Summary: Intervention & Options

Department /Agency:	Title:	
HMRC	Impact Assessment for Payments, Repayments and Debt: The Next Stage	
Stage: Final	**Version:** 2.0	**Date:** 14 April 2009

Related Publications: Payments, Repayments and Debt: the developing programme of work - June 2007; Responses to consultation and proposals - Jan 2008; Responses to consultation and proposals - March 2008; Payments, Repayments and Debt: the next stage – Nov 2008; Responses to consultation and explanations – April 2009.

Available to view or download at:

www.hmrc.gov.uk/better-regulation/ia.htm

Contact for enquiries: powers.review-of-hmrc@hmrc.gsi.gov.uk **Telephone:** 020 7147 3223

What is the problem under consideration? Why is government intervention necessary?

HMRC was created out of the former Inland Revenue and HM Customs & Excise departments in 2005. The powers of the former departments were carried forward to the new department unchanged. Some of these inherited powers are inconsistent and can impose undue costs on taxpayers and the Exchequer. The Review of Powers, Deterrents and Safeguards has been examining payment, repayment and debt management with the intention of modernising powers and achieving efficiencies. This programme of work requires changes to primary legislation and some changes were introduced in Finance Act 2008 (FA2008). The measures outlined here are a continuation of that work.

What are the policy objectives and the intended effects?

The objective is to deliver more efficient systems for payment, repayment and debt management through a more taxpayer focused approach, making it easier for taxpayers to pay and enabling HMRC to tackle debt more effectively. The intended effect is to produce a fairer, modernised payment, repayment and debt collection system that more fully supports those who wish to pay what they owe on time, helps those who may have difficulty paying and takes more effective action against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

What policy options have been considered? Please justify any preferred option.

1) Do nothing and continue with present legislation and processes for payment, repayment and debt collection; or

2) A package of measures including: payment instalment schemes to allow more flexible payment of income tax and corporation tax; collecting small debts through Pay As You Earn; award of costs in successful court actions and tracing missing debtors**.**

Option (2) is preferred. The package would enable customers to spread payment of lump sum tax bills and improve the effectiveness of debt collection.

When will the policy be reviewed to establish the actual costs and benefits and the achievement of the desired effects? Post implementation review would take place around three years after the full implementation of any option.

Ministerial Sign-off For Implementation Stage Impact Assessments:

I have read the Impact Assessment and I am satisfied that (a) it represents a fair and reasonable view of the expected costs, benefits and impact of the policy, and (b) that the benefits justify the costs.

Signed by the responsible Minister:

Stephen Timms

Date: 14 April 2009

Summary: Analysis & Evidence

Policy Option: 2a | **Description Payment Instalment Schemes**

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	The set up costs include changes to IT systems, training etc. The ongoing costs for HMRC include payment processing, bank charges and IT maintenance. Costs to taxpayers depend on which payment methods they used before and after joining such a scheme and number of payments made. Participation in a payment instalment scheme is voluntary. These figures assume between 10%-30% take-up.
£ 11.5million		
Average Annual Cost (excluding one-off)		
£ 4 – 9.5 million		**Total Cost** (PV) **£ 15.5 – 21 million**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ nil		
Average Annual Benefit (excluding one-off)		
£ nil		**Total Benefit** (PV) **£ nil**

Other **key non-monetised benefits** by 'main affected groups' Payment instalment schemes would enable businesses to better manage their cashflow. They would help taxpayers who struggle to meet their lump sum tax bills by spreading payment and support general compliance with tax obligations.

