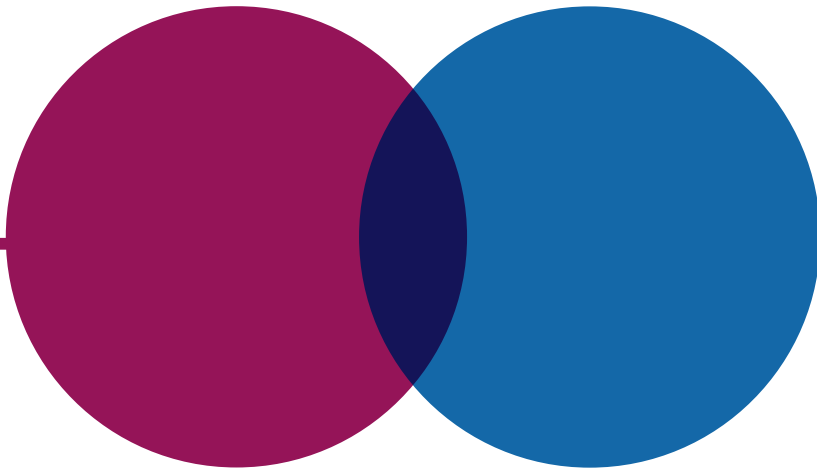




REPORT

HM Revenue & Customs' management of tax debt

HM Revenue & Customs



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National Audit Office

HM Revenue & Customs' management of tax debt

HM Revenue & Customs

Report by the Comptroller and Auditor General

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Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

15 October 2026



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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%

less than one year old

→ **15%**

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.

Part One

HM Revenue & Customs' performance in managing the tax debt balance

1.1 This part sets out trends in tax debts and HM Revenue & Customs' (HMRC's) performance in tackling them. It covers HMRC's:

- understanding of trends in the tax debt balance;
- performance in managing the flow of new tax debts; and
- performance in clearing tax debts.

Introduction

1.2 Tax debts represent tax liabilities overdue for payment to HMRC that are legally enforceable and collectable.¹ They arise when taxpayers cannot or do not pay the tax they owe in full and on time, and may arise from short-term cashflow issues, other financial difficulties, taxpayers' mistakes, or deliberate non-compliance with the rules. HMRC's debt management directorate leads its debt collection work and is responsible for following up debts with taxpayers and securing or enforcing payments when needed. Its approach is to make it as easy as possible for taxpayers who can pay to do so, support those who need help, and take effective enforcement action against those who refuse to pay or cooperate.

1.3 We last examined HMRC's management of tax debt in 2021, when the wider economic impact of the COVID-19 pandemic, and HMRC's decision to suspend most debt collection, led to a large increase in the amount of tax owed to HMRC.² We concluded that HMRC acted quickly to respond to the challenges of the pandemic, but that higher levels of debt were likely to persist, and HMRC would need to invest in more staff to meet increased demand.

¹ HMRC may apply late payment penalties, which are added to a taxpayer's outstanding liability and become part of the overall tax debt balance. HMRC also charges interest on unpaid taxes and penalties; this interest is not included in the tax debt balance, apart from interest on VAT debts.

² Comptroller and Auditor General, *Managing tax debt through the pandemic*, Session 2021-22, HC 799, National Audit Office, November 2021.

1.4 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 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 on its progress and planned actions during the Spending Review 2025 period.

Figure 1 sets out HMRC's strategy, as well as examples of previous and future activity it is undertaking. HMRC initially focused its efforts on increasing its capacity and making greater use of data. Since its update in 2025, it has increasingly focused on preventing tax debt and dealing with non-engaged debtors.

1.5 HMRC's initial strategic goal was to minimise the volume and value of tax debt, but it amended this in the 2025 update to reducing tax debt each year as a proportion of receipts. This followed a 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. We explore the impact and effectiveness of the strategy and the investment linked to it in Part Three.

Trends in the overall tax debt balance

1.6 The tax debt balance was £43.8 billion at the end of 2025-26, or 4.7% of tax receipts.³ This has been broadly stable in cash terms since 2022-23, and is lower than the £54.5 billion, or 9.3% of receipts, reported a year into the pandemic at the end of 2020-21. Tax receipts have increased considerably in recent years – by 31% between 2021-22 and 2025-26 – so HMRC focuses on debt as a proportion of these receipts, rather than the cash value of the debts, as its key performance measure. This proportion has reduced each year from 5.6% in 2022-23, meaning debt is becoming more manageable relative to the amount of tax HMRC collects. However, it remains significantly higher than the pre-pandemic level, when it averaged 2.5% of tax receipts between 2015-16 and 2019-20 (**Figure 2** on page 16).

1.7 There are now significantly more taxpayers in debt to HMRC. At the end of 2025-26, 8.2 million taxpayers were in debt to HMRC across 36 million individual tax debts, reflecting the fact that a single taxpayer often has multiple debts across different taxes. This compares with the end of 2019-20, when 6.3 million taxpayers were in debt across 25 million individual tax debts. There were around 46 million business and individual taxpayers in the UK in 2025-26, meaning more than one in six taxpayers are in debt to HMRC at any one time. HMRC does not have a complete understanding of how its debtors break down into individuals and businesses.

³ In addition to the £43.8 billion overdue tax which is collectable and enforceable, HMRC recorded an additional £11.8 billion of tax overdue for payment at the end of 2025-26 that it has deemed is uncollectable and/or unenforceable. This has increased from £3.1 billion at the end of 2020-21.

Figure 1

HM Revenue & Customs' (HMRC's) tax debt strategy at October 2026

HMRC has undertaken a range of activities, and is currently undertaking more activities, under each pillar of its strategy

Pillar of strategy	Objective of pillar	Examples of activity HMRC has undertaken	Examples of activity HMRC is currently undertaking
Preventing tax debt	To minimise the volume of tax liabilities that become a debt	HMRC has deployed targeted pre-emptive letters to business and Self Assessment taxpayers with a history of late payment. For example, it sends around 180,000 letters and 80,000 text messages to Self Assessment taxpayers a year. HMRC introduced open banking payments in 2021, enabling taxpayers to pay their liabilities directly from banking apps.	The government launched consultations in June 2026 on proposals to require businesses to pay Pay As You Earn and VAT liabilities by direct debit, and requiring Income Tax Self Assessment taxpayers to pay more liabilities in-year.
Tailoring interventions	To apply the most appropriate intervention to a particular debt and customer at the right time	HMRC now uses credit reference agency data to understand debtors' ability and propensity to pay, and has started tailoring debt journeys on this basis. HMRC resumed the use of Direct Recovery of Debt powers from April 2026, which enable it to recover debts directly from debtors' bank accounts, for debts above £1,000 and leaving a minimum of £5,000 in debtors' accounts.	The government launched a consultation in June 2026 on proposals to tackle lower value tax debts by enabling automated recovery of debts from debtors' accounts in affordable instalments.
Effective and efficient resolution	To make sure HMRC's process for resolving tax debts is as efficient and effective as possible	HMRC has increased its debt management workforce by 20% since 2023-24. HMRC has increased its use of private sector debt collection agencies to further increase its capacity.	HMRC has plans to increase its debt management workforce further, by 18% by 2029-30, and is now placing older tax debts with debt collection agencies following a successful trial in 2025.
Being adaptable	To adapt to fluctuations in debt volume and changing priorities	HMRC has rolled out self-serve online payment plans for a range of taxes, which offer more flexibility for debtors and could enable HMRC to adapt its approach quickly in the future. HMRC has re-platformed self-serve payment plans for Self Assessment debts, which has reduced the proportion of cases requiring manual intervention and expanded the eligibility criteria for self-serve plans to include debts older than 60 days.	HMRC is developing a new debt case management system which will enable it to better support debtors and respond to changing economic conditions.

