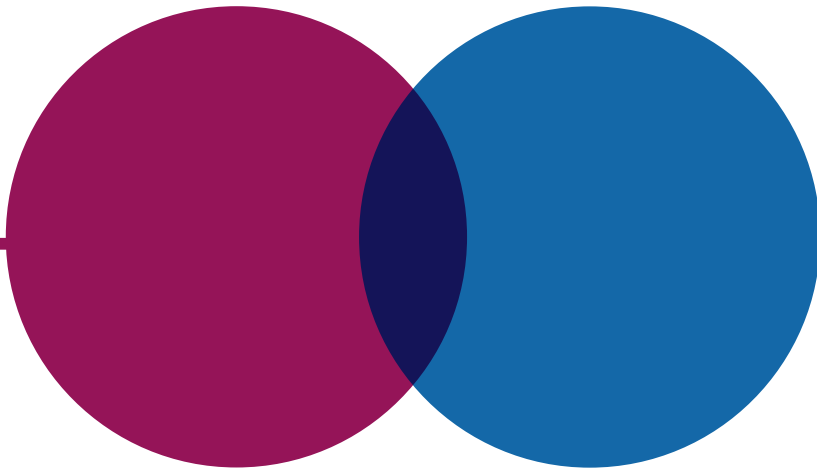




REPORT

HM Revenue & Customs' management of tax debt

HM Revenue & Customs

Key facts

The scale of tax debt owed to HM Revenue & Customs (HMRC) is significant



£43.8bn

tax debt balance
at the end of 2025-26



8.2mn

taxpayers in debt to
HMRC at the end
of 2025-26



4.7%

tax debt as a proportion
of tax receipts at the
end of 2025-26

HMRC has made good progress reducing the tax debt balance as a proportion of receipts, but it remains higher than the pre-pandemic average



Three

consecutive financial years where HMRC has
reduced the balance as a proportion of
receipts since 2022-23



2.5%

average tax debt as a proportion
of receipts before the pandemic
(2015-16 to 2019-20)

It has achieved this reduction in challenging circumstances



HMRC is dealing with more new tax debt:

£103.6bn

value of new tax debt in 2025-26,
compared with an average of £51.8bn
a year between 2015-16 and 2019-20



There is growing non-engagement from debtors:

£18.6bn

debt more than one year old and not in a payment
plan at the end of 2025-26, compared with
£5.3bn at the end of 2019-20

HMRC's strategy is delivering some results and it expects tax debt to reduce further



£10.7bn

HMRC has generated in additional revenue
through strategic measures introduced
since 2021, following investment of £368mn



2.9%–4.2%

forecast tax debt as a proportion of receipts
at the end of 2029-30

Debts are becoming older and harder to collect



51%

tax debt more than one year old
at the end of 2025-26, up from
28% at the end of 2019-20



estimated collection rate for debt:

81.5% → 15%

less than one year old

more than two years overdue

These older debts will make it challenging for HMRC to collect all debts owed to it



46%

HMRC's estimate of the tax debt owed to it
at the end of 2025-26 that it may be unable
to collect



£12.9bn

revenue losses in 2025-26, up from £4.2bn
in 2019-20

Summary

1 HM Revenue & Customs (HMRC) administers the UK's tax system. In 2025-26, HMRC collected £938.8 billion in tax, which can then be used by the government to fund public services. When taxpayers fail to make their scheduled payments for their tax liabilities, the overdue amounts are recorded as tax debts. At the end of 2025-26, 8.2 million taxpayers were in debt to HMRC, with their tax debts totalling £43.8 billion, or 4.7% of total tax receipts. HMRC's debt management directorate leads its work to follow up and collect these debts, employing approximately 5,600 full-time equivalent staff in 2025-26, with staffing costs of £237 million.

2 We last examined HMRC's management of tax debt in 2021, when the economic impact of the COVID-19 pandemic, and HMRC's decision to suspend most debt collection, had led to a large increase in the amount of tax owed to HMRC. The tax debt balance remains significantly higher than the pre-pandemic period: in the five years between 2015-16 and 2019-20, tax debt was typically around £15 billion, or 2.5% of tax receipts.