Key Assumptions/Sensitivities/Risks The costs in the boxes indicate the costs of payment instalment schemes when take up is 10% to 30%. Managed payment plans (MPP) would not be available to customers in the corporation tax quarterly instalment payment scheme or with group payment arrangements. MPP would have an impact on the cashflow to the Exchequer with a reciprocal effect for the customer. Details in evidence base.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV)	**NET BENEFIT** (NPV Best estimate)
		£	**£ n/a**

What is the geographic coverage of the policy/option?			United Kingdom	
On what date will the policy be implemented?			2011	
Which organisation(s) will enforce the policy?			HMRC	
What is the total annual cost of enforcement for these organisations?			£	
Does enforcement comply with Hampton principles?			Yes	
Will implementation go beyond minimum EU requirements?			n/a	
What is the value of the proposed offsetting measure per year?			£ n/a	
What is the value of changes in greenhouse gas emissions?			£ -	
Will the proposal have a significant impact on competition?			No	
Annual cost (£-£) per organisation (excluding one-off)	Micro **see above**	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	See above

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of £2.8 – 8.3m	Decrease of £	**Net Impact**	**£** 2.8 – 8.3 million

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 2b	Description Collecting small debts through Pay As You Earn (PAYE)

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	There are set up costs for HMRC to develop processes and IT systems. There may be a small cost to employers where an employee's debt is coded out: to make the code change and refer enquiries to HMRC. HMRC estimates this will average 60p per coding notice.
£ 5 million		
Average Annual Cost (excluding one-off)		
£ 1 million		**Total Cost** (PV) **£ 6 million**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ nil		
Average Annual Benefit (excluding one-off)		
£ nil		**Total Benefit** (PV) **£ nil**

Other **key non-monetised benefits** by 'main affected groups' Individuals' payment would be made in instalments and safeguards are built into the process to protect their level of income. It would reduce the cost to HMRC of collecting small debts.

Key Assumptions/Sensitivities/Risks Costs for employers would depend on how many employees they have with debts that have been coded out. Analysis done on 2006 ITSA (self assessed income tax) estimated that about 35,000 cases could be coded out annually with a debt recovered of about £20 million. See evidence base for details. The costs and amount recovered would vary depending on the volumes coded out annually.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ n/a**

What is the geographic coverage of the policy/option?	United Kingdom			
On what date will the policy be implemented?	2011-12			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	n/a			
What is the value of the proposed offsetting measure per year?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£ -			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro **see above**	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ negligible Decrease of £ **Net Impact** £ **negligible**

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 2c	Description: Award of costs in successful court actions

COSTS		
ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups' The one-off cost is mainly IT costs incurred by HMRC. Debtors taken to court will incur greater costs than the court fees charged at present.
One-off (Transition)	**Yrs**	
£ 630,000		
Average Annual Cost (excluding one-off)		
£ negligible		**Total Cost** (PV) **£ 630,000**
Other **key non-monetised costs** by 'main affected groups'		

BENEFITS		
ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ nil		
Average Annual Benefit (excluding one-off)		
£ nil		**Total Benefit** (PV) **£ nil**
Other **key non-monetised benefits** by 'main affected groups'		

Key Assumptions/Sensitivities/Risks The Exchequer is compensated for the cost of recovering debts through the courts which means that compliant taxpayers do not bear this burden. The effect would vary depending on how many court actions are taken by HMRC and at what stage the debt is paid. Only non-compliant customers taken to court for a tax debt would incur these costs, which have been estimated to be £2-2.5million.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) **£ n/a**

What is the geographic coverage of the policy/option?	England, Wales & NI			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	n/a			
What is the value of the proposed offsetting measure per year?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro **see above**	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices)			(Increase - Decrease)
Increase of £ n/a	Decrease of £	**Net Impact**	£ n/a

Key: **Annual costs and benefits:** **(Net) Present**

Summary: Analysis & Evidence

Policy Option: 2d	Description Tracing missing debtors

COSTS

ANNUAL COSTS		Description and scale of **key monetised costs** by 'main affected groups'
One-off (Transition)	**Yrs**	The implementation costs for HMRC are likely to be relatively small with minor IT enhancements and existing processes being extended. There would not be a cost to the taxpayer but there would be an administrative burden placed on third parties. The burden would depend on the volumes of requests and internal processes of the third party. These have been estimated within the evidence base.
£ **200,000**		
Average Annual Cost (excluding one-off)		
£ **negligible**		**Total Cost** (PV) £ **200,000**