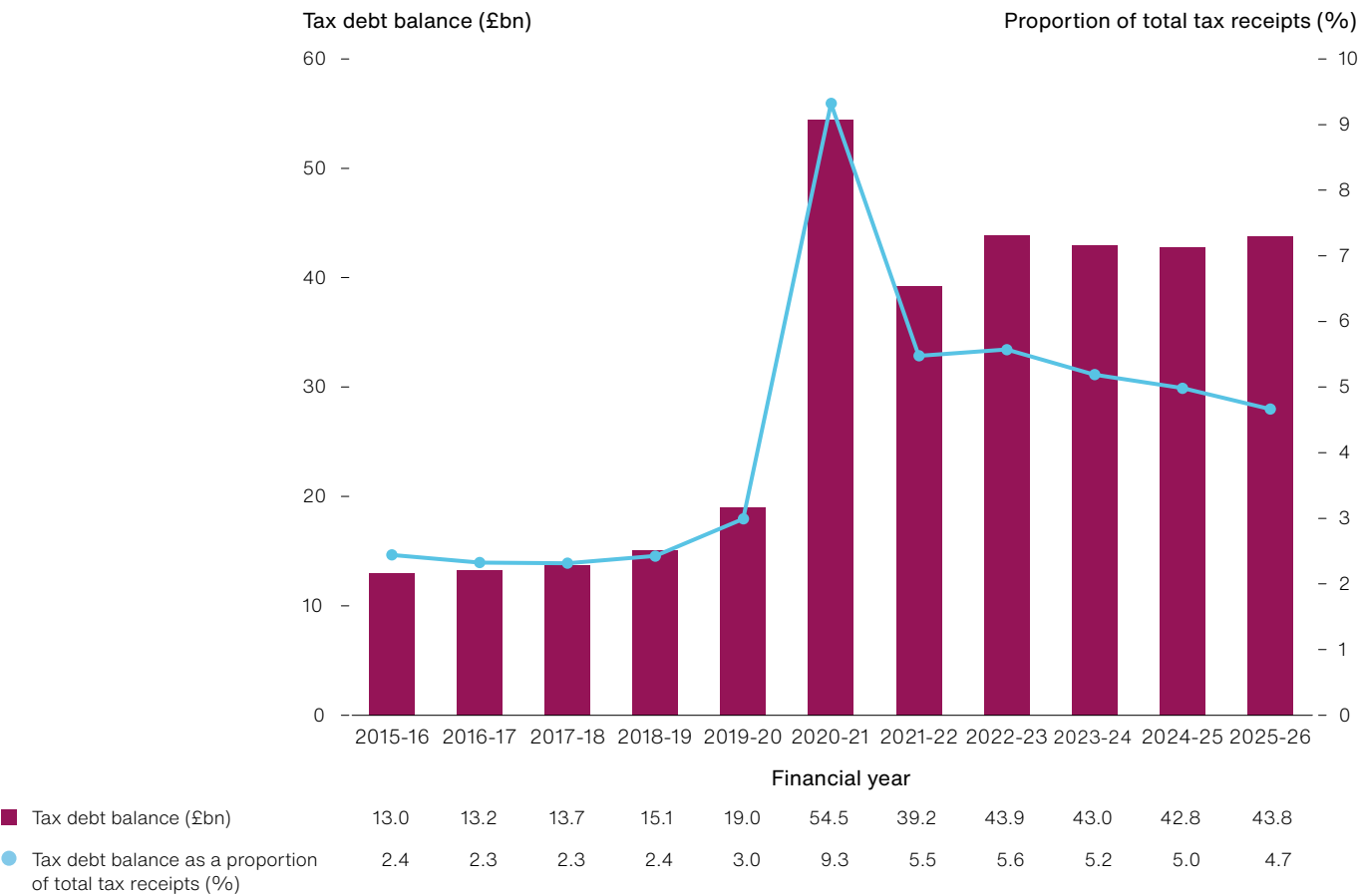
Note

1 This table is not an exhaustive list of all activities undertaken or planned by HMRC under its tax debt management strategy.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 2
Tax debt owed to HM Revenue & Customs (HMRC), 2015-16 to 2025-26

The tax debt owed to HMRC has decreased as a proportion of tax receipts in each financial year since 2022-23, but remains higher than pre-pandemic levels



Notes

- 1 Data are as at the end of each financial year.
- 2 HMRC defines tax debt as the amount of tax that is overdue for payment, legally enforceable, and collectable.

Source: National Audit Office analysis of HM Revenue & Customs data

1.8 HMRC’s performance in reducing tax debt appears to compare well with other tax administrations. Data from six comparator countries show that, between 2020-21 and 2023-24 (the latest year for which data are available), only the UK and one other country had seen steady reductions in debt as a proportion of receipts.⁴

⁴ Data collected by the International Debt Management Committee.

Flow of new tax debts

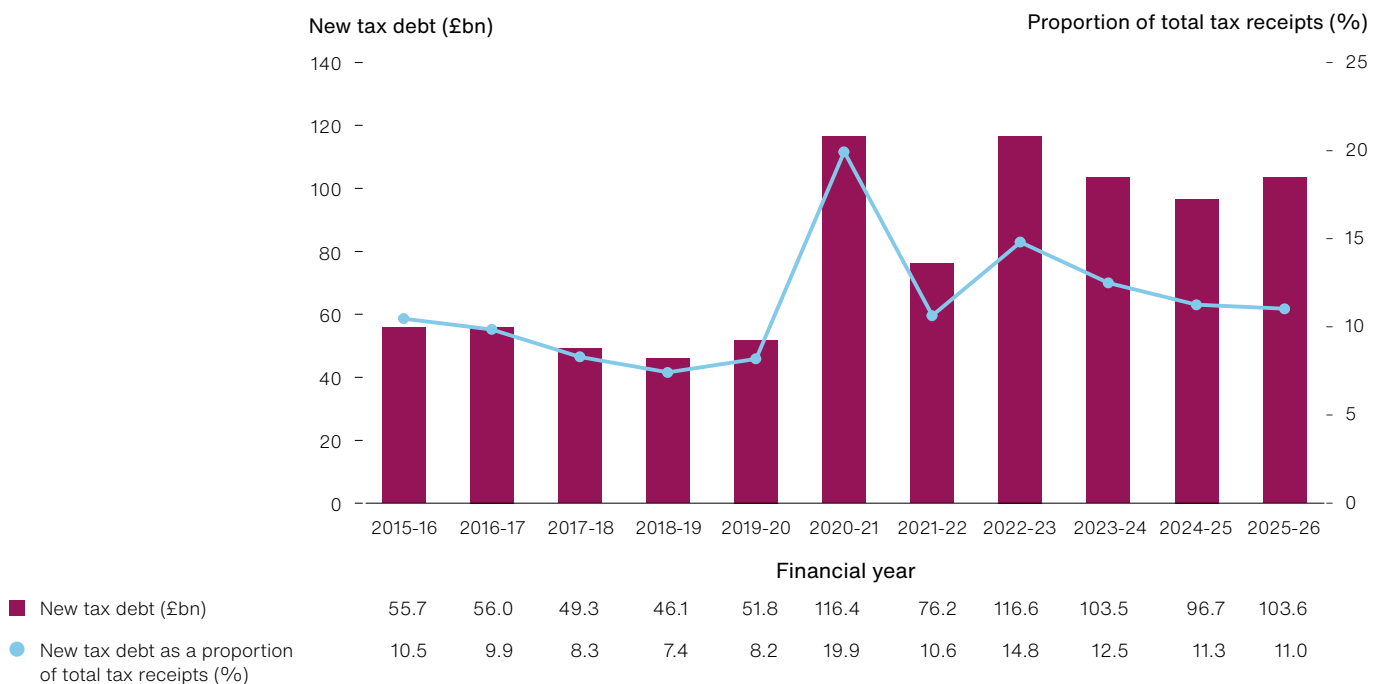
1.9 Since the pandemic, HMRC has been dealing with considerably more new tax debts each year (**Figure 3**). In 2025-26, there was £103.6 billion of new tax debt, equivalent to 11.0% of receipts, across 22.2 million individual tax debts. This compares with an average of £51.8 billion a year between 2015-16 and 2019-20, or 8.8% of receipts, across 17 million individual debts on average.

1.10 HMRC has some data on how new debts arise, with some inherent issues with the quality and coverage of the data. Most new debts (more than 80% by value) relate to missed payment deadlines, and 10% relate to liabilities that HMRC believes are due, including where a taxpayer has not submitted a required tax return and the late filing penalty associated with that.

Figure 3

Annual value of new tax debts incurred by taxpayers, 2015-16 to 2025-26

In the years following the COVID-19 pandemic in 2020-21, HM Revenue & Customs (HMRC) has been dealing with considerably more new tax debts by value than before the pandemic



Note

- 1 HMRC defines tax debt as the amount of tax that is overdue for payment, legally enforceable, and collectable. New tax debts represent the total value of tax debts incurred by taxpayers in each financial year.

Source: National Audit Office analysis of HM Revenue & Customs data

1.11 HMRC considers that recent economic shocks, including the pandemic and the Russian invasion of Ukraine, have put pressure on taxpayers' finances and coincided with significant increases in new tax debts. These shocks will also have affected taxpayers' ability to pay back debts once they arise.

1.12 Most new debts that arise are relatively small, while the majority of the total value comes from a small number of high-value debts.

- Around 60% of new tax debts in 2025-26 were smaller than £500, though combined they represent only 2% of the total value of new debts.
- Around 1% of new debts were larger than £50,000, and combined they represent more than 60% of the total value.

Resolving debts

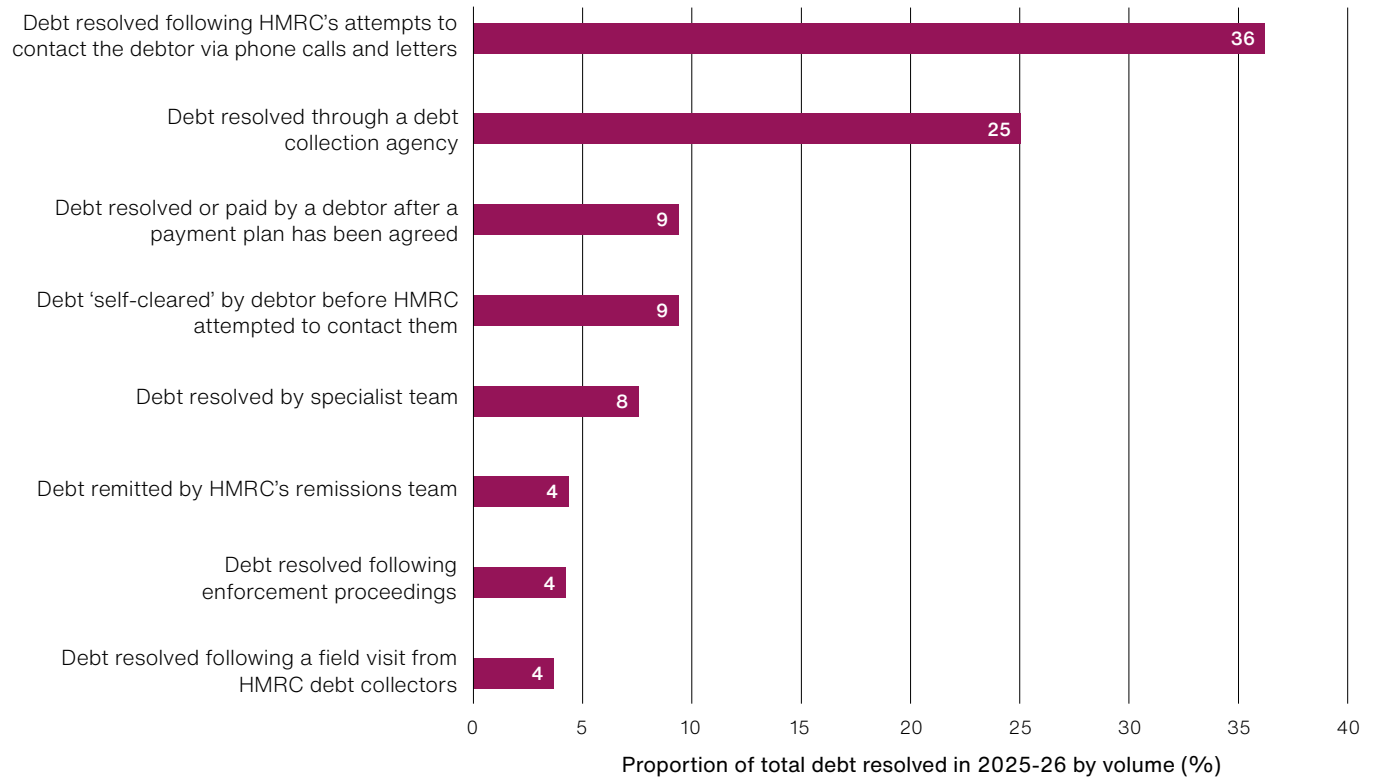
1.13 HMRC aims to resolve the vast majority of debt following its attempts to contact debtors via letters and phone calls, with field visits being highly targeted, and enforcement used as a last resort. It hopes to resolve as much debt as possible through full payment of the debt, but that may not always be possible. In some cases, HMRC stops debt collection activity and records a revenue loss in its accounts instead. HMRC records limited data on how it resolves tax debts. HMRC's data indicate that most of HMRC's debts in 2025-26 were resolved following its attempts to contact the debtor via phone calls and letters (**Figure 4**). From these data, however, HMRC does not know what proportion of debt resolved by each team was collected in full, collected as part of a payment plan, or recorded as a loss, limiting its understanding of the effectiveness of its processes.

