



National Audit Office

HM REVENUE & CUSTOMS
Management of Tax Debt

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SUMMARY

1 HM Revenue & Customs (the Department) collected around £450 billion in tax and National Insurance contributions from some 35 million taxpayers in 2007-08. Although most tax payments are made on time, around one third are not. The level of debt fluctuates on a daily basis. The total level of debt in the Department's Accounts at the end of 2007-08 was £25 billion. The level of debt recorded on the Department's debt management systems in March 2008 was £21.5 billion. The difference is mainly because these systems exclude some debt that is due but is paid almost immediately and there are timing differences in when debt is downloaded from the main tax systems. In this report we analyse trends in debt levels using figures from the debt management systems.

2 Of the £21.5 billion, £17.3 billion was outstanding tax, interest and penalties (3.8 per cent of total tax receipts) and the remainder was overpayments of benefits and tax credits. £16.2 billion was managed by the Department's Debt Management and Banking Directorate which spent £204 million and employed over 6,200 staff on debt management activities in 2007-08 to collect £63 billion of debt. The remaining £5.3 billion was debt managed by other business areas in the Department.

- 3 This report examines:
- The Department's performance in managing debt (Part 1)
 - How the Department manages and prioritises debts (Part 2)
 - The Department's methods for collecting debt (Part 3)
 - How it encourages taxpayers to pay on time (Part 4)
- 4 The report examines the Department's progress in response to previous NAO and Committee of Public Accounts' reports on the former Inland Revenue and HM Customs & Excise. Appendix 1 summarises progress in implementing recommendations. This report covers tax debt owed by businesses, employers and individuals across all taxes. It does not cover tax credits and benefits. The C&AG's Report on the Department's accounts examines its performance in managing tax credits. Our methodology is at Appendix 2.

Conclusions

5 The Department has improved its management of tax debt since our previous reports, so that tax debt as a proportion of net tax receipts is now lower on most taxes and the age of direct tax debt has reduced. The Department has not reduced the total level of debt as it aimed to do and, **over the last year**, debt as a proportion of net receipts and the age of debt has increased on some taxes. The number of debts has also increased over the last year by 22 per cent, from 13 million to 15.8 million. While the increases reflect how debts are recorded and an overall increase in the number of taxpayers and other trends in consumer debt, they also reflect a change in the Department's priorities to focus more on higher value debts as it seeks to manage with fewer resources. The Department has trialled various initiatives to help manage the increasing workload, including changes to local debt recovery which are in train but have yet to take effect. A more effective penalty regime could help prevent debt arising. The Department is currently consulting on proposed changes.

6 In 2007-08, the Department's Debt Management directorate collected around £310 of debt for every £1 spent, an increase of 10 per cent from 2006-07. The Department has limited information on the relative cost-effectiveness of its activities. The Department could improve the cost-effectiveness of its collection operations by using the Telephone Centre to collect VAT debt which is managed through separate systems. Automatically linking together debts owed by individual taxpayers on different taxes so they are pursued as a single debt would require investment but could save costs in the long run and help the Department pursue smaller debts which it does not prioritise at present.

7 The Department's debt:net receipts ratio is at the lower end of the range for other tax authorities we contacted, while debt it writes off as a percentage of total debt was similar or higher. The measures the Department uses to monitor its performance include some, but not all of the performance indicators used by other organisations. Its debt management approach does not yet include some features that the Committee of Public Accounts and we recommended in 2004 and which have helped other organisations improve debt management. Such features include risk profiling and customer segmentation, managing debt through a single IT system, innovative methods for communicating with customers and a more efficient telephone centre operation. These methods would require funding to implement, but could reduce collection costs and help the Department better manage the growing level of debt as it competes with other organisations in a more difficult economic environment. The Department has undertaken some developmental work and continues to review the case for deploying additional resources in these areas but does not have firm plans for implementation as other Departmental change programmes have taken higher priority within the resources available.

Recommendations

8 The Department has developmental work underway in a number of areas to improve management of debt, for example developing a risk-based approach to prioritising debts, measuring the cost-effectiveness of collection activities, using staff more flexibly and introducing communication by voicemail and text. This work takes forward previous recommendations. The funding available for debt management projects has restricted the scale and pace of changes achieved and planned. In this context we have divided our recommendations between those that can be implemented relatively easily and at low cost and those that would require greater resources but could bring significant benefits in the longer term.