Other **key non-monetised costs** by 'main affected groups'

BENEFITS

ANNUAL BENEFITS		Description and scale of **key monetised benefits** by 'main affected groups'
One-off	**Yrs**	
£ **nil**		
Average Annual Benefit (excluding one-off)		
£ **nil**		**Total Benefit** (PV) £ **nil**

Other **key non-monetised benefits** by 'main affected groups' This proposal reduces the ability of taxpayers to avoid contact with HMRC, enables HMRC to pursue the debt more promptly and reduces the amount of tax debt written off due to the taxpayer being untraceable. It would give organisations statutory cover to pass customer details on to HMRC.

Key Assumptions/Sensitivities/Risks The estimated value of the debts recoverable from debtors gone unknown whose new details could be traced through use of this power is about £7million. This assumes that about 5,000 formal requests for information are issued annually. The cost to any particular business would depend on how many requests they received and their internal processes.

Price Base Year	Time Period Years	**Net Benefit Range** (NPV) £	**NET BENEFIT** (NPV Best estimate) £ **n/a**

What is the geographic coverage of the policy/option?	United Kingdom			
On what date will the policy be implemented?	2010			
Which organisation(s) will enforce the policy?	HMRC			
What is the total annual cost of enforcement for these organisations?	£			
Does enforcement comply with Hampton principles?	Yes			
Will implementation go beyond minimum EU requirements?	n/a			
What is the value of the proposed offsetting measure per year?	£ n/a			
What is the value of changes in greenhouse gas emissions?	£ -			
Will the proposal have a significant impact on competition?	No			
Annual cost (£-£) per organisation (excluding one-off)	Micro see above	Small	Medium	Large
Are any of these organisations exempt?	No	No	No	No

Impact on Admin Burdens Baseline (2005 Prices) (Increase - Decrease)

Increase of £ Decrease of £ **Net Impact** £ **negligible**

Key: **Annual costs and benefits: Constant Prices** **(Net) Present Value**

Evidence Base (for summary sheets)

HMRC consulted on these ideas as part of Review of Powers, Deterrents and Safeguards including publication of *Payments, Repayments and Debt: The Developing Programme of Work* in June 2007. A summary of the responses to that consultation was published in *Responses to Consultation and Proposals* on 10th January 2008 and legislation for some of the proposals was included in Finance Bill 2008. The remaining ideas were developed further in the consultation document *Payments, Repayments and Debt: the next stage* published in November 2008 with draft legislation for payment instalment schemes and tracing missing debtors published in January 2009. A paper outlining the responses to this most recent consultation is published alongside this impact assessment. The Powers Consultative Committee, which consists of representatives of the wider taxpaying community including small business, has considered the ideas in this consultation document at an earlier stage of the review.

These proposals will mean that HMRC can more fully support those who wish to pay what they owe on time, help those who may have difficulty paying and take more effective action against those who would seek to gain an advantage through not meeting their liabilities or delaying payment.

In the impact assessment, benefits and costs are considered for both taxpayers and HMRC. Certain costs to business qualify as administrative burdens. The technical definition of “administrative burden” is a specific, measurable sub-set of the costs to business of implementing tax legislation or dealing with HMRC forms, audits and inspections. The methodology is contained in the Standard Cost Model available at http://www.hmrc.gov.uk/better-regulation/admin-burdens.htm

(a) Payment Instalment schemes

Current Situation

Some taxpayers get into financial difficulties when they fail to provide for tax[1] such as self assessed income tax where payment is due once or twice a year. Research[2] has indicated that small businesses in particular would like a more flexible system that offers the opportunity to make tax payments more frequently than at present and could help them better manage their cash-flow. Qualitative research with customers who had been in tax debt found that the idea of paying tax on a monthly basis was received warmly by participants[3]. In consultation, individual taxpayers and small businesses said that they would like the opportunity to take advantage of different payment arrangements.