1.14 In 2025-26, HMRC resolved £101.5 billion of tax debt, a significant increase from before the pandemic (**Figure 5** on page 20). Some 82% of this was resolved through taxpayers' payments to HMRC; this proportion has increased every year since 2022-23 and is higher than the pre-pandemic average of 76%. Most tax debts are resolved quickly: around 45% within a month, and 90% within a year. This indicates that taxpayers forgetting to pay their tax bill or having short-term cashflow issues is likely a key driver of new tax debts. HMRC says these types of debts are largely preventable and place huge pressures on its operational capacity.

Figure 4

HM Revenue & Customs' (HMRC's) resolved tax debts broken down by debt resolution method, 2025-26

The largest proportion of tax debts was resolved following HMRC's attempts to contact the debtor via phone calls and letters in 2025-26

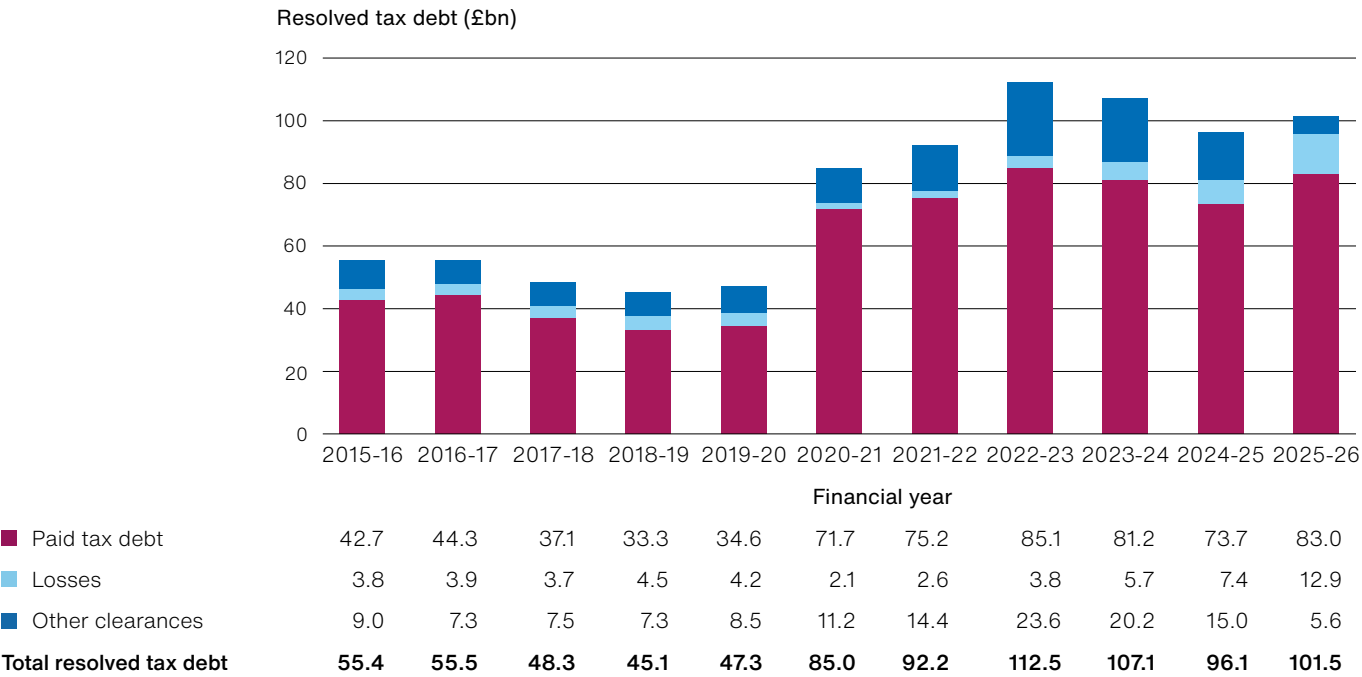
Debt resolution method**Notes**

- 1 A resolution is when a debt is concluded by HMRC during the year, most commonly through payment or losses. It does not include outstanding debt in a payment plan.
- 2 Specialist teams include debt management teams that are responsible for particular groups of taxpayers or particular types of debts. For example, the large debts team (which deals with debts greater than £350,000) and the large business unit (which deals with debts incurred by 800 of the UK's largest and most complex business groups).
- 3 Stated percentages do not sum to 100 due to rounding.
- 4 The chart shows the stage of the debt journey which each debt was at when it was resolved.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 5
Annual value of tax debts resolved by HM Revenue & Customs (HMRC), 2015-16 to 2025-26

HMRC resolved £101.5 billion of tax debt in 2025-26, with £83 billion (82%) of this amount being paid to HMRC



- Notes**
- 1 A resolution is when a debt is concluded by HMRC during the financial year, most commonly through payment or losses. It does not include outstanding debt in a payment plan. Total resolved debt in each financial year consists of:
- paid tax debts, where a debtor pays back some of all of their tax debt to HMRC;
 - losses, which comprise write-offs, where debts are irrecoverable because there is no practical means of pursuing the liability, for example due to insolvency; and remissions, where HMRC decides not to pursue the liabilities on value-for-money or hardship grounds; and
 - other clearances, which include, for example, where a liability is changed following a legal challenge or dispute, or where HMRC corrects debt which was erroneously entered onto its systems.
- 2 Data on losses come from a separate system from data on other types of resolved debts, meaning we have not been able to fully validate the data presented. The data on other clearances are particularly uncertain.

Source: National Audit Office analysis of HM Revenue & Customs data

Use of payment plans

1.15 HMRC expects taxpayers who can pay their tax debts in full to do so, but for those unable to pay on time it offers payment plans via regular instalments. Taxpayers can set these up by self-serve using an online service, or over the phone with an HMRC adviser.

1.16 Debtors are making increasing use of payment plans. At the end of 2025-26, 690,000 taxpayers had a payment plan in place with HMRC, with debts totalling £6.5 billion (15% of the tax debt balance).⁵ This compares with 258,000 taxpayers and debts totalling £1.5 billion (10% of the tax debt balance) at the end of 2018-19, the earliest data HMRC has available.

1.17 The average length of a payment plan arrangement at the end of 2025-26 was 16 months, more than double the average length at the end of 2019-20 (seven months). Similarly, in 2025-26, each arrangement covered a value of £19,000 on average, up from £9,000 at the end of 2019-20. These increases indicate continuing financial pressures on debtors and HMRC's willingness to reflect these pressures in the plans it approves. HMRC told us that over 90% of arrangements have completed successfully in every year since 2019-20, the earliest data HMRC has available.

Revenue losses

1.18 Losses may be due to write-offs, where HMRC concludes there is no practical means of pursuing the debt, or remissions, where HMRC judges it does not represent value for money to continue pursuing the debt.

1.19 In 2025-26, HMRC recorded tax losses of £12.9 billion, representing 12.7% of debt resolved by HMRC. This is up from 2.5% in 2020-21, when HMRC paused debt collection activity during the pandemic, and court restrictions limited write-off activity. It is also higher than in 2019-20, before the pandemic, when it was 8.9%, or £4.2 billion (**Figure 6** overleaf). Losses in 2025-26 represented 1.4% of tax receipts.