Recommendations that can be implemented at lower cost

a The Department measures the average time taken overall to collect debts but not the percentage of debt by value collected within 30 or 90 days as other organisations are seeking to do. **The Department should measure how much debt is collected within these timeframes to help focus on reducing the length of time it takes to collect debt** (paragraph 1.4–1.5).

b The Department does not currently know how much tax it collects in each debt recovery activity and so cannot reliably measure the cost-effectiveness of different approaches. **The Department should measure the cost-effectiveness of different collection activities so that it can manage its resources effectively and identify opportunities to improve its processes** (paragraph 3.3).

c The Department has improved leaflets and website information to help taxpayers understand their payment obligations but some information is limited or not available. **The Department should provide clearer information on its website and in printed guidance on how to find details of payment helplines and interest charges, and the obligation on taxpayers to submit a tax return if they are sent one, even if they have no tax to pay. It should also provide clearer information on how an individual's tax has been calculated** (Figure 10, paragraph 4.4).

Recommendations requiring greater resources

d The Department generally prioritises pursuit of debt according to value rather than the likely risks of non-collection. The number of debts the Department has to manage is increasing so smaller debts are aging and will become more difficult and expensive to collect. **The Department should use information it holds on customer behaviour, with information from external sources, to build up risk profiles for each customer to prioritise and tailor debt collection action and negotiate payment arrangements. In the interim, the Department should look to prevent the build up of smaller debts and achieve more equitable treatment of taxpayers, thereby reducing the risk that compliance levels could fall if the public perceives that the Department is not actively pursuing certain debts** (paragraphs 2.3–2.5, 2.11–2.15).

e The Department manages direct and indirect tax debts on separate IT systems. It cannot automatically link the debts a taxpayer has on different taxes and pursue all debts at the same time and it has difficulty comparing performance across taxes. Nor can it currently use the automated Telephone Centre for collecting VAT debts although a pilot to explore this is planned for late 2008. The Department had a plan to introduce a single IT system but had to defer implementation because of other funding priorities. **The Department should aim to introduce a system that allows it to pursue debts more efficiently, to manage debts by customer so that debts on different taxes are linked and to compare performance across taxes. These changes could either be made progressively or through one new system** (paragraphs 2.6–2.8).

f The Telephone Centre operating system does not allow automated switching between inbound and outbound calls and so cannot automatically respond to changing volumes of inbound calls throughout the day. To address this, the Department has considered various options for managing inbound and outbound calls differently but its plans are not yet firm. **The Department should look to introduce new technology to allow greater flexibility in managing workload, increase debt collected and enable staff savings** (paragraph 3.10).

g Although the Department's Telephone Centre is open between 8am and 8pm Monday to Friday and for some hours at the weekend, staff work mainly between 9am and 5pm and weekend working is limited. Local recovery officers make most visits during office hours. The Department's research and evidence from other organisations indicates that the Department could collect debt more quickly by extending Telephone Centre opening hours and visiting more debtors outside office hours to improve contact rates. Although some downtime is necessary to update IT systems with new debt information, **the Department should look to expand debt collection work in the evenings and weekends and examine the associated costs and contractual issues involved** (paragraphs 3.10 and 3.12–3.16).

h Overseas tax administrations we visited have successfully used different enforcement powers and methods for recovering debt. **The Department should explore the benefits and risks of obtaining a power to recover tax debts from taxpayers' salaries or bank accounts without a court order, and using private debt collection agencies to recover some types of debts. Changes in powers would require changes in legislation to introduce** (paragraphs 3.20–3.25).

i The Department currently writes to customers to remind them that payment is due although it is piloting alternative communication methods. **It should introduce new methods of communicating with customers such as text, email or automated telephone messaging in line with good practice by other organisations to reduce the amount of debt arising** (paragraph 4.5).

j In response to previous recommendations, the Department has introduced further payment options, including payment by credit card and direct debit for paying in instalments. However, technology and practices of other organisations continue to advance. **The Department should explore the costs and benefits of increasing the range of payment options such as introducing autopayment by telephone with the aim of making paying tax quicker and more convenient for different customer groups** (paragraphs 4.8–4.9).