Possible models were discussed at consultation workshops and other customer insight events. Two schemes were published in the November 2008 consultation document. Respondents to this consultation wanted considerably more flexibility than HMRC can offer at present, but recognised that it was worth building on these schemes in the future.

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[1] For the purposes of this document tax is taken to include all the taxes, duties and national insurance contributions for which HMRC is responsible. Taxpayer should be taken to include anyone paying all such taxes, and also, unless the context says otherwise, those receiving tax credits and child benefits. It also includes those paying tax on behalf of another person.

[2] Analysis of the impact of the tax system on the cash flow of small businesses: a Report for HM Revenue and Customs (HMRC) by Small Business Research Centre (SBRC), Kingston University, November 2005.

[3] A summary of this research is given in Chapter 2 of the HMRC consultation document ‘Meeting the obligations to file returns and pay tax on time: consultation responses and refined models’, November 2008

Last year, a new system was launched to improve HMRC's ability to collect and manage direct debit payments. The system enables customers to schedule one-off payments of tax and facilitates budget payment plans for income tax: spreading payment towards future liability. Payments can be varied or suspended but the total paid should satisfy the liability by the due date. Customer surveys estimated that up to 1 million SA customers would join such a payment plan.

How this measure will work

There would be two types of payment instalment schemes. The first model would see the extension of the income tax budget payment plan (outlined above) to corporation tax. In such a scheme, all the payments would be made *in advance* of the due date and there would be the facility to miss a payment or vary the amount of an instalment as long as the liability was met by the deadline. The second model, called managed payment plans, would apply to corporation tax and self assessed income tax (ITSA). It would give taxpayers the facility to make regular monthly payments based on their liability but the payments would *straddle* the due dates, with the payments in advance of the due date balanced by those made in arrears. Interest and surcharges would be suspended in such an arrangement. Managed payment plans would not be available to customers in the corporation tax quarterly instalment payment scheme or with group payment arrangements.

Benefits

Payment instalment schemes would enable businesses to better manage their cashflow whilst making regular payments to HMRC. The schemes would help taxpayers who struggle to meet their lump sum tax bills by spreading payment, enabling people to budget more easily and avoid getting into arrears. Managed payment plans would be open to taxpayers in arrears as long as they agreed to pay off the debt (which could also be done in instalments).

Further benefits may accrue from the payment method used in such a scheme. For example, regular electronic payments such as direct debit or standing order would give both the customer and HMRC the advantages of speed and certainty.

Set-up costs

The set up costs to HMRC, including changes to IT systems, training and so on, amount to about £11.5million over 2-3 years. Other costs depend on the rate of take-up of the payment plans.

Ongoing costs

The cost of managed payment plans have been modelled for three scenarios: assuming 10%, 20% and 30% take-up rate (where take-up is based on customer numbers in the ITSA model and payments made in the corporation tax model).

Costs to HMRC of managed payment plans

The ongoing cost to HMRC of processing the greater number of payments made within managed payment plans and the associated bank charges has been calculated assuming (i) the method of payments outside a payment plan do not change and (ii) that half the payments made within a plan are made by direct debit, half by standing order. For the income tax scheme, these costs would range from £100,000 (10% take up) to £300,000 (30% take-up). For the corporation tax scheme, the cost would be between £75,000 (10% take-up) and £220,000 (30% take-up). These costs are based on all taxpayers joining at the beginning of the scheme and making the maximum number of payments possible.

Managed payment plans will also have an impact on cashflow to the Exchequer. The interaction of payment peaks with HMRC's financial year puts some receipts into the following year for income tax and advances others for corporation tax.

For the income tax scheme which runs from November to October, this impact is greatest in the first year as some payments are deferred from one financial year to the next (ie HMRC's financial year which runs from April to March). In subsequent years, the effect is less marked and depends on the growth of the total amount of ITSA tax due.