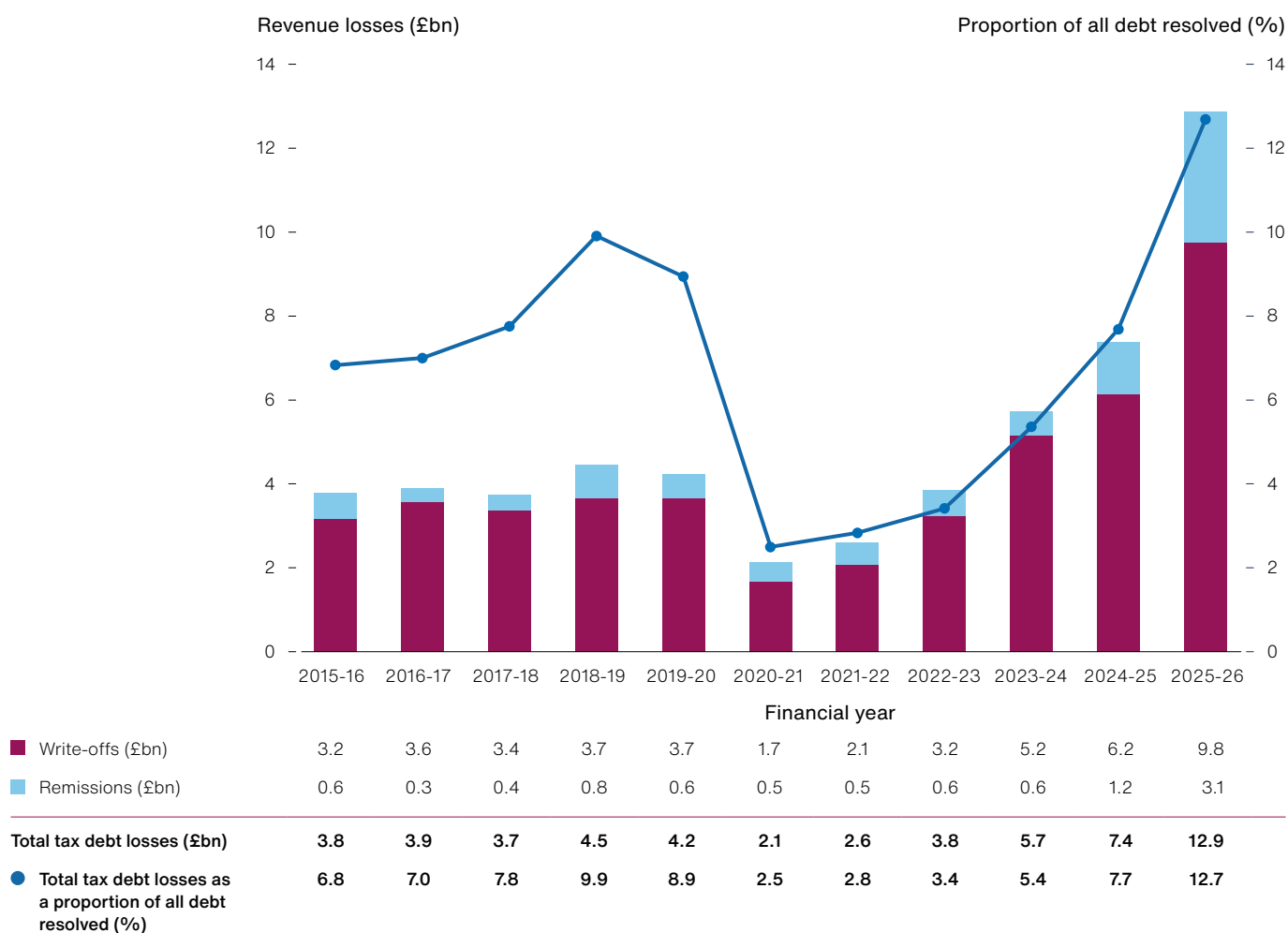
1.20 Write-offs accounted for three-quarters of losses in 2025-26 and are driven by company liquidation and personal bankruptcies. Company insolvencies have particularly increased (up 39% in 2025-26 compared with 2019-20), with increased court activity helping to tackle the backlog that built up during the pandemic.

⁵ In its 2025-26 annual report, HMRC reported that over 884,000 debtors had a payment plan with it as at the end of the financial year. This number is higher than the 690,000 reported here as it also includes debtors with a payment plan for other types of debts, primarily tax credits debts, which are not in scope of our report.

Figure 6

Tax debt losses reported by HM Revenue & Customs (HMRC), 2015-16 to 2025-26

Tax debt losses have increased significantly since the COVID-19 pandemic in 2020-21, and have now exceeded pre-pandemic levels

**Notes**

1 Tax debt losses comprise:

- write-offs, where debts are irrecoverable because there is no practical means of pursuing the liability, for example due to insolvency; and
- remissions, where HMRC decides not to pursue the liabilities on value-for-money or hardship grounds.

2 A resolution is when a debt is concluded by HMRC during the financial year, most commonly through payment or losses. It does not include outstanding debt in a payment plan. In addition to losses, resolutions include paid tax debts, where a debtor pays back some or all of their tax debt to HMRC; and other clearances, which include, for example, where a liability is changed following a legal challenge or dispute, or where HMRC corrects debt which was erroneously entered onto its systems.

3 The data in this chart are drawn from management information provided by HMRC, so it may differ from estimates published in HMRC's accounts.

Source: National Audit Office analysis of HM Revenue & Customs data

The age of tax debts

1.21 At the end of 2025-26, 51% of the value of tax debts consisted of debts over a year old, compared with 28% at the end of 2019-20. Some 11% at the end of 2025-26 were debts over five years old, compared with 5% at the end of 2022-23, the earliest comparable data.⁶ 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 therefore considers that pursuing older debts tends to offer less value for money, meaning the ageing profile of the debt balance has driven a recent increase in remissions (Figure 6).

1.22 Taxpayers in debt are increasingly choosing not to engage with HMRC, despite repeated contact attempts. Debt that is over a year old and not in a payment plan rose from £5.3 billion (28% of tax debt) at the end of 2019-20 to £18.6 billion (42% of tax debt) at the end of 2025-26. Each year, debt collection agencies return over 750,000 lower-value debts (worth over £2 billion) to HMRC where its efforts have been unsuccessful. HMRC plans to tackle lower-value debts from non-engaged debtors by expanding its direct recovery powers. This is a well-established approach internationally. Tax administrations in France, the Netherlands, Australia and Canada have all implemented similar plans.

1.23 To reflect the risk that some of the money owed to it will not be collected, HMRC uses data on collection rates to estimate the amount that may not be recovered from taxpayers for its accounts. At the end of 2025-26, HMRC estimated it will likely not collect almost half (46%) of the tax debt balance.⁷ Comparable data are not available before 2024-25, although HMRC estimated every year what proportion of all monies owed to it, not just debts, will not be paid. This estimate was also 46% at the end of 2025-26, compared with an average of 25% between 2015-16 and 2019-20. The increase in recent years reflects existing debts getting older on average and so less likely to be collected, as well as HMRC's inclination to keep pursuing these older debts rather than record them as revenue losses.

⁶ These calculations exclude debt for which HMRC does not record an age in its management information (£4.8 billion or 10.9% of the total debt balance at the end of 2025-26).

⁷ HMRC estimates £20.2 billion of the tax debt balance at the end of 2025-26 is at risk of not being collected. This covers debt that has built up over several years and which HMRC could record as a revenue loss in future years, and so is far higher than revenue losses recorded in 2025-26 (£12.9 billion, as reported in paragraph 1.12). It will also likely be far higher than HMRC's estimate of non-payment that it includes in its tax gap estimate. The latest available estimate is for 2024-25, when HMRC estimated non-payment at £5.7 billion, representing HMRC's estimate of the tax debts incurred in that year that eventually will not be paid.

Part Two

HM Revenue & Customs' productivity and use of resources

2.1 This part examines whether HM Revenue & Customs (HMRC) is maximising productivity in its tax debt management work. It covers:

- the return on investment that HMRC gets from its debt management staff;
- the effectiveness of HMRC's debt management processes; and
- whether HMRC is maximising benefits from enabling teams and systems.

Return on investment

2.2 HMRC's debt management workforce has significantly increased in recent years. In 2025-26, there was an average of 5,557 full-time equivalent staff, up 20% from 4,637 in 2023-24. HMRC's spending on debt management staff increased from £177 million in 2023-24 to £237 million in 2025-26.