3 Since our 2021 report, HMRC has been allocated £1.3 billion of additional funding to be spent between 2021-22 and 2030-31 to, for example, recruit additional debt collection staff, increase its use of private sector debt collection agencies, purchase data from credit reference agencies (CRAs) to segment its debtor population, and introduce a new case management system. HMRC published its tax debt strategy in October 2023, and in November 2025 published an update, with a particular focus on preventing tax debt and dealing with non-engaged debtors. Since its strategy update, its stated aim has been to reduce the tax debt balance each year as a proportion of receipts. This followed a separate target set by the then Exchequer Secretary to the Treasury in July 2025 that debt must fall to at least pre-pandemic levels. The Exchequer Secretary did not set a time limit to achieve the target.

Scope of this report

4 This report examines whether HMRC is well placed to reduce the tax debt balance in line with its stated aim while managing the flow of new tax debt. It covers:

- HMRC's performance in managing the tax debt balance (Part One);
- HMRC's productivity and use of its resources to manage tax debt (Part Two); and
- HMRC's strategic approach (Part Three).

5 We designed our work to test the effectiveness and productivity of HMRC's approach, with our focus on the work of its debt management directorate. We have not examined in detail HMRC's management of debts owed to it as a result of COVID-19 support schemes or loan charge settlements, nor its response to contrived insolvencies by businesses wanting to avoid paying debts. We have not examined amounts of tax debt owed by individual taxpayers, nor whether these amounts are correct.

Key findings

HMRC's performance in managing the tax debt balance

6 HMRC has steadily reduced the tax debt balance as a proportion of tax receipts over the last three years, but not yet to pre-pandemic levels. At the end of 2025-26, tax debts totalled £43.8 billion. Between 2021-22 and 2025-26, tax receipts increased by 31%, so HMRC now focuses on the debt balance as a proportion of these receipts, rather than the cash value of the debts, as its key performance measure. The tax debt balance at the end of 2025-26 was 4.7% of tax receipts in that year, down from 5.6% in 2022-23. It peaked at 9.3% at the end of 2020-21, during the pandemic, when HMRC paused its debt enforcement activities. In the five years between 2015-16 and 2019-20, the tax debt balance averaged 2.5% of tax receipts (paragraphs 1.3 and 1.6 and Figure 2).

7 HMRC has achieved this reduction while dealing with considerably more new tax debts since the pandemic. In 2025-26, taxpayers incurred £103.6 billion of new tax debt, equivalent to 11.0% of receipts, across 22.2 million debts. This compares with an average of £51.8 billion incurred by taxpayers a year between 2015-16 and 2019-20, or 8.8% of receipts, across an average of 17 million debts. HMRC resolves nearly half of new debts within a month of being incurred, indicating that taxpayers forgetting to pay their tax bill or having short-term cashflow issues are likely key drivers of new debts. HMRC says these types of debts are largely preventable and place huge pressure on its operational capacity. Most (60%) new debts in 2025-26 were worth less than £500 and represented only 2% of the total value. HMRC contacts taxpayers about their outstanding debts, but given the volumes involved, it prioritises the largest-value debts first for its more resource-intensive approaches. To tackle some of these problems, in June 2026, the government consulted on proposals to require businesses to pay some liabilities by direct debit and to tackle lower-value tax debts by expanding the scope of its powers to directly recover debt from taxpayers' bank accounts (paragraphs 1.9 to 1.12, 1.14 and 2.16, and Figures 1 and 3).

8 Revenue losses have increased significantly since the pandemic.

HMRC hopes to resolve as much debt as possible through full payment of the debt. However, where debts are irrecoverable, often because the debtor has been declared insolvent, or where HMRC has deemed them not worth recovering relative to the costs involved, HMRC stops debt collection activity and incurs a revenue loss. In 2025-26, HMRC recorded tax losses of £12.9 billion, representing 12.7% of debt resolved by HMRC (or 1.4% of tax receipts in that year). This is up from 2.5% in 2020-21, when HMRC paused debt collection activity, and higher than in 2019-20, before the pandemic, when it was £4.2 billion, or 8.9% of resolved debt (paragraphs 1.18 to 1.20 and Figure 6).