The impact on cashflow of the ITSA management payment plan for the three levels of take up is set-out in the tables below. The first table assumes all taxpayers who join the scheme do so in time for their first instalment to be paid in November. Given that taxpayers will need to assess the benefits of the scheme for the first time, it is more likely that some of them will join as the year progresses. The second table assumes 30% of taxpayers join the scheme in December.

Cash flow impact (£m) - all taxpayers join in November

		10% take-up rate		*20% take-up rate*		*30% take-up rate*	
	current	new	difference	new	difference	new	difference
Year 1 2003/04	23,750	23,530	-220	23,300	-450	23,080	-670
Year 2 2004/05	24,650	24,640	-6	24,630	-12	24,630	-18
Year 3 2005/06	25,320	25,320	-6	25,310	-13	25,310	-19
Year 4 2006/07	26,020	26,010	-7	26,010	-13	26,000	-20

Cash flow impact (£m) – 30% of taxpayers who join do so in December

		10% take-up rate		*20% take-up rate*		*30% take-up rate*	
	current	new	difference	new	difference	new	difference
Year 1 2003/04	23,750	23,610	-144	23,460	-287	23,320	-430
Year 2 2004/05	24,650	24,640	-4	24,640	-8	24,630	-12
Year 3 2005/06	25,320	25,320	-4	25,320	-8	25,310	-12
Year 4 2006/07	26,020	26,020	-4	26,010	-8	26,010	-13

Assumptions:

- Take-up rate is applied to received monies and assumes take-up rates are the same across all ITSA taxpayers, regardless of how much tax is due. If taxpayers who contribute heavily to payments (i.e. cash flow) do not join the managed payment plan (MPP) scheme, the model will overestimate the proportion of MPP payments.

- Cash flow for all four years is based on historical data - 2003/4 data was used as the baseline with subsequent years portraying an annual growth rate of 2.75%. All other things being equal, if there is no growth over four years, the first years cashflow would show the same drop but over subsequent years the cashflow would not be affected; if there is a fall in ITSA tax due, the cashflow for the first year would drop by the same amount as the other scenarios but the cashflow for subsequent years would rise as the payments deferred from the previous year would tend to be larger than the payments due in the current year.

The impact on cashflow for corporation tax was modelled on payments relating to Accounting periods ending between April 2005 and March 2006.

Cash flow impact (£m) - all taxpayers join on time

		10% take-up		20% take-up		30% take-up	
payments received	*Current*	*MPP*	*Difference*	*MPP*	*Difference*	*MPP*	*Difference*
Year 1	10,137	10,143	**6.00**	10,150	**12.10**	10,156	**18.10**
Year 2	10,416	10,416	**0.20**	10,417	**0.30**	10,417	**0.50**
Year 3	10,703	10,703	**0.20**	10,703	**0.30**	10,703	**0.50**

Assumptions

- Take-up rate is applied to received monies and assumes take-up rates are the same across all corporation tax payers, excluding customers in the corporation tax quarterly instalment scheme and group payment arrangements
- As for ITSA, a 2.75% growth rate has been assumed (based Treasury forecasts: see http://www.hm-treasury.gov.uk/d/pbr08_annexa_339.pdf; table A2).
- The model assumes the first instalments would be paid in April (relating to accounting periods that ended in the previous December and whose normal due date would be October) with a rolling implementation for the next 12 months. The cashflow may be different if the scheme was opened at a different point in HMRC's financial year.

Cost to HMRC of budget payment plans

The ongoing annual cost of processing the greater number of payments within budget payment plans and the associated bank charges would vary with take-up and be similar to those outlined for managed payment plans above: about £75,000 assuming a 10% take-up rate.

Cost to customers

The cost incurred by taxpayers is calculated on the basis that all taxpayers join at the beginning of the scheme and make the maximum number of payments possible.

