the current elevated debt balance. We will provide this plan to the Committee in January 2023, and report on performance in implementing our approach to tackling phoenix fraud in future publications of our Annual Report and Accounts.

Recommendation 4

The Single Customer Account (SCA) will provide a personalised and intuitive multi-channel digital experience and will be underpinned by the Unique Customer Record (UCR) which will also enhance our understanding of the whole of a customer's tax affairs. The historic expenditure on SCA in 2021/22, outside of the Spending Review (SR) period, was £12.0m. The total estimated spend for SCA to the end of the current SR Period (March 2025) is £97m, this is a current estimate and may be subject to change.

The first iteration of the SCA will be available to customers in 2023. We will be incrementally releasing new features to make digital channels the first choice for our customers. The historic expenditure on UCR, in 2021/22, outside of the SR period was £5.9m. The total estimated spend for UCR to the end of the current SR period is £76.1m, again, this is a current estimate and may be subject to change.

Recommendation 6

Over the course of 2022 we reviewed the options available to improve the training and guidance we offer our customer-facing staff in relation to supporting vulnerable customers who are in debt. We have implemented several tools and programmes as a result, which are outlined below.

We have recently expanded our services to provide further support to customers through a new project working with the Samaritans. This partnership began at the end of September 2022 and builds on the support we already offered customers who need extra help.

Samaritans are sharing their expertise with our Extra Support Team through a series of workshops and training sessions. Staff will also be able to signpost to specialist emotional support through a dedicated Samaritans helpline.

We have collaborated with the Money and Pensions Service (MaPS) to refer customers who find themselves in financial difficulty to the Breathing Space scheme. MaPS have devised two separate training packages for staff responsible for collecting tax credit overpayments to increase their capability in assisting customers identified as vulnerable to access independent debt advice and support.

In addition to the debt management vulnerability toolkit we have worked with the Government Debt Management Function, central and local government and debt charities to improve our ability to identify and support customers who may have experienced economic abuse, through the economic abuse toolkit.

As a result of this work we will be updating our training and guidance to include how to spot signs of economic abuse and how to support these customers when they are interacting with HMRC. We will also provide our customer-facing colleagues with information on where customers can be signposted to, for advice and support.

We have also built capability further by:

- Refining the existing HMRC ‘customers who need help’ indicators by including examples. These have assisted staff in identifying customers who may need support earlier on in their customer journey.

- Developing new help cards to support both staff and managers to be empathetic with customers who may be at risk of self-harming or taking their own life. We review and refine these help cards on a regular basis.

- Strengthening the training provided to caseworkers and have refined the existing civil service wide training package on customers who need extra help.

- Consolidating all our internal guidance and learning products on customers who need extra help into one place. Work continues across HMRC to promote and raise awareness of all support and training material available to staff.

- Introducing a new referral and handover process from Customer Compliance Group (CCG) to Debt Management for extra support customers to improve the experience of customers experiencing financial hardship.

Extra support is provided to customers who require a greater level of assistance depending on their circumstances and is given whenever someone is referred to the Extra Support Team (EST). As at March 2022, the EST was supporting around 1000 customers. While this may seem low, customers showing signs of financial difficulty are supported across HMRC.

Additionally, vulnerability can be temporary, and therefore not present at the time of HMRC contact. There is no cap on the number of people who can be referred to EST and we will expand capacity in accordance with demand.

We have reviewed the independent research available around customers in vulnerable situations. This was conducted by accessing reports from organisations like Christians Against Poverty (CAP), StepChange and Money and Mental Health Policy Institute. We spoke to other public bodies such as the Driver and Vehicle Licensing Agency and Barking and Dagenham Borough Council plus debt charities like Debt Free London.

We also reviewed data on vulnerable customers that was passed to us by our Debt Collection Agency partners. All these organisations, like HMRC, rely on vulnerable people or their trained advisers to recognise and highlight vulnerability.

All these organisations also have differing definitions of vulnerability, which means that any data they can provide is neither complete, due to self-disclosure, nor comparable, due to varying definitions. We will continue to use what information is available to improve where possible.

Furthermore, we have engaged with several financial service providers and debt advice organisations with a view to exploring what more we could do with data and analytics to proactively identify customers who are in vulnerable situations or may require an enhanced level of support from HMRC. Insights such as these will allow us to place our customers into the most appropriate debt journey.

Yours sincerely

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY