



PROPOSALS TO TACKLE LOWER VALUE TAX DEBTS

Issued 26 August 2026

ICAEW welcomes the opportunity to comment on the proposals to tackle lower value tax debts, published by HMRC on 23 June 2026, a copy of which is available from this [link](#).

- We are broadly supportive of this measure to reduce the tax gap by recovering persistent long-term debt.
- We have concerns around HMRC's ability to manage this process effectively. Establishing affordability could be a quite labour-intensive process. The consultation document acknowledges that around 4.8m taxpayers could fall within the criteria for being included in the programme. How many of these would HMRC have the capacity to include?
- Safeguards will be key in ensuring that:
 - a) the debt being recovered is genuine (eg, has not arisen through HMRC processing errors or delays);
 - b) the amount being sought each month is affordable and does not cause undue financial hardship;
 - c) any support needs and vulnerabilities are accommodated for; and
 - d) there are sufficient routes for the taxpayer to lodge objections and should be clearly set out in legislation and guidance to ensure that taxpayers subject to this measure are aware of their rights and obligations.
- We believe that the notice period to respond to a pre-deduction notice should be at least 30 days and that at least a month's notice should be given following the end of the objection period before payments are taken.

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This response of 26 August 2026 has been prepared by ICAEW's Tax Faculty.

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KEY POINTS

1. We are broadly supportive of this measure to reduce the tax gap by recovering persistent long-term debt.
2. We have concerns around HMRC's ability to manage this process effectively. Establishing affordability could be a quite labour-intensive process. The consultation document acknowledges that around 4.8m taxpayers could fall within the criteria for being included in the programme. How many of these would HMRC have the capacity to include?
3. Safeguards will be key in ensuring that:
 - a) the debt being recovered is genuine (eg, has not arisen through HMRC processing errors or delays);
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 - d) there are sufficient routes for the taxpayer to lodge objections and should be clearly set out in legislation and guidance to ensure that taxpayers subject to this measure are aware of their rights and obligations.
4. We believe that the notice period to respond to a pre-deduction notice should be at least 30 days and that at least a month's notice should be given following the end of the objection period before payments are taken.

ANSWERS TO SPECIFIC QUESTIONS

Question 1: Do you agree with the proposed process to tackle lower value debts and do you have any comments on the illustrative process outlined above?

5. As a general principle, we support HMRC taking action to close the tax gap and recovering genuine tax debts that remain outstanding, despite consistent effort to recover them.
6. However, if HMRC is to introduce this measure, it is important that safeguards are introduced to ensure that action is only taken to recover genuine debts from customers that have the means to pay them. We provide further comment on this in our response to question 9 of the consultation.
7. We appreciate that:
 - a) the proposed process would only be used where other methods of debt collection have been exhausted;
 - b) the process could be paused or changed as new information about a customer becomes available; and
 - c) a phased test and learn approach would be used to implement the regime.
8. However, we remain concerned that HMRC does not have sufficient information to accurately assess a customer's ability to pay and their level of vulnerability.
9. We don't agree that a 14-day notice period following the issuance of a pre-deduction notice (PDN) would be sufficient time for the customer to respond to that PDN. Letters from HMRC can sometimes take 7 – 10 days from the date of issue to reach the taxpayer after which there is very little time left. 30 days could be more reasonable than 14 days.
10. HMRC should take care to ensure that the notice will be sent to the customer's current means of contact (address, e-mail address) before sending it.
11. HMRC could cross-reference the information it holds about the customer against that held by the deposit holder proposed to take the payment to ensure that the reason why debts remain outstanding isn't because demands are being sent to contact details that are out of date.
12. We believe that HMRC has underestimated the extent to which errors or delays in its own processing systems lead to debts appearing to be outstanding, but which have already

been paid, extinguished or superseded, such as the making of a claim or election that reduces the relevant tax liability. Our members have dealt with cases, for example, VAT repayment and R&D tax relief claims which have not been processed for extended periods, during which time, other taxes become due.

13. While it is proposed that the customer would have access to a streamlined objections process, vulnerable taxpayers may not understand the process or be able to take advantage of it. Indeed, their vulnerability may be the reason why the debt remains outstanding.
14. We are concerned that collecting from joint accounts could leave a family in a vulnerable position, especially where the other account holder is supporting the family. We therefore recommend that deductions are not taken from joint accounts, or that they are given more extensive examination to ensure that the other account holder is not unduly impacted. This could be achieved by checking the financial standing of the other account holder before proceeding to ensure there is a strong safeguard.
15. HMRC should ensure that the communications sent to the taxpayer at the start of the PDN process also reference where the person can get help if they have debt issues (eg relevant charities). It should also reference the Breathing Space (Debt Respite Scheme), formal Debt Management Plans and Debt Relief Orders as HMRC may not be the only entity to whom the taxpayer owes money. HMRC should direct the person to the information at <https://www.gov.uk/options-for-dealing-with-your-debts> if they can access information online.
16. At the end of the process, if the person is continuing to generate tax liabilities, HMRC could point them to a managed payment plan so they can more easily budget for future liabilities and avoid accruing future tax debts.
17. HMRC is moving to digital communications. The PDN communications should not, however, only be sent digitally. Doing so would risk disadvantaging those who are digitally excluded or vulnerable and who cannot handle such communications.

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

18. HMRC should not send a PDN unless it is certain that there is an active taxpayer to receive it. This could be done through confirming the existence of activity, for example or deduction of income tax through PAYE by an employer. This should provide some protection to vulnerable taxpayers who otherwise have no source of income against which tax payments could be made.
19. HMRC should also ensure that sufficient effort has been taken to putting a time to pay arrangement (TTPA) in place. Our members have reported that in dealing with TTPA applications, there is not always call notes left for the next call handler and different HMRC officers pick up each call rather than each taxpayer being allocated a dedicated caseworker. It is possible that many taxpayers fail to finish the process as a result.

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

20. No response.

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

21. We appreciate and welcome the exclusion of the types of debt listed in the consultation document.
22. We agree with the principle that penalties and interest could also be recovered through this process. However, we request clarification as the consultation document states that “as with TTP plans, once instalment payments begin, it is the government’s intention that

penalties associated with that debt would also stop accruing” but it also says that the process would collect penalties and interest “that may accrue up to the point the debt is settled.” We believe that the accruing of interest should be paused once instalment payments begin.

Question 5: Do you envisage any issues with the proposed upper debt value limits? If so, what should the proposed upper debt value limit be?

23. We understand that HMRC has based the £5,000 around the annual tax liability payable by an individual on median income and the fact that this amount of debt is more prevalent because of the larger number of taxpayers around that level of income.
24. While we are persuaded by this, we would be more convinced by the setting of these limits if they were the amounts which typically remain unpaid after existing debt collection arrangements have been exhausted.
25. We would be concerned if larger debts than this were being collected using an automated payment collection system. Therefore, we consider that this should be the maximum upper value limit.

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

26. We appreciate the care HMRC proposes to take in ensuring that those customers who have specific support needs are identified and that the proposed action will be adapted or paused. We also understand the difficulties HMRC faces in identifying every need, especially the privacy concerns that come from using third party data.
27. We welcome the proposed prompt in the PDN to instruct recipients to contact HMRC should they require extra support but note that some customers may not understand or have the resources to respond to this prompt. Before commencing proceedings and issuing a PDN, HMRC should also therefore consider whether there are any needs or vulnerabilities that had led to the debts remaining outstanding in the first place before proceeding with the proposed action.

Question 7: Are there other suitable sources of information about a customer’s potential support needs that HMRC might access in the absence of customer contact?

28. HMRC could explore accessing information held by the office of the public guardian to determine whether an individual has the mental capacity to interact with HMRC.
29. HMRC could also check whether the taxpayer has a power of attorney in place. PDN documentation should be posted (in addition to being sent by email) as Attorneys/Deputies of the Court of Protection may not have access to the taxpayer’s email/digital accounts.

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

30. We broadly agree with this overall approach and support the proposal that flexibility is used to ensure that deductions remain affordable, proportionate and responsive to individual circumstances.

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

31. We recognise the challenges created in establishing affordability across a high volume of cases. We also note that, given the relatively smaller value of debts being brought into this regime, extensive manual assessment may considerably reduce the affordability of collecting the debt through this method.

