Consultation Response:

HMRC Proposals to tackle lower value tax debts

Response by the Money Advice Trust

Date: August 2026

Contents

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991. Our mission is to help prevent financial difficulty and remove problem debt from people's lives.

In 2025, our National Debtline and Business Debtline advisers provided help to 189,550 people by phone and our digital advice tool, and 53,410 people by webchat, with 2.1 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2025 we delivered this free training to 646 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the HMRC proposals in relation to lower value tax debts. We appreciate that HMRC is looking at creating a number of safeguards into the process, but it is still a potentially drastic solution to the problem of non-payment.

We have a number of concerns that we have set out in our response below.

Responses to individual questions

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?

We understand the need for HMRC to recover what is termed “low value” debt as this now exceeds £2 billion a year. We appreciate that HMRC believes that there is a need for this type of enforcement in some cases where there has been “persistent non-engagement”. However, overall, we believe that this is a severe approach to debt recovery for a cohort of people which may contain a number of potentially vulnerable people who may not engage for a range of reasons, and may not be just refusing to pay. In addition, this seems potentially severe to recover relatively small debts if the average is £950 per customer.

However, if HMRC decides to proceed with the plans, then we would argue that it is vital to build robust safeguards into the process.

- We do not believe that the proposed 14-day notice period is sufficient for people to seek and obtain debt advice, legal, or accountancy advice. **28 days would be a more suitable notice period.**

- There needs to be a **properly staffed helpline** to enable people to contact HMRC immediately given the potential consequences of not doing so. This is crucial to ensure that HMRC does not continue to pursue people who have tried to engage but have been unable to get through.

- HMRC should try to take money from an **account in the person’s sole name** as a starting point. There will need to be clear rules for what HMRC will do in relation to joint bank account holders, whether deductions will continue to be made in such cases, and what will be needed to evidence whose funds are in the account. Where funds belong to both parties, how will ownership of fund be determined?

- HMRC will need to have **adequate resources to intervene and resolve any reported errors in the account or the deduction process**. There should be a clear set of guidelines put in place outlining how quickly an error should be resolved and a clear commitment that any refund will be paid within a specific timescale.

- We understand that HMRC plans a process for **objections and appeals**. This needs to be a **clear and simple process** that is added to all communications to the person and other account holders.

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

As a debt advice charity, we will leave this to the affected banks to comment on the operational or technical considerations that HMRC should take into account.

However, it will be very important to have a clear set of rules as to what happens when a payment fails and how many times HMRC may request that the deposit taker should try again to take the payment. It is also vital that there should be safeguards put in place to ensure that money is not taken from an account where there are insufficient funds, to avoid triggering bank charges.

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

As a debt advice charity, we will leave this to the deposit takers to comment on what should be put in place to ensure this process works.

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

If HMRC decides to take these proposals forward, then it makes sense to include the types of tax debts that are set out in the paper.

We would like to see HMRC conducting further consultation if government decides to apply these proposals to the remaining benefits managed by HMRC.

We would like clarification as to the situation where debt would be automatically out of scope. The paper states that where the business or individual is in formal insolvency then normal insolvency rules take precedence. However, the formal insolvency measures listed do not include a Debt Relief Order, although we would presume that this exemption would also apply where a Debt Relief Order is in place.

We very much agree that this measure should only apply to debts that are finalised, and not those that are under appeal. We also agree that the debts should only be included where standard collection processes have been exhausted.

We also agree that any customer who is already in a payment arrangement or paying their tax debt back through another enforcement process should not be subject to this process.

The key to this process working as intended as a *"measure would be to complement existing debt collection tools, rather than replace them"* would be that anyone who engages with HMRC about their debt following communications about the deductions or when deductions are ongoing will be automatically paused, and an alternative arrangement put in place.

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?

Our main issue with the proposed upper debt value limit of £5,000 for individuals is that it could lead to very high deductions. If this is recovered using a maximum number of months approach (which is suggested as 24 in the paper), then anyone with debts near the maximum would be facing deductions of approximately £200 every month. This would require an extremely high level of available income for that customer and would not be a typical available income for a National Debtline client. 46% of our clients currently have a deficit budget where their income is less than their essential outgoings.

We understand from the paper that the average debt per customer is around £950, which would make any deductions potentially more manageable.

It makes sense to add all the debts outstanding for that customer into one process, rather than treat individual multiple smaller debts separately.