Assuming a 10% take up rate for budget payment plans for corporation tax, the additional cost to customers of monthly direct debit payments would amount to £260,000. This does not count as an administrative burden as discussed below.

Administrative Burdens

Budget payment plans would have little impact on the administrative burden on businesses as there will be no additional requirement to make more payments than under the current payment regime. A normally efficient business will be able to make payments as frequently or infrequently as they require to optimise their administrative costs and any other considerations such as cashflow. A business would only see an increase in administrative burden if it felt that there were compensating benefits elsewhere.

In the second model, managed payment plans, for those taxpayers already in arrears, additional payments to clear their debts would be outside the administrative burdens target (which measures burdens on the compliant only). For the compliant, there will be some additional administrative burden in the increased number of payments which taxpayers will be required to make to settle their liability, but this may be partially offset by a reduction in time taken to make payments as taxpayers move from a one-off payment by cheque, to a regular, less onerous, electronic payment method. This administrative burden is dependent on the take up of the scheme. HMRC estimates it will be between £650,000 (at 10% take-up) and £1.9million (at 30% take-up) for corporation tax and £2.1million (10% take-up) and £6.4million (at 30% take-up) for ITSA.

(b) Collecting small debts through the PAYE system

Current Situation

HMRC already collects small underpayments of income tax through the PAYE system by adjustments to an employee's tax code. An examination of tax returns for 2006/7 showed that 317,000 SA taxpayers elected to have underpaid tax from 2005-06 and earlier coded out. The total amount covered was £125million at an average of £395 each. HMRC may also recover tax credit overpayments in this way.

How this measure will work

This proposal would extend the coding out facility to collect any small debt owed to HMRC. Consent from the taxpayer would not be a pre-condition but HMRC would offer this as an option for a period, before taking unilateral action. A taxpayer would, as now, be able to appeal against their tax code.

The views on this proposal in previous consultation were mainly favourable, recognising this as a sensible and proportionate method to collect small debts as long as there were safeguards against hardship, avenues to deal with debts that are in dispute and clear information and communication about the measure.

Benefits

Small debts account for a small proportion of the value but a large proportion of the volume of tax debts. This proposal would reduce the cost to HMRC of collecting small amounts whilst allowing taxpayers to spread payments. There are safeguards built in to the coding process to protect the level of the taxpayer's income. Taxpayers would not bear any costs, unlike enforcement action where they pay the costs of the action.

Two pieces of work have been done to gauge how many of the small debts are owed by customers with a source of employment income.

An automated exercise was carried out to find out how many ITSA (income tax self assessment) taxpayers who incurred a surcharge (a penalty for late payment) during 2006 also had a source of employment income the following year. It was not possible to establish the size of the debt from this analysis so taxpayers' liabilities were used as a proxy. A match was found for 35,000 cases where individual liabilities were less than £2000; total liabilities amounted to about £38million with a potential £20million being recoverable through coding out.

2005/06	**Number of taxpayers**	**Total tax due (£)**	**Total debt (£)** (assuming 50% of 'tax due' is debt)
Number of ITSA txp in PAYE in 2005/06	3,351,213		
Txp also with late payment flag in 2004/05	114,717		
Txp with 'tax due' > £0	95,478		
Txp with £0 < 'tax due' < £4k	57,504	102,643,176	51,321,588
Txp with £0 < 'tax due' < £2k	34,944	38,381,185	19,190,593

Assumptions

- The total debt owed by these taxpayers is likely to be less than £38million as partial payments may have been made
- The amount of debt recoverable assumes that 50% of tax due is a debt
- For the purposes of this analysis, it has been assumed that this debt would not otherwise have been collected

These figures describe a subset of potential cases: focussing on one type of tax (ITSA) and customers who have incurred a surcharge during one tax year, who are both filing an ITSA return as well as receiving employment income but excluding customers whose liability is greater than £2000 but whose outstanding debt due to partial payments may be less than £2000.