9 Tax debts have been getting older on average and are therefore more difficult to collect, with HMRC estimating that 46% of the tax debt balance at the end of 2025-26 may not be paid. The limits on debt collection during the pandemic, and then HMRC's challenge in dealing with the level of new debts since, has meant the stock of tax debts has got older, with 51% of debts, by value, at the end of 2025-26, older than a year, compared with 28% at the end of 2019-20. As debts get older, they become more difficult, and less likely, for HMRC to collect: HMRC estimates it collects 81.5% of debts less than one year overdue, but just 15% of debts more than two years overdue. HMRC is facing increasing issues from debtors who do not engage with it, with debt older than a year and not in a payment plan increasing from £5.3 billion (28% of the tax debt balance) at the end of 2019-20 to £18.6 billion (42% of the tax debt balance) at the end of 2025-26. HMRC plans to tackle lower-value debts from non-engaged debtors by expanding its direct recovery powers, as well as placing more older debts with debt collection agencies (paragraphs 1.21 to 1.23 and Figure 1).

HMRC's productivity and use of resources

10 HMRC gets good returns from its debt management work, collecting £350 of tax debt for every £1 spent on staffing in 2025-26, though down from £459 in 2023-24 as HMRC has recruited additional staff to deal with more challenging debts.

These returns include debts paid both before and following any debt management interventions. HMRC increased its debt management workforce by 20% (920) full-time equivalent staff between 2023-24 and 2025-26, with staffing costs increasing by £61 million. HMRC collected an additional £1.8 billion of tax debt in 2025-26, compared with 2023-24, meaning each £1 spent on additional staff brought in £31 on average. HMRC says it expects return on investment to decline as it increases its workforce, as new staff tackle lower-value and harder-to-reach debts. HMRC plans to increase its debt management workforce by a further 18% by 2029-30. HMRC has also expanded its use of private sector debt collection agencies, placing 2.6 million debts with them in 2025-26, up from around 700,000 in 2020-21. These agencies brought in £34 of collected debts in 2025-26 for every £1 committed by HMRC. Given that HMRC only places debts with agencies once its own letters or calls have failed to secure payment or contact, this return represents a cost-effective way for HMRC to flexibly increase its capacity (paragraphs 2.2 to 2.4 and Figure 7).

11 HMRC tailors its approach to different debtors, which has shown some evidence of success. HMRC uses data it holds on debtors' previous behaviour, alongside data purchased from CRAs since 2023, to vary its approach according to debtors' ability and propensity to pay. In May 2023, it began rolling out different debt journeys, which set the frequency and tone of communications to taxpayers and determine when HMRC escalates action. HMRC's research into its debt journeys shows mixed results: while HMRC has estimated the purchase of CRA data has resulted in £70 million of additional benefits to date – more than 100 times the estimated cost of £623,000 – the journeys themselves have had little impact on response and repayment rates. HMRC told us that these benefits are estimated to come from it taking a firmer approach with debtors identified as having a low propensity but high ability to pay their debts. HMRC plans to use a new case management system to implement more detailed analytics and predictive modelling to tailor interventions to individual debtors rather than broad groups, which would align with Organisation for Economic Co-operation and Development (OECD) best practice. For some debts, HMRC takes a more hands-on approach. For example, a large debt team looks after debts greater than £350,000. HMRC has not analysed whether this threshold is set at an optimum level, nor whether it should take a more hands-on approach for other types of debt, with collectors more closely owning a case or monitoring particular debtors (paragraphs 2.6 to 2.9, 2.14 and 2.15).

12 HMRC's programme to replace its debt case management system is partly dependent on system transformation elsewhere and carries some significant risks to delivery. HMRC expects the new system will provide a centralised view of a taxpayer's debts, enabling quicker case handling times. HMRC expects the whole-life cost of the programme will be £272 million, which includes five years of running costs after implementation, and forecasts total benefits of at least £643 million between 2021-22 and 2029-30. HMRC has so far rolled out the system to only a small subset of tax regimes, so the bulk of transitioning processes and migrating existing debts is still to come. Some of this is dependent on system transformation in other parts of HMRC. One of the most significant risks on the programme that HMRC has needed to manage is migrating Corporation Tax debts from HMRC's ageing Corporation Tax system. HMRC says it has been managing this risk effectively and expects to have a solution in place around the start of 2028 (paragraphs 2.23 to 2.26).