For companies, the debt limit of £10,000 is likely to be excessive in many cases. This may depend upon how a company is defined. We run Business Debtline which provides advice to the self-employed and small business owners (often micro-business owners), many of whom are sole traders. For our Business Debtline clients, this would mean approximately £400 a month could be deducted from their limited company account, if HMRC set the maximum repayment time at two years. **The majority of people we help at Business Debtline are sole traders (61%) or directors (50%). In 2025, more than half (51%) of our Business Debtline clients had a negative budget, meaning their income was not enough to cover their essential expenditure.**[1]

Limited companies are registered as such with Companies House, but we are unsure if HMRC will look at the structure of a company when using this power. Our clients are often sole directors with no finance team back up who operate companies in their simplest forms. The increased upper level of debt (twice the amount for an individual) does not seem to recognise this fact, and automation could lead to potentially viable micro-businesses being unable to trade through short-term issues.

As 50% of our Business Debtline clients are directors of a limited company, then it could affect them indirectly. The deduction for company debt should only be taken from a company bank account (as the company is a separate entity and has a separate liability to the director). However, as it could affect how the limited company can pay its ongoing costs, including the director's wages, it may also indirectly have a knock-on effect on the personal finances of the director. However, if a company cannot afford to pay its tax and other commitments, then this raises questions about whether it is insolvent.

[1] Money Advice Trust (2026) Money-Advice-Trust-Annual-Report-2025.pdf

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

We agree that it is vital that there are robust safeguards in place to protect customers requiring extra support. It is going to be very difficult to identify what the support needs are for a customer that is going through this recovery process and has not engaged.

It is important that HMRC recognises that financial vulnerability has clear links with mental health and capacity issues. The lack of engagement may well be down to unrecognised vulnerabilities, and the person finding their situation overwhelming. People can experience multiple life events at once or within short periods of time, that mean multiple chronic vulnerabilities.

This makes it vital that HMRC uses positive communications to try to engage with people and suggest potential solutions that could be put in place if they do so.

It will be important that HMRC puts in place clear mechanisms to proactively identify vulnerable people. It is also key that once HMRC has identified a person in vulnerable circumstances, that they take positive steps to support them. There is no point in identifying vulnerability if there is no action as a result.

We are pleased to see the intention to use the fair debt management principles promoted by the Government Debt Management Function and the HMRC charter.

We are also pleased to see that the intention is to carry out a manual review of cases where additional support needs are identified. The system must be designed so it is straightforward to refer customers to the Extra Support Team, debt advice, and other support services. When HMRC diverts customers requiring extra help to specialist support teams, it will be key that there are sufficient resources in place to ensure people can get in touch. As we have said, there needs to be a properly staffed helpline to enable people to contact HMRC immediately given the potential consequences of not doing so. This is crucial to ensure that HMRC does not continue to pursue people who have tried to engage but have been unable to get through.

It would be useful if HMRC can confirm what the approach would be for identifying potentially vulnerable people who are a director of a limited company, where the money is owed by the limited company. The impact of vulnerability on running a small business and contacting HMRC are clear for individuals, but not for micro-businesses that are running as limited companies, with one director. The same protections need to be made available in such cases.

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?

It is vital that the Government takes a coordinated approach to data sharing across government departments. This is long overdue. A coordinated approach would help with identifying where people are in receipt of benefits via the DWP and in receipt of disability-related benefits in particular. This should act as a flag for the need for extra support and cases should be automatically paused.

Non-financial vulnerability should also be flagged by HMRC. There should be access to additional data sources from other government departments with HMRC casting as wide a net as possible. In particular, HMRC should consider local authority information such as council tax severe mental health exemptions, people being in receipt of council tax support and housing benefit. We imagine there would be difficulties in considering social services and homelessness data from local authorities or NHS data.

Other data that might indicate vulnerability could be childcare costs, pregnant or being in receipt of maternity pay, and child benefits.

The Priority Services Register (PSR) is maintained by individual energy suppliers and will contain key data about people in vulnerable circumstances.[2] Energy firms will also have knowledge of whether someone pays via a pre-payment meter. Water firms are also required to maintain a Priority Services Register which will retain similar information.[3] There is a call for a single PSR for utilities which has been under consideration for some years. This would make a central PSR simpler and more comprehensive for both users to register and to help the utilities identify people who need extra help.

There are organisations who have been set up to bridge the gap, such as the Experian Support Hub[4] and the Vulnerability Registration Service.[5] However, these a very much based on data-sharing consent by individuals.

However, we are making these suggestions with the proviso that government should always consider the balance between how consent is built into any data sharing of this nature, to ensure individuals can still protect their data.

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

We are not in favour of any measures that set a default length of payment plan as this will not take into account the household circumstances of the affected individual. There needs to be flexibility built into the plan to avoid the extreme likelihood of financial hardship occurring otherwise.