A manual case review with a wider scope was carried out. Various types of debts under £500 were checked to find whether the debtors had a source of employment income. 40% of customers with an SA debt, 23% of those with a VAT debt and 30% of those with class 2 national insurance owing had employment income the following year.

Costs

The costs of setting up IT systems and processes to collect debt through PAYE will be about £5million. The ongoing costs of incorporating payment into the taxpayers' codes, accounting for payments collected and handling the attendant enquiries and appeals would vary depending on the volume of debts coded out in one year.

A small cost may be incurred by employers. HMRC estimates there would be a cost to employers of just over 50p for every tax code change. This is based on the assumption that it will take 3.5 minutes for an employer to deal with a coding notice manually and 2 minutes for an employer using software, which met general agreement in consultation. These costs are calculated using HMRC's standard cost model which includes estimated salaries uplifted to include overheads.

HMRC would provide employees with information about how their PAYE coding will change as the debt is collected. Individuals may also turn to their employer for advice on their PAYE coding. HMRC have assumed that 1 in 20 of the people that have a debt coded out would contact their employer with a query and the employer would take 5 minutes to refer them to HMRC.

Based on these assumptions, the cost to employers would average around 60p per coding notice. The aggregate cost to employers will vary on the depending on how the scheme is implemented.

Administrative Burdens

HMRC recognises there may be an additional cost of administering coding changes as outlined above.

(c) Award of costs in successful court actions

Current Situation

In the commercial world, a creditor is entitled to include court fees and legal costs in their claim against a debtor in the civil courts. HMRC cannot claim legal costs because officers of HMRC are normally neither solicitors nor litigants in person.

How this measure will work

This measure would apply to England and Wales and in the future may be extended to Northern Ireland. It would allow HMRC to claim fixed costs based on the value of the claim which would help to redress the imbalance with other creditors. The proposal is to claim a proportion of scales that are currently in place in the county court and High Court.

This suggestion found broad support in consultation. The point was made that adding costs to a debt may simply mean adding debt to irrecoverable debt, but this is a decision that HMRC will have to make before bringing a court action in any event.

Benefits

Currently, it is cheaper for the defaulting customer to be sued by HMRC than by other creditors. If HMRC were able to claim legal costs and thereby align its position more closely with that of other creditors, this would no longer be the case. The Exchequer would be compensated for the cost of recovering debts through the courts so compliant taxpayers would not have to bear this burden.

Using the volume and value of cases HMRC took to County Court between November 2007 and October 2008, £2-2.5 million would have been generated by this measure. The annual benefit will vary depending on the volume and value of claims and at the stage at which the debt is paid.

Costs

Setting-up costs for changes to IT systems, forms and so on would amount to about £630,000. Existing processes would be adapted and the work absorbed by the existing staff numbers. Under this proposal, the defaulting taxpayer would pay legal costs as well as court fees as illustrated in the analysis above.

Administrative Burdens

This proposal falls outside the scope of administrative burdens.

(d) Tracing missing debtors

Current situation

HMRC makes every effort to ensure that the address information it holds is accurate and up-to-date, and uses a range of techniques to trace taxpayers who go missing including the extensive use of commercial databases. The Tracing Unit successfully traces over 90% of direct tax cases referred to the Unit.

However, there remain tax debtors that cannot be traced. In 2007 the Department wrote off £300million because it could not trace debtors. The 2007 consultation suggested that HMRC should be able to require relevant third parties to disclose address and contact details of such missing debtors.

Responses saw this proposal as reasonable as long as other sources of information were searched before a third party was approached. There were concerns that this power may deter debtors from approaching voluntary bodies offering tax advice, and suggestions on how to prevent this. HMRC is considering how this could be reflected in statute.

How this measure would work

The power would be operated by a specialised tracing unit within HMRC. In some instances HMRC already receives voluntary assistance from third parties. In other cases, this measure would enable HMRC, if we have reasonable grounds to believe that a third party has such information, to require them to provide contact details for a debtor. Such requests would always be made in writing. There would be a new penalty for non-compliance. Both the request notice and the penalty would be subject to appeal.