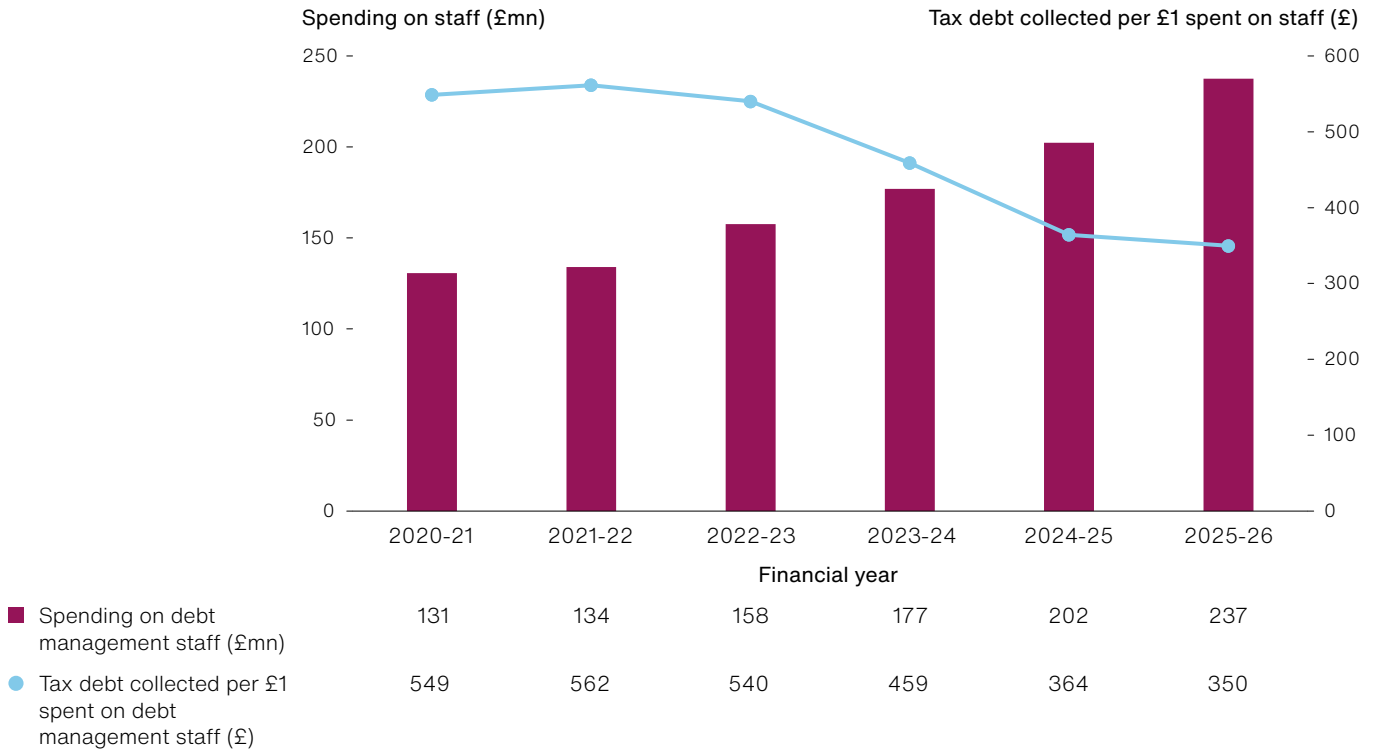
2.3 As HMRC has increased its debt management workforce, the return on investment from those staff has decreased (**Figure 7**). HMRC collected an additional £1.8 billion in debts in 2025-26, compared with 2023-24, meaning each £1 spent on additional staff brought in £31 on average. Overall return on investment has decreased from £459 per £1 spent in 2023-24 to £350 per £1 spent in 2025-26, including debts paid both before and following any debt management interventions.⁸ HMRC says this decrease was expected, as an expanded workforce has tackled lower-value and harder-to-reach debts. It plans to increase its debt management workforce by a further 18% by 2029-30. It is expecting a 2% improvement in return on investment each year between 2025-26 and 2029-30, reflecting better targeting and prioritisation of debts and process efficiencies.

⁸ We have previously reported HMRC's return on investment in its compliance group (£25 for every £1 spent on staff pay in 2024-25). This is not comparable with the return on investment in debt management as it relates to the cost of investigating potential tax liabilities rather than collecting known liabilities.

Figure 7

HM Revenue & Customs' (HMRC's) spending on debt management staff and tax debt collected per pound spent on debt management staff, 2020-21 to 2025-26

As HMRC has recruited more debt management staff, the average return on investment has decreased



Notes

- 1 We have used the value of debts collected divided by spending on all debt management staff within the financial year as a measure of return on investment.
- 2 Spending on staff includes only pay bill costs and does not include other costs of running the debt management directorate.

Source: National Audit Office analysis of HM Revenue & Customs data

2.4 In addition to its internal workforce, HMRC also places debts with external debt collection agencies for desk-based collection activity. These provide a cost-effective way for HMRC to increase its capacity in a flexible way and secure additional debts. In 2025-26, HMRC placed 2.6 million debts, totalling £7.7 billion, with debt collection agencies, up from around 700,000 debts totalling £1.4 billion in 2020-21. HMRC typically only places debts with agencies once its own letters or calls have failed to secure payment or contact. HMRC paid the agencies £45.7 million in 2025-26 and recovered £1.6 billion (a return on investment of £34 for every £1 spent).

The effectiveness of HMRC's debt management processes

Tailored approach to different debtors

2.5 HMRC sends automated letters to taxpayers in debt at pre-determined intervals. It also sends emails and text messages to support debt recovery. Since 2020, HMRC has used data it holds on debtors' previous behaviour, alongside data purchased from credit reference agencies (CRAs) from 2023, to vary its approach according to a debtors' ability and propensity to pay. Since May 2023, it has rolled out different debt journeys, which set the frequency and tone of reminder letters to taxpayers and determine when HMRC escalates action, for example, to field collectors or enforcement. HMRC estimates that it now processes around 62% of debts through a segmented, tailored journey instead of a 'mainstream', non-tailored campaign.

2.6 HMRC has been unable to formally evaluate the impact of its debt journeys, primarily due to constraints in its current IT infrastructure, which does not readily support controlled experimental designs. However, HMRC does monitor whether segmentation is operating as intended through a dashboard, and it assessed each debt journey one year after they were introduced. These assessments indicate that the journeys have helped target a higher value of debts across fewer letters, but with relatively little impact on response and repayment rates. External analysis commissioned by HMRC found that its models broadly separate taxpayers into meaningful behavioural groups, but there are mixed results for different segments for how tailored letters perform compared with mainstream letters.

2.7 Despite these mixed results, HMRC has estimated that its purchase of CRA data to enable its debt journeys has resulted in £70 million of additional benefits to date. Although this is lower than its initial forecast of £96 million, it represents a significant return against the estimated cost of £623,000 (which covers the cost of the CRA data and a large proportion of the staff costs). HMRC told us that benefits have arisen from taking a firmer approach with taxpayers it has identified as having a low propensity but high ability to pay their debts. HMRC has also used CRA data to implement its Direct Recovery of Debt powers, helping to exclude taxpayers who do not have funds and identify which bank to communicate with.

2.8 HMRC has incorporated evidence from trials into how taxpayers' behaviour changes in response to different messaging, both in the initial design of the new debt journeys and continued iteration of those journeys. However, we did not see evidence that HMRC has governance arrangements in place to ensure that successful behavioural interventions are identified, prioritised, and rolled out across relevant debt journeys quickly to maximise benefits.

2.9 As part of a new debt case management system (see paragraphs 2.23 to 2.26), HMRC plans to use more detailed analytics and predictive models to tailor interventions to individual debtor characteristics rather than broad groups. This level of segmentation aligns with best practice from the Organisation for Economic Co-operation and Development (OECD). HMRC also expects the new system will support more robust evaluation methods, including controlled testing.

Payment plans

2.10 In 2025-26, HMRC's debt collectors received 2.75 million telephone calls. A significant proportion involve discussing payment plans. HMRC expects taxpayers to propose what they can afford to pay, and after assessing affordability HMRC will either agree, reject or propose amendments to the plan. HMRC says that each payment plan is set up on a case-by-case basis and therefore does not provide guidance to taxpayers on what payment terms it is likely to accept. Tax professionals told us this lack of prescription makes it challenging when discussing payment terms with HMRC. HMRC's data indicate that it ultimately rejected less than 3% of proposals from taxpayers over the telephone between 2023-24 and 2025-26, suggesting there are few circumstances in which taxpayers cannot arrive at an acceptable proposal.

2.11 More taxpayers are using self-serve payment plans as HMRC has rolled them out for more taxes, delivering efficiency savings for HMRC. Eligible taxpayers can agree payment plans online without requiring an HMRC official to manually review and approve the agreement. This can free up collectors' time to pursue more complex and high-value debts. HMRC rolled out online self-serve arrangements for Self Assessment debts in February 2021 and has since rolled it out for Pay As You Earn (PAYE), VAT and Simple Assessment debts. HMRC currently has no plans to extend arrangements to Corporation Tax debts, given IT challenges with the Corporation Tax system. In 2025-26, taxpayers set up 138,000 payment plans online covering £967 million of tax debt. HMRC estimates that its rollout of self-serve payment plans has resulted in £189 million of net savings for the Exchequer to date.

2.12 Limitations in the functionality of self-serve payment plans mean that some taxpayers wishing to agree a payment plan before a liability is due cannot use self-serve channels and must contact HMRC by telephone. HMRC is developing pre-debt plan functionality for Simple Assessment taxpayers. While it has identified similar functionality for PAYE and VAT as future enhancements, it has not yet agreed funding for them. Self-serve payment plans cannot be used by taxpayers wanting to agree plans across multiple taxes. While multi-debt payment plans are difficult to arrange over the telephone, HMRC is introducing a new case management system that will make it easier for collectors.

2.13 The OECD has set out good practice in aspects of debt management on a scale ranging from 'emerging' to 'aspirational'. HMRC considers that its approach to payment plans represents 'established' practice on this scale. 'Leading' or 'aspirational' practices that HMRC has currently not fully adopted include the following.

- Using predictive modelling and artificial intelligence (AI) to automate the granting of payment plans for low-risk debtors or support collectors in their decisions. HMRC told us that it would not consider using AI or predictive modelling to determine affordability or grant payment plans where they are requested by debtors, but could consider using these tools in the future as part of proposals to set up automated arrangements for taxpayers who refuse to engage with it (see Figure 1).
- Developing a range of options for taxpayers to request payment arrangements and manage their debt. This could mean developing functionality in the appropriate digital channels for different groups of taxpayers.
- Automated next steps in case of non-payment or detection of activity to dispose of assets, indicating the debtor may be able to repay more of the debt straight away. HMRC currently issues automated late payment letters for plans agreed for debts in some taxes, but full automation will not be possible until HMRC has implemented its new case management system.

Allocation of cases to collectors

2.14 Most contact with debtors is made through HMRC's Debt Resolution Team, where nearly two-thirds of collectors are employed. HMRC allocates both incoming and outgoing correspondence to whichever collector is available to respond quickly, rather than allocating each collector a caseload to work through over time. HMRC says that this enables the most cost-effective response overall, although it has not assessed in what circumstances other models of case allocation and ownership would be more effective.

2.15 HMRC triages some debts to be handled by specialist teams, as shown in the following examples.

- Debts above £350,000 are managed by a large debts team, who provide a more hands-on approach. HMRC increased the threshold for this team's involvement from £100,000 following the pandemic. HMRC has not assessed the costs and benefits of revising this threshold further.
- HMRC may refer taxpayers identified as particularly vulnerable to its extra support team, which may try to ensure some continuity of collector. In 2025-26, this team supported approximately 10,000 debtors. HMRC can also signpost vulnerable debtors to external agencies, like the Samaritans.