32. We agree that a broad-brush approach would be a useful starting point and that additional data that comes to light could be used to determine whether the initial instalment plan remains affordable for the customer.
33. However, we are concerned that if a taxpayer is not engaging with HMRC, assumptions will need to be made which could prove inaccurate (eg an individual having child support responsibilities or an illness disrupting future earnings). Automation means that there is no human judgement in the loop. Flexibility will be required to amend payment schedules when new information become available.
34. Although there may be some employees who owe tax debts because their employers have made mistakes in tax coding, for example, we would expect that individuals caught by these provisions are most likely to be self-employed. Some business owners may have highly fluctuating turnover or cashflow month-on-month. This could make it more difficult to find a suitable instalment payment that remains affordable every month. In those cases, we wonder whether it might be possible for HMRC to arrange to take a specified percentage of net income after on-going expenses have been deducted?

Question 10: Do you agree with the government's proposed approach to enabling customers to lodge an objection, the proposed grounds for objection and the timescales for doing so?

35. We appreciate that the objection process remains open through to the date of the final deduction to allow for a change in the customer's circumstances. However, there is a risk that customers would not have received the PDN by mail within the deadline for appealing it. As mentioned in our response to question 1, 30 days could be more reasonable than 14 days.
36. This might even lead to payment of the debt upfront, so the more opportunity HMRC gives, the more likely this will happen.
37. In addition to the right to object against the process, HMRC should permit late appeals against the original decision giving rise to the liability (if those rights have not yet been exhausted). Otherwise, taxpayers may find they need to pay debts that aren't correct.
38. The payments should not start immediately (eg give at least a month's notice following the end of the objection period so that the individual or company can ensure that there will be funds in the account to cover the payment).
39. HMRC should also commit to specific turnaround times for processing appeals.

APPENDIX 1

ICAEW TAX FACULTY'S TEN TENETS FOR A BETTER TAX SYSTEM

The tax system should be:

1. **Statutory.** Tax legislation should be enacted by statute and subject to proper democratic scrutiny by Parliament. A clear statutory basis ensures legitimacy, accountability, and public trust in the tax system.
2. **Certain.** As far as possible, the application of tax rules and compliance processes should be certain. Taxpayers should not normally need to resort to the courts to understand how the rules apply to their affairs.
3. **Simple.** The tax system should be easy to understand for all taxpayers and advisers. Complexity undermines trust, creates unfairness, and discourages compliance.
4. **Easy to administer.** Tax liabilities should be straightforward to administer for HMRC, agents, and all taxpayers. Taxes should be designed to work effectively in a digital environment, while administration must remain accessible to those with limited digital capability.
5. **Properly targeted.** Anti-avoidance rules and other targeted measures should be proportionate, clearly defined, and carefully scoped to achieve their policy objective without undermining simplicity or certainty. Poorly targeted measures add complexity and uncertainty, harming compliance.
6. **Stable.** Changes to the tax system should only be made when clearly justified by economic, social, or environmental goals. Transparent, purposeful reforms build confidence and move the system toward greater coherence and long-term stability.
7. **Subject to proper consultation.** Other than in exceptional circumstances, tax changes should be subject to open and meaningful consultation. Adequate time for stakeholder input improves policy quality, practicality, and public trust.
8. **Regularly reviewed.** Tax rules, reliefs, and policy-driven interventions should be subject to regular, transparent review to assess whether they remain relevant, effective, and aligned with current policy goals. Outdated or unjustified provisions should be reformed or repealed to maintain coherence.
9. **Fair and accessible.** The tax system should be fair and accessible in design and in operation, ensuring equitable treatment of taxpayers. Revenue authorities must exercise their powers proportionately, and all taxpayers should have timely access to HMRC assistance, independent appeal, and redress.
10. **Efficient.** The tax system should raise revenue in a way that minimises unnecessary distortions, compliance burdens, and resource misallocation. While all taxes affect behaviour to some degree, tax design should avoid cliff edges, unintended incentives, or inefficiencies that reduce economic wellbeing unless these serve a clearly defined policy aim.

For more information, please see [Ten Tenets for a Better Tax System | ICAEW](#)