Benefits

This power would reduce the ability of taxpayers to avoid contact with HMRC, enable HMRC to pursue the debt more promptly and reduce the amount of tax that is written off due to the customer being untraceable. It would give HMRC additional means to find a taxpayer when other sources had been exhausted. While many third parties already comply voluntarily with such an approach, confidentiality undertakings and Data Protection issues currently inhibit co-operation. This measure would remove objections on these grounds.

Previous work estimated the number of formal requests at fewer than 5,000 a year; assuming the requests are targeted at higher value cases, £7million could be recovered from debtors traced through this means.

Costs

The cost of changes to internal IT systems and staff training would be about £200,000. Existing processes would be adapted and the work absorbed by existing staff numbers.

There would not be a cost to the taxpayer but there would be an administrative burden placed on the third parties. The requests to third parties would be made after other sources of information sources had been explored.

Administrative Burdens

Third parties likely to be affected are businesses such as tax agents, utility companies, banks and so on, many of whom already co-operate with HMRC voluntarily. The administrative burden would depend on the process for handling such requests and the volumes of requests received. HMRC estimates that it would cost a large organisation about £3 to deal with these requests and small businesses £4. Assuming there are 5,000 formal requests made, the majority to large businesses, the administrative burden would total £16,000 which counts as negligible for the purposes of the impact assessment.

Specific Impact Assessments

Full details of the specific impact tests are listed at www.cabinetoffice.gov.uk. These have been applied to the high-level ideas presented in this consultation. They will be applied again to test the impact as more detailed proposals are developed.

Competition assessment

These proposals will not impact on any business's capacity to enter markets or compete rigorously within them.

Small firms impact assessment

Small firms are not exempt from these proposals.

Payment instalment schemes are intended to support small businesses and help them meet their payment obligations. The other proposals are aimed at non-compliant taxpayers. To exempt small businesses would be to exempt the vast majority of UK enterprises from changes which aim to level the playing field by tackling more effectively those who seek to gain an advantage through not meeting their liabilities or delaying payment. If a more flexible approach was offered to businesses of less than 20 or 50 employees then there would be a risk that larger businesses would disaggregate.

Views about some of the proposals were sought from a group of taxpayers drawn from the small business community and qualitative research was commissioned to better understand the issues around tax debt. HMRC has also consulted with representatives of small businesses. Responses are outlined in the evidence base.

By levelling the playing field, these proposals seek to assist small businesses which comply with their obligations.

Equality

These measures were assessed for their likely impacts on equality groups differentiated by race, disability, gender, age, marital status, carers, sexual orientation, religious belief, language and political opinion (NI only). As a result, HMRC are considering whether managed payment plans can be opened up to customers who file their ITSA returns on paper as well as those who file electronically. The legislation will not preclude paper filers.

Other specific impact tests

We have carefully considered whether these proposals will have any impact on:

- Legal Aid
- Sustainable Development
- Carbon Assessment
- Other Environment
- Health
- Human Rights, and
- Rural issues

And conclude that they do not impact.

Specific Impact Tests: Checklist

Use the table below to demonstrate how broadly you have considered the potential impacts of your policy options.

Ensure that the results of any tests that impact on the cost-benefit analysis are contained within the main evidence base; other results may be annexed.

Type of testing undertaken	***Results in Evidence Base?***	***Results annexed?***
Competition Assessment	Yes	No
Small Firms Impact Test	Yes	No
Legal Aid	Yes	No
Sustainable Development	Yes	No
Carbon Assessment	Yes	No
Other Environment	Yes	No
Health Impact Assessment	Yes	No
Race Equality	Yes	No
Disability Equality	Yes	No
Gender Equality	Yes	No
Human Rights	Yes	No
Rural Proofing	Yes	No