- Debts owed by 800 of the UK's largest and most complex business groups are managed by a large business unit. Collectors in this team work closely with customer compliance managers in HMRC's large business directorate, although that directorate engages with many more business groups (approximately 2,000 in total). Again, HMRC has not assessed the costs and benefits of its large business debt unit covering a larger or smaller population of large businesses.

Enforcement

2.16 When a debtor does not pay their debt, HMRC may decide to escalate that debt to enforcement. This may include field collection visits to taxpayers' homes or business premises, winding-up and bankruptcy petitions to prevent further debt from accruing, taking taxpayers to court to compel them to pay, or changing a taxpayer's tax code to collect the debts. HMRC's debt journeys involve contacting taxpayers about their outstanding debts, but given the volumes involved, HMRC cannot escalate every debt to enforcement and therefore prioritises the largest value debts first.

2.17 HMRC has been increasing the level of enforcement activity it undertakes, following the pause during the COVID-19 pandemic. Some activities have greatly increased, such as winding-up petitions, while the use of changing tax codes and field collection visits have reduced in recent years (**Figure 8** overleaf).

2.18 HMRC has some understanding of the costs of its enforcement activities. In May 2026, it estimated the typical costs of taking a case to court, using direct recovery powers and field collection visits, as well as lower-level interventions such as letters and phone calls and using a debt collection agency. It plans to update these estimates at least annually. By combining these with data on the impact of different interventions, HMRC can begin to understand the relative cost effectiveness of these activities. For example, in 2025-26, each field collection visit brought in £15,000 on average. HMRC estimates each visit costs just over £100, a return of approximately £150:£1.

2.19 HMRC says its enforcement activity also has a deterrent effect, though its data on the size of this effect are limited. For instance, in 2025-26, HMRC issued approximately 20,700 notices to taxpayers warning them of upcoming action to seize their goods and assets to pay for debts, and it used those powers nearly 1,500 times. HMRC only monitors the value of the goods seized and sold (£1.1 million in 2025-26, or £764 for each use of the power, on average) and not any debt payments triggered by the warning notice. HMRC has also not estimated any costs related to the use of these powers.

Figure 8

HM Revenue & Customs' (HMRC's) use of debt enforcement activities, 2022-23 to 2025-26

Most enforcement activities have seen large increases in usage since 2022-23

Enforcement activity	Description of activity	Number of times used by HMRC in 2025-26	Trend, 2022-23 to 2025-26
Field collection visits	Where an HMRC collector visits a debtor at their home or business premises – to collect payment or remove possessions, understand debtors' circumstances and check for vulnerability.	225,118	Decrease by 11%
Changing tax codes	HMRC can amend tax codes to collect certain debts by automatically deducting repayments from debtors' pay packets.	84,353	Decrease by 80%
Winding-up petitions awarded	For company debts, HMRC can file winding-up petitions at the High Court, a formal insolvency procedure which involves asking the court to liquidate a company due to unpaid debts. If the petition is awarded by the courts, the company must cease trading.	2,277	Increase by 185%
Direct recovery powers ¹	Direct recovery powers enable HMRC to recover debts directly from a debtors' bank or building society accounts.	1,561	Not used in 2022-23, use restarted in 2025-26
Bankruptcies initiated by HMRC	For debts held by individuals, HMRC can lodge an application to the court for someone's assets to be taken and sold to pay their debts. This is known as a bankruptcy petition.	1,298	Increase by 340%
County Court Judgments obtained by HMRC	In England and Wales, HMRC can bring money claims in County Court to secure payment of an outstanding debt. If the debtor does not respond or pay the debt, the court may issue a County Court Judgment, which means the court has formally decided the debtor owes the money, and the debtor is compelled by law to pay it back.	83	Increase by 938%

Note

1 HMRC paused the use of this power during the COVID-19 pandemic and restarted it under a test-and-learn phase in 2025-26.

Source: National Audit Office analysis of HM Revenue & Customs data

Enabling functions and systems

Supporting teams

2.20 HMRC delivers front-line debt collection through a range of operational teams. Backlogs and bottlenecks in some of these teams have affected the overall efficiency of HMRC's debt management.

- The work of HMRC's enforcement and insolvency team was heavily affected during the pandemic when most court activity was paused. At the end of 2025-26 a backlog of around 30,000 cases remained, although HMRC has been recruiting additional staff into this team so that it can file more court cases.
- At the end of 2025-26, HMRC's debtor tracing team had a backlog of 400,000 cases. If HMRC is not able to trace these taxpayers, it cannot successfully obtain debt payments in full or on time.

2.21 HMRC's banking team spends time reallocating payments from taxpayers that have been allocated to their wrong tax account or payment period. These misallocated payments often result from taxpayers' errors, for instance putting an incorrect reference number when making an online payment. HMRC recorded that it spent 50,000 hours in 2025-26 correcting misallocated payments. This is equivalent to around 29 full-time staff. To address this issue, HMRC has introduced a system to automatically trace taxpayers and allocate payments where the taxpayer has not provided enough information, and it has consulted on introducing direct debit arrangements for some payments.

Internal guidance

2.22 HMRC uses an internal guidance platform to take collectors through the requirements of a debt journey, which we observed as working well. HMRC says that this platform covers 77% of potential processes a collector may need to be guided through, and well over 90% of taxpayer interactions. Those areas not yet migrated to the platform relate to more complex or specialist areas, of which HMRC says the vast majority will be migrated by the end of 2026.

Case management system

2.23 HMRC is in the process of replacing its debt case management system. Its current system is over 24 years old, creates numerous inefficiencies, and limits HMRC's ability to develop new capabilities. Maintenance is challenging given its age, and it is increasingly at risk of failure. HMRC expects a new, cloud-based system to be fully operational by 2030. It aims to create a centralised view of a taxpayer's debts, which should enable quicker case handling times. HMRC also expects it to provide greater flexibility and ability to adapt functions quickly, such as the letters it sends to debtors, in response to crises.

2.24 HMRC expects the whole-life costs of its programme to transform its debt case management system will be £272 million, which includes five years of running costs after implementation. It forecasts that the programme will deliver benefits of at least £643 million between 2021-22 and 2029-30. HMRC says additional revenue will be delivered when it migrates the major taxes onto its new platform, as a result of expected time savings freeing up collectors to pursue complex cases and increasing debt recoveries. It expects it will begin to realise these benefits from early 2027. By the end of 2025-26, the new system had been introduced for several smaller taxes and had brought in an estimated additional £64 million in revenue and £8 million in cost savings, at a cost of £134 million. HMRC's rollout of the system for other taxes depends on successful delivery of other transformation programmes across HMRC, including Making Tax Digital and HMRC's new platforms for Self Assessment and Corporation Tax.

2.25 The debt management function currently uses 103 different IT systems and front-line collectors typically require up to 17 systems to handle a straightforward case. It can take collectors between 40 and 90 minutes on average to resolve payment plans for arrangements across multiple debts. HMRC told us that the new system should reduce the number of the applications collectors use, but it will not know until the system is fully in place.

2.26 As at the end of 2025-26, HMRC had identified two particularly significant risks that could threaten successful delivery of its new case management system.

- Other ongoing digital transformation projects – such as Making Tax Digital, which is a higher strategic priority for HMRC – mean the programme team may not get sufficient access to the testing environments needed to migrate key capabilities. The programme team is working with other parts of HMRC to sequence delivery from different projects.
- HMRC may not be able to migrate Corporation Tax debts from its legacy system onto the new debt case management system. While HMRC currently does not know how to solve this issue, it says it has been managing this risk effectively. It told us that digital transformation teams are currently working together on a solution, which it expects will be in place around the start of 2028.

Inefficiencies in HMRC's processes

2.27 Throughout our audit, we observed several inefficiencies in HMRC's debt management processes, including limitations in the functionality of self-serve payment plans (paragraph 2.12), backlogs and bottlenecks in particular teams (paragraph 2.20), misallocation of payments (paragraph 2.21) and multiple IT systems (paragraph 2.25). We also observed further inefficiencies.

- Debt collectors need to work through mismatches between data on the case management system and corresponding data on a supporting accounting platform. This can include timing differences where payments have not yet cleared, and system issues where updates to data fail to process. HMRC has a dedicated team to correct mismatches. Since January 2023, it has typically received between 2,000 and 4,000 referrals per month. HMRC expects its new case management system will reduce the incidence of mismatches, although timing differences between the systems will persist.
- Stakeholders told us it is common for taxpayers to think they have informed HMRC they no longer qualify as a Self Assessment taxpayer and yet still receive penalties for not filing a tax return, which sometimes become a debt. This could waste resources pursuing debts that ultimately are successfully appealed. HMRC told us it is not aware of any large-scale errors, and the data suggest any issue is small: on the 8 million automated penalties issued by HMRC in 2025-26, there were 75,000 appeals, with 65% of appeals successfully cancelling the penalty. From April 2027, HMRC will provide clearer guidance to Self Assessment taxpayers whose circumstances may have changed, encouraging them to notify HMRC promptly where they believe they no longer need to file a return.

2.28 HMRC has plans in place to address many of the inefficiencies we identified, either in full or in part. It already has a process that enables collectors to flag inefficiencies and issues and to suggest improvements. It told us collectors had submitted 330 ideas, leading to 58 improvements, including to the quality of HMRC's internal guidance and IT systems. It said this is part of its established processes for identifying, assessing and prioritising process improvements. It said that, in assessing potential improvements, it needs to weigh up their expected costs, benefits, deliverability and strategic fit. While these inefficiencies occurred repeatedly during our small number of case observations, available data indicate the scale of some of them is still small. However, cumulatively, they add up to a more significant impact on HMRC's productivity, which may warrant more attention.