---

[2] Ofgem Join your supplier's Priority Services Register | Ofgem
[3] Ofwat Priority Services - Ofwat
[4] Support Hub - Experian
[5] The Vulnerability Registration Service (VRS)

We would greatly prefer that people are able to set up an affordable repayment plan based upon their ability to pay using the Standard Financial Statement (SFS) which is the standard used across the sector. This should be used for both individual debts and debts owed to HMRC by indiviudals via their business. It would be useful for HMRC to outline how it will assess affordabilty for limited company debts, We wonder if there is a potential to use the SFS as a framework to layer on extra information as it is obtained in situations where people do not engage. Then if they do, there is something concrete to build upon.

However, we appreciate that this will be difficult to achieve where the person has not engaged and HMRC has little information about their circumstances. We recognise HMRC's stated intention that where the individual engages, at whatever point, HMRC will be able to look at their income and outgoings and work out an affordable repayment plan.

We think there will be limited data to be obtained through credit reference information or open banking as whatever information is obtained will not be a proxy for affordability. We understand there is a potential to use credit reference data to indicate that there may be available income left over. However, this is likely to provide a **very** rough estimate that will need further investigation as to household makeup, bills and essential outgoings.

Given the likelihood of limited household financial information, we think that the protection afforded by allowing someone to keep 50% of their disposable income is going to be vital. It will go some way to alleviate the severe nature of the recovery process.

There is likely to be little or no information about the customer being enforced against. The level of protected available income may need to be i**ncreased** from 50%, particularly given the likelihood that any individual will have multiple debts, some of which will be to other government departments, and some will be to priority creditors such as rent, mortgage and council tax. In the absence of a single view of government debt, there needs to be a process in place to align prioritisation of payment.

HMRC will need to decide how it will prioritise collection of tax debts in relation to other priority arrears such as energy, council tax and housing debts and other sources of government debt. **In 2025, National Debtline clients typically had six debts, and owed a total of £9,125. 46% had a negative budget, meaning their income was not enough to cover their essential expenditure. Clients typically had credit cards, energy arrears, council tax arrears, overdrafts and water arrears**.[6]

Where people have very low disposable income or a negative budget, we do think it's helpful to set a standard default repayment length. HMRC could consider aligning with DWP direct deduction rates in such cases, although deduction rates can still be hard to pay when someone has a deficit budget. However, we recognise that this could mean debt repayments over a very long time, with interest being added automatically and the potential for new tax bills being incurred. We believe that HMRC should be able to consider debt write off under such circumstances.

[6] Money Advice Trust (2026) Money-Advice-Trust-Annual-Report-2025.pdf

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

We do not support an automated system given the likely flaws in using credit reference agencies or open banking as the basis of establishing affordability. For most people it is vital to establish both their income and their outgoings and to build up a comprehensive view of their financial circumstances and other debts. Any automated system is inevitably going to fail in providing a holistic view.

As we understand it, credit reference agencies will have a limited view of income, and only some types of credit are reported on files. Rent and utilities and council tax are not usually reported on files. This means that the outcome will not be a holistic view of someone's circumstances. Open banking is often put forward as a solution to providing more details. However, this has severe limitations. It will only generate a view of what money happens to be in that particular bank account and may allocate expenditure into misaligned categories. There may be income streams coming into other accounts, and other essential spending that is not taken into account. Open banking creates a backward-looking profile, rather than establishing what someone needs to live on going forward.

We do not think that HMRC will be able to systematically establish affordability across a high volume of cases as in our experience in debt advice, each household's circumstances are different. This means that one person could be supporting a household of five on one wage with a high mortgage and multiple debts, whilst another could have the same wage, no dependants and live with their parents.

We can only hope that the shock of the impact upon their finances will prompt people to get in touch with HMRC, and make alternative payment arrangements that they can afford. Again, it is vital that HMRC ensures it is easy to contact a specialist team at any point, to allow this to happen.

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?

The proposed approach to enable customers to lodge an objection appears reasonable. It is vital that people have the right to object to the proposed actions, and that this should extend right up to the date of the final deduction. This will act as an important safeguard in the process. We are pleased that HMRC recognises that peoples' circumstances could change at any point during the instalment plan.

The process should be clear and simple, and accessible for customers. It is right that the enforcement process should be paused when the objection is received.
In particular, there will need to be clear guidance for anyone who is not the customer, but has been affected by the deduction process, for example, a joint-account holder, so that they can also put in an objection or appeal.

We are pleased to see that HMRC are considering the most appropriate independent appeal route to use. An independent appeal process is vital to ensure fairness and proportionality.

For more information on our response, please contact:

Meg van Rooyen, Policy Lead

meg.vanrooyen@moneyadvicetrust.org

The Money Advice Trust

Tricorn House, 51-53 Hagley Rd,
Birmingham, B16 8TP

Email: policy@moneyadvicetrust.org

www.moneyadvicetrust.org