13 HMRC has plans to tackle many of the inefficiencies in its debt management processes and systems, but there may be opportunities for it to go further.

Throughout our audit, we observed several inefficiencies, including debt collectors needing to work through mismatches between the data on its case management system and supporting accounting platform, and backlogs and bottlenecks in teams holding up case progression. Available data indicate the scale of some of these inefficiencies may be small, although they occurred repeatedly during our small number of case observations and may add up to a more significant impact on HMRC's productivity. HMRC told us it has established processes for identifying, assessing and prioritising process improvements and has a plan to tackle many of the inefficiencies we observed. HMRC's new debt case management system should reduce some inefficiency of staff currently navigating up to 17 systems for a straightforward case. A new system for allocating payments and, if introduced, mandatory direct debit arrangements should reduce some of the time spent correcting payments from taxpayers to the wrong tax account or payment period. These planned improvements seem reasonable but will not tackle all the inefficiency, with HMRC needing to assess the expected costs, benefits, deliverability and strategic fit of any further improvements. HMRC has currently not adopted all the best practice on payment plans indicated by the OECD, some of which could help reduce the demand on debt management staff. This includes using predictive modelling and artificial intelligence to automatically grant payment plans, developing functionality in the appropriate digital channels for taxpayers to manage their debts, and automating more of HMRC's response when taxpayers miss a payment or when they dispose of assets and may thus be able to repay more of the debt straight away (paragraphs 2.12, 2.13, 2.20, 2.21, 2.25, 2.27 and 2.28).

HMRC's strategic approach

14 HMRC estimates that it has delivered £10.7 billion of additional revenue for the Exchequer from measures introduced to manage tax debt since 2021, against spending of £368 million. This is 13% higher than it originally forecasted, driven by higher-than-expected returns from additional staff and greater use of private sector debt collection agencies. Separately, HMRC has estimated that, without interventions it introduced leading up to and as part of its tax debt strategy, tax debt at the end of 2025-26 would have been 6.0% of receipts instead of 4.7% (paragraphs 3.2 and 3.3 and Figure 9).

15 HMRC has a growing understanding of whether specific measures work, but less insight into which combination of interventions work best for which debtors.

HMRC has attempted to assess the outcomes of some operational interventions, campaigns and programmes within debt management, particularly its debt journeys. However, it only has limited evidence on the effectiveness of its enforcement tools and has not formally evaluated or embedded learning from some significant policy measures, particularly its approach to hiring and allocating new staff. It has also not evaluated the effectiveness of the overall strategy. Where HMRC has identified positive behaviour change through trials of new processes, it lacks sufficient governance to ensure it prioritises and rolls out these improvements effectively. HMRC is now developing more sophisticated evaluations, including an end-to-end analysis of how debts move through its processes, but this has not yet produced results due to issues with HMRC's IT infrastructure. HMRC has established a dedicated evaluation function and a formal evaluation framework for debt management (paragraphs 2.6, 2.8, 2.18, 2.19, 3.4 and 3.5).

16 HMRC forecasts that its strategic approach will reduce tax debt to a range between 2.9% and 4.2% of receipts by 2029-30, though this is highly sensitive to the flow of new tax debt. Within this range, its central forecast assumes that the value of new debts incurred by taxpayers will be 10.5% of tax receipts throughout the whole forecast period, equivalent to the long-term average. Between 2023-24 and 2025-26, it actually averaged 11.6%. Since it updated its strategy in 2025, HMRC has increasingly focused on preventing tax debt, targeting pre-emptive letters to taxpayers with a history of late payment, and consulting on more automated payment mechanisms. The level of new tax debt is sensitive to economic shocks: the pandemic caused it to rise to 20% of receipts in 2020-21, and the Russian invasion of Ukraine caused a smaller spike to 15% in 2022-23. A similar future shock would make it difficult for HMRC to meet even its upper-bound forecast. HMRC's forecasts indicate it will not meet the target, set by the then Exchequer Secretary to the Treasury, of reducing tax debt to the pre-pandemic level, until 2030-31 at the earliest (paragraphs 1.4 and 3.6 to 3.8, and Figures 1 and 10).