Part Three

HM Revenue & Customs' strategic approach

3.1 This part examines HM Revenue & Customs' (HMRC's) strategic approach, covering:

- the impact and effectiveness of the strategy since 2023; and
- HMRC's future ambitions and associated risks.

Impact and effectiveness of HMRC's strategy

3.2 HMRC estimates 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 tax receipts instead of 4.7%.⁹ HMRC also monitors the costs and benefits of individual measures introduced under its strategy. Since 2021, HMRC has been allocated £1.3 billion of additional funding at fiscal events, to be spent between 2021-22 and 2030-31, to improve its ability to manage tax debts and had spent £368 million by the end of 2025-26. HMRC's latest estimates indicate that it has delivered £10.7 billion in additional revenue from this investment at the end of 2025-26, an overperformance of £1.2 billion (13%) against its original forecast of £9.5 billion.

3.3 **Figure 9** shows how the additional revenue generated from individual measures compares with its initial forecasts. HMRC has achieved higher-than-forecast revenue from additional staff and greater use of debt collection agencies, with both these measures collecting more debt than HMRC had anticipated. However, it has achieved lower-than-forecast revenue from its expansions to its self-serve payment plan platforms, resulting from delays to platform upgrades and a lower take-up by taxpayers than HMRC had anticipated. Its purchase of credit reference agency (CRA) data also achieved lower-than-forecast revenue, resulting from late procurement of the data and a reduction in the amount of debt to which HMRC has applied the CRA data.

⁹ This calculation includes the impact of measures introduced several years before HMRC published its strategy in 2023.

Figure 9

HM Revenue & Customs' (HMRC's) estimates of forecast and actual Exchequer impact from debt management measures introduced since 2021

HMRC estimates it has achieved £1.2 billion (13%) more additional revenue for the Exchequer than forecast from debt management measures since 2021, primarily due to overperformance from measures to increase its capacity

Measures	Total outturn costs incurred, 2021-22 to 2025-26	Forecast Exchequer impact, 2021-22 to 2025-26	Actual Exchequer impact, 2021-22 to 2025-26	Variance against forecast
	(£mn)	(£mn)	(£mn)	(£mn)
Funding for debt collection agencies	73	4,370	5,388	+ 1,018
Additional full-time equivalent staff	135	4,068	4,785	+ 717
Upgrades to self-serve payment plans	115	716	189	- 527
Increased interest rate for overdue tax debts	0	236	286	+ 50
Purchase of credit reference agency data	3	96	70	- 26
Direct recovery powers ³	0.4	0	0	In line with expectations
New case management system ⁴	42	-2	0	+ 2
Total	368	9,484	10,718	+ 1,234

Notes

- 1 Exchequer impact is the net financial effect a measure has on Exchequer revenues. Positive values indicate an increase in overall tax collection or public revenue; negative values indicate a projected loss or reduction in government revenues.
- 2 Forecast and actual Exchequer impact data in this chart may differ from those reported in the government's fiscal events because they are estimated on a different basis.
- 3 These data do not include £7.7 million of debt that HMRC reports it has recovered using its direct recovering powers during its test and learn phase.
- 4 HMRC estimates its case management system has delivered £64 million of additional revenue and £8 million of savings against a spend of £134 million at the end of 2025-26. These costs and benefits relate to a measure introduced before 2021 so are not included in this chart.

Source: National Audit Office analysis of HM Revenue & Customs data

3.4 Beyond monitoring the costs and benefits of measures introduced at fiscal events, HMRC has attempted to assess the outcomes of some operational interventions, campaigns and programmes within debt management, particularly its debt journeys (see paragraphs 2.5 to 2.7). HMRC is currently developing some more sophisticated evaluations, including a rigorous evaluation of its purchase of CRA data and an end-to-end analysis of how debts move through its processes to identify bottlenecks, successful interventions and opportunities for improvements. It has also established a dedicated evaluation function within debt management and developed a formal evaluation framework intended to embed evaluation into the design, delivery and reporting of trials and pilots. These steps represent good practice and should improve HMRC's understanding of how well its interventions work and enable it to make improvements.

3.5 HMRC's evaluations focus on assessing the outcomes of individual programmes and policy interventions, rather than evaluating the effectiveness of the wider strategy as a whole. It has limited evidence on the effectiveness or efficiency of its enforcement tools and has not evaluated some significant policy measures. For example, it has recruited large numbers of additional staff in recent years but not evaluated how effectively it trained or allocated these staff, nor embedded learning from this into subsequent hiring rounds. Its end-to-end evaluation project is ambitious but has not yet produced results due to significant issues with data quality and HMRC's IT infrastructure.

Managing tax debt in the future

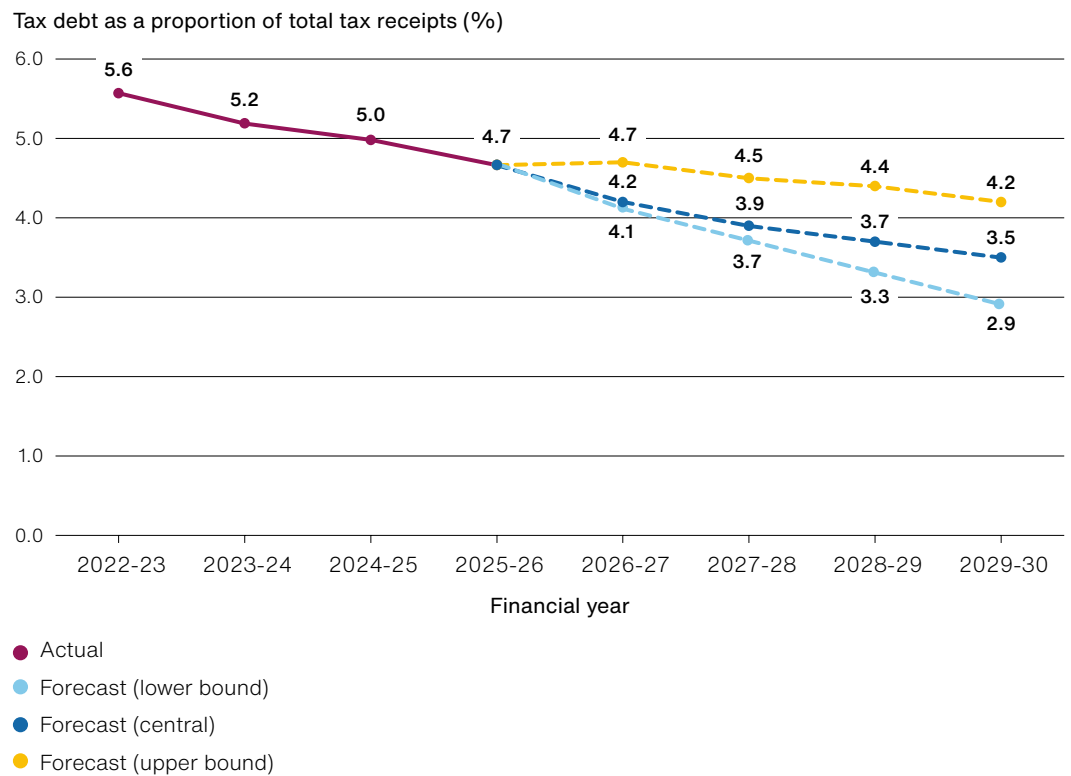
3.6 HMRC has successfully reduced tax debt as a proportion of receipts each year since 2022-23, in line with its strategic ambition. HMRC forecasts that it will reduce the tax debt balance further, to between 2.9% and 4.2% of tax receipts by 2029-30, continuing to meet its strategic ambition over the forecast period (**Figure 10**). It will need to maintain this reduction past 2029-30 to meet the target of debt falling each year to at least pre-pandemic levels, which were typically around 2.5% of receipts.

3.7 HMRC's central forecast assumes that new tax debts will be 10.5% of receipts throughout the forecast period, which is the long-term average from 2013-14 to 2024-25, excluding the impact of the pandemic in 2020-21. Between 2023-24 and 2025-26, actual new tax debt averaged 11.6% of receipts, higher than the assumption in HMRC's upper-bound forecast of 11.3%.

Figure 10

Actual and forecast tax debt balance as a proportion of tax receipts, 2022-23 to 2029-30

HM Revenue & Customs (HMRC) forecasts that it will reduce the tax debt balance to between 2.9% and 4.2% of tax receipts by 2029-30



Notes

- 1 Forecast data were prepared by HMRC and reviewed and certified by the Office for Budget Responsibility (OBR).
- 2 HMRC's central forecast assumes that new tax debt arising each year will equal 10.5% of tax receipts, based on OBR forecasts of receipts, and that HMRC will continue to clear debt at the same rate as in 2025-26.
- 3 The upper and lower forecast lines show how the forecast would change if new tax debt were higher or lower than assumed in the central forecast. They assume new tax debt is 0.8 percentage points higher or lower, respectively, than the central forecast assumption of 10.5% of tax receipts.

Source: National Audit Office analysis of HM Revenue & Customs data

3.8 The current challenging economic landscape means the level of new debt could exceed recent years. For example, ongoing disruptions and constraints around global shipping and fuel pathways from the Middle East in 2026 have driven increases in energy prices, a driver of cost-of-living pressures. Previous economic shocks led to new debt increasing to 20% of receipts in 2020-21, following the impact of the pandemic, and to 15% in 2022-23, following Russia's invasion of Ukraine and the associated cost-of-living crisis. HMRC has not modelled the impact of similar significant increases in new debt on its forecast, but it is likely that HMRC would be unable to meet its strategic ambition if similar increases materialised in the future.

Future revenue losses

3.9 HMRC may choose not to pursue a debt if the costs of doing so exceed the value of the debt. In making those decisions, HMRC will also consider the potential negative, long-term impact of not pursuing a debt, such as encouraging non-payment or damaging trust in the tax system. HMRC has clear governance arrangements in place for ensuring it duly considers debts before recording them as a loss, and ensuring appropriate sign-off for any decisions.

3.10 In its forecasts, HMRC assumes that remissions will remain at similar levels to 2024-25 throughout the period to 2029-30. However, losses will likely increase beyond recent levels, for a number of reasons.

- The courts are continuing to work through the backlog of insolvencies and bankruptcies, meaning write-offs should increase.
- The ageing profile of the debt balance, with more than a quarter of the balance now coming from tax debts older than three years, means an increasing cohort of tax debts is less likely to be collected.
- HMRC is planning several data-led exercises to identify and approve debts for remission in bulk. HMRC says that CRA data are facilitating these exercises, such as providing a better understanding of companies that have ceased trading, and allowing it to make decisions on remissions more quickly. HMRC does not yet know what impact on losses or on the debt balance these data-led remissions will have. Any increase in losses will ultimately lower the tax debt balance.

Planning for future crises

3.11 The pandemic and the Russian invasion of Ukraine caused tax debt to significantly rise. HMRC says it has particularly learned from its experiences of managing debt during the pandemic, when it paused all collection activity. It produced a lessons learned document in 2023, intended to inform future crisis responses. For instance, it says that, in future crises, it would want to continue proactive debt collection, while making sure not to overly burden otherwise healthy businesses. HMRC also recognises the need for its crisis response to be flexible. It has therefore extended its use of self-serve payment plans to cover Simple Assessment, Pay As You Earn and VAT debts, implemented rules it can quickly adapt to meet changing circumstances, and tested its capacity for accommodating a significant increase in demand if needed. Since developing the lessons learned document, it has not maintained or updated it.

3.12 Given that the international environment remains unpredictable and complex, new economic shocks will remain key risks in the future. HM Treasury's Government Debt Management Function (GDMF) functional centre has set expectations for government departments managing debt, with organisations expected to have clear arrangements for managing debt, and the treatment of debtors, in defined crisis situations. HMRC considers that it has strong plans and robust governance arrangements in place, key decision makers are clearly defined, and guidance can be adapted quickly, although it has not brought these plans together into one place. HMRC contributed to separate functional guidance published by the GDMF functional centre for government departments to follow in future crisis situations. It says that it could apply this guidance in future crises and that many of the recommendations are already embedded into its processes, but has not formally assessed all of the processes and capabilities it would need to test its response.

Appendix One

Our audit approach

Our scope

1 This report examines whether HM Revenue & Customs (HMRC) is well placed to reduce the tax debt balance in line with its strategic ambition 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).

2 We designed our work to test the effectiveness and productivity of HMRC's approach, with our focus on the work of the 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.

Our evidence base

3 Our independent conclusions were reached following our analysis of evidence collected primarily between February and July 2026.

Quantitative analysis

4 We primarily reviewed and analysed quantitative data relating to staffing, costs, new tax debts, the tax debt balance, debt write-offs and remissions, clearance rates, and the age of debt. We also analysed data relating to the use of debt collection agencies and payment plans, as well as IT system errors.

5 Most of these data were not published and were therefore taken from HMRC's systems for the purposes of this report. Where possible, we generally considered trends across two time periods (2015-16 to 2019-20, and 2020-21 to 2025-26). We were then able to compare trends before and following the onset of the COVID-19 pandemic. In some cases, data for the pre-pandemic period were not available.

6 For the purposes of this report, tax receipts and debt figures are presented in cash terms to align with established convention when reporting tax revenues.

7 We also examined quantitative data from other publicly available sources, such as the Insolvency Service's statistical releases, to further develop our understanding of tax debt trends.

8 There are some limitations in the data provided by HMRC. These include:

- an inability to fully break down the debtor population into individuals and businesses;
- an inability to fully reconcile the data presented by HMRC regarding losses in annual tax debt data (see Figure 5);
- uncertainties around the value of 'other clearances' (see Figure 5); and
- uncertainty around HMRC's estimates for the cost and effectiveness of enforcement activities.

9 Where these limitations affected either our or HMRC's ability to undertake relevant analysis we have indicated this within the report.

Document review

10 We reviewed a range of published and unpublished documents from HMRC to help define the project's parameters, develop the team's knowledge of HMRC's tax debt management work, and evidence assertions made by HMRC officials. The documents we reviewed included:

- annual reports and accounts;
- internal reports and papers;
- process maps;
- staff surveys;
- business cases;
- risk management guidance; and
- guidance from the Government Debt Management Function.

11 We also received and reviewed narrative documents created by HMRC for the purposes of this study.

12 We carried out our document review primarily between February and June 2026.

Third-party interviews

13 We conducted four interviews online with third-party stakeholders that have good knowledge of how HMRC manages tax debt. In total, we spoke with representatives from 10 organisations. We identified these stakeholders through desk-based research and invited them to participate in the study via email.

14 Mostly, we spoke with representatives of each organisation in separate interview sessions. However, we also conducted one roundtable with representatives of multiple organisations. We conducted these interviews between February and April 2026. We took a comprehensive note for each interview, which covered key points, further actions, and key avenues of future enquiry. Interviews typically lasted one hour.

15 Stakeholders we interviewed included:

- representatives from a range of tax advisory firms at a roundtable organised by the Chartered Institute of Taxation;
- representatives from the Government Debt Management Function;
- a representative of a large tax and business advisory firm; and
- representatives from the Low Incomes Tax Reform Group.

16 We used these interviews to get an external perspective on HMRC's approach to tax debt management. We used this to test HMRC's claims and to triangulate other findings. The stakeholders we spoke to represent only a small proportion of the total population, so we do not treat findings from these interviews as generalisable.

Departmental teach-ins and meetings

17 In April 2026, we visited HMRC's offices for a 'teach-in' day where HMRC officials from the debt management directorate presented to us about the work of the directorate. Topics HMRC covered included:

- HMRC's tax debt strategy;
- trends and drivers in tax debt;
- the fiscal measures brought in since 2021;
- the tailoring of taxpayer debt journeys;
- debtor population segmentation;
- uses of data; and
- HMRC's approach to writing off debt.

18 We prepared for the teach-in day by conducting desk-based research, and requested the topics that HMRC should cover based on our audit scope. We developed a question guide and took comprehensive notes. Our notes focused on capturing key data points, future actions, and any new lines of potential enquiry.

19 We also held regular weekly meetings with HMRC officials from the debt management directorate. We used these to discuss evidence and request new data. When we needed to clarify points of detail, we held further meetings or corresponded using email or Microsoft Teams.

Case walkthroughs and caseworker observations

20 In May 2026, we visited HMRC's Liverpool offices and reviewed how HMRC resolved 29 tax debts with the help of HMRC collectors. This sample was the largest we could feasibly review given the time and resource constraints on both us and HMRC. It included debts from different teams, different types of tax, and different kinds of debtors (for example, individuals and large businesses).

21 Owing to the nature of HMRC's IT systems, and the huge volume of debts HMRC deals with, we were unable to select this sample ourselves. Instead, we presented HMRC with a set of criteria and asked it to prepare a series of resolved debts that met these criteria. Most of these debts were resolved by HMRC in 2025-26.

22 We recognise that our approach to sampling was not fully independent. As such, we did not treat it as a representative sample of tax debts resolved by HMRC and did not attempt to generalise our findings. Rather, we used them to examine and gain a greater understanding of:

- how collectors are assigned to and resolve debts;
- what information collectors have available to them when resolving debts;
- how teams within the debt management directorate work together;
- how debt management processes intersect or rely upon other parts of HMRC; and
- where there might be avenues for future enquiry.

23 Following our review of resolved tax debts, we then spent approximately four hours observing collectors as they went about their day-to-day tasks. We observed collectors across several teams within the debt management directorate as they took incoming phone calls, made outgoing calls, sent emails, negotiated payment plans, operated a broad range of IT systems, and monitored debt journey progress.

24 At the end of each observation, we asked follow-up questions of the collectors. This allowed us to clarify why the collector had taken the actions we observed and how HMRC's processes are supposed to operate in practice. We also used these questions to help identify potential issues in HMRC's systems and processes.

25 The collectors we observed were volunteers and were therefore not randomly sampled from the general collector population. As such, we did not use observations to inform our views on the skills and training of HMRC debt management staff.

26 The work we observed was, however, largely random, as HMRC could not know which taxpayers would call. We therefore used our observations to inform our views on:

- the debt management directorate's processes;
- the guidance provided to collectors;
- HMRC's debt management IT systems;
- how HMRC negotiates payment plan arrangements; and
- errors and inefficiencies in HMRC's approach to debt management.

International insights

27 We concluded that direct international comparisons were not possible, as tax administrations operate under different political, cultural, economic and legislative contexts. As such, we have not sought to benchmark HMRC's performance against other tax administrations.

28 We have, however, used international insights to contextualise HMRC's approach to tax debt management. To do so, we reviewed reports and models from the Organisation for Economic Co-operation and Development (OECD), as well as reports and analysis produced for a network of international tax administrations, of which HMRC is a member.

29 We also interviewed representatives from the Inland Revenue Authority of Singapore (IRAS), which was recognised by the OECD as a leading source of best practice in several areas of tax debt management. During this interview, we explored the principles guiding IRAS's approach to tax debt management, the strategic frameworks it employs, and how it utilises powers, analysis and behavioural insights.

Use of generative artificial intelligence (AI) tools

30 We used Microsoft Copilot throughout our audit, to:

- generate an initial mapping of HMRC documents against some aspects of our evaluative criteria; and
- summarise key themes from interview transcripts.

All generative AI outputs were reviewed and validated by the audit team.

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