17 HMRC considers it has clear and robust arrangements to manage tax debt in a further major economic crisis, although it has not brought these together into a single plan or tested them for their completeness or suitability. Economic shocks, such as the pandemic, and their impact on the cost of living have driven new tax debt and negatively affected debtors' ability to pay back those debts. HMRC produced a document in 2023 that brings together lessons learned from managing tax debt in the pandemic, but has not maintained or updated it. HMRC considers it has strong plans in place to respond to another crisis, and could adapt guidance quickly. HMRC contributed to functional guidance published by the Government Debt Management Function (GDMF) functional centre; it says it could apply this in future crises, with many of the recommendations already embedded into its processes. However, it has not formally assessed all the processes and capabilities it would need to test its response to a future crisis (paragraphs 3.11 and 3.12).

Conclusion

18 HMRC has faced considerable challenges in recent years in managing the tax debt balance, with the pandemic and then the cost-of-living crisis leading to more tax debts and affecting taxpayers' ability to pay those debts. So HMRC should be given credit for its success in reducing tax debt from 5.6% of tax receipts in 2022-23 to 4.7% in 2025-26. A 20% increase in staff between 2023-24 and 2025-26 has been key, but HMRC has also had some success in using credit reference data to understand debtors' ability and propensity to pay, and targeting its approach accordingly. The measures it has introduced since 2021 have delivered an estimated £10.7 billion in additional revenue. HMRC aims to continue to reduce tax debt as a proportion of receipts each year and expects it will be between 2.9% and 4.2% by 2029-30. It does not expect to hit the former Exchequer Secretary to the Treasury's target of 2.5% until after this date. It has proposed policy changes in sensible areas, to help it prevent new tax debts and deal with non-engaged debtors, with debt prevention being key to driving down the debt balance sustainably and cost-effectively in the long term.

19 HMRC gets a good return on investment from its debt management work: £350 of collected debts for every £1 it spent on staff in 2025-26. Additional staff have brought diminishing returns as they are dealing with lower-value and harder-to-reach debts, so HMRC must exploit opportunities to extract more productivity from the staff that it currently has. HMRC has some improvements in train, including a new case management system, and has consulted on introducing direct debits to help eliminate payment errors. It will need further work to optimise the use of self-serve payment plans and reduce the demand on debt management staff. HMRC has some insight into the aspects of its tax debt strategy that have had the most impact, but it will need a better understanding of which interventions are best in different circumstances if it is to optimise the most productive approach.

Recommendations

- 20** To improve HMRC's management of tax debt, we recommend the following.
- a** **HMRC should take further opportunities to make the granting and management of payment plans more automated and efficient.** HMRC should explore which elements of OECD best practice would deliver improvements to its processes and assess their cost, feasibility and benefits. This includes using predictive modelling and artificial intelligence to automatically grant payment plans, developing functionality in the appropriate digital channels for taxpayers to manage their debts, and automating HMRC's response when taxpayers miss a payment or when it detects a taxpayer has disposed of assets and may thus be able to repay more of the debt straight away.
 - b** **HMRC should build upon its work to tackle the inefficiencies in its debt management processes and systems,** ensuring it takes account of all available insights on the scale and impact of inefficiencies while weighing up benefits and implementation costs.
 - c** **HMRC should do more to mitigate the key risks to delivery of its new case management system.** This should include:
 - ensuring sufficient resources are available for migrating debts to the new case management system; and
 - ensuring that contingency planning is incorporated into programme governance at key milestones for different scenarios, including if HMRC fails to find a way to migrate Corporation Tax debts onto the new system.
 - d** **HMRC should improve its understanding of what interventions work and in which circumstances, through further research and evaluation.** It should identify which interventions to prioritise for evaluation and act on findings to improve the efficiency and effectiveness of its debt management processes. This could include: ensuring that it implements quickly into its processes those interventions shown through its trials to drive positive behavioural change; ensuring that its new IT infrastructure will deliver the required functionality to enable more detailed analysis and evaluation; and undertaking more strategic-level evaluation.
 - e** **HMRC should update its plans for managing tax debt in a crisis** by collating and updating its learning from the pandemic and subsequent economic shocks, including considering how it can best meet the GDMF's functional guidance for managing debt in a crisis.