At my appearance at the Treasury Select Committee on Thursday 3rd April 2014, you asked about the introduction of Direct Recovery of Debts (DRD). I promised to write to the Committee detailing the steps that would be taken before money was removed from bank accounts, and to provide examples of the communication HMRC has with debtors before getting to this stage.

As I announced at Budget 2014, DRD will allow HMRC to recover tax and tax credit debts directly from debtors’ bank and building society accounts, including Individual Savings Accounts (ISAs). This will support the Government’s commitment to create a fairer tax system by helping to level the playing field between those who pay their taxes on time and those who dodge their obligations and, by doing so, gain an unfair advantage.

I would like to draw the Committee’s attention to the consultation document on DRD which the Government published today. This provides full detail of the process HMRC will follow and safeguards that will be in place. This includes only applying DRD to debtors who have tax and tax credit debts which total £1,000 or more. As I announced at the Budget, a minimum of £5,000 credit will be left across the debtor’s accounts once the debt has been recovered.

The majority of taxpayers pay what they owe in full and on time, and will not be affected by this policy. This will only apply to a hard core of debtors who have debts that are no longer under appeal and who have repeatedly ignored HMRC’s attempts to make contact with them. HMRC estimates that:

- DRD will apply to around 17,000 cases a year;
- the debtors affected by this policy have an average of £5,800 in tax and tax credit debts; and
- around half of the debtors affected by this policy have more than £20,000 in their bank and building society accounts and ISAs but have not paid what they owe.

I can assure the Committee that every reasonable step will be taken to contact the debtor and arrange payment before this power is used. A ‘typical’ taxpayer in self-assessment with a good history of compliance will have been contacted by HMRC around nine times in total (by letter and telephone) before DRD is applied. To illustrate this, an indicative timeline is:

- The taxpayer receives a notice and reminders to file a tax return.
- The deadline for filing a return and paying is passed and HMRC does not receive a response (or the taxpayer files but does not pay).
- The taxpayer receives reminders to file and pay and a penalty notice is issued.
- HMRC establishes a debt for the taxpayer. If they have filed a return, the amount will be based on the information provided. If they have not filed, HMRC will determine a liability based on an estimate of the tax owed.
- If the debtor still does not respond or refuses to pay, they will receive letters and phone calls, including from specialist collectors. If the debtor has always been compliant in the past, they are likely to be contacted more times before enforcement is used (compared to a debtor with a history of non-compliance).
- If this is not successful, HMRC may attempt to recover the debt through the debtor’s Pay As You Earn (PAYE) tax code, if they are in this system.
- If there is still no response from the debtor or they are still refusing to pay, the debtor receives an enforcement letter or final opportunity letter before harder-edged enforcement is used. This may include the use of DRD.

As I promised the Committee, I have included sample letters in an annex. DRD will not be used lightly and the debtor will have ample warning that HMRC may be forced to take stronger action if they do not pay. It will also provide an alternative way for HMRC to collect money that otherwise might not have been collected or might have been pursued through debt collection agencies, visits from HMRC’s Field Force officers or the seizing of debtors’ goods.

I understand there are concerns about the use of this power without requiring a court order. I would like to reassure the Committee that even though a court order is not needed to initiate DRD action, the debtor still has the right of appeal to a court. In practice, a debtor will have several means of contesting DRD action:

- Before DRD is applied, the debtor will usually have the option of appealing to the independent First-Tier Tax Tribunal on the amount of tax due or on the legal basis of the liability.
- Once DRD has been applied, if the debtor objects and provides evidence to HMRC’s satisfaction that DRD action will cause undue hardship or that the debt is no longer due, HMRC will instruct the bank to immediately release the held funds back to the account holder.
- If the debtor objects and HMRC does not uphold the debtor’s objection, they will continue to have the right to a judicial appeal on the use of DRD.

HMRC has a unique role as a tax collector, acting as a statutory creditor on behalf of the Exchequer. To reflect this role, Parliament has given HMRC powers beyond those available to other creditors. HMRC currently has the legal power in England and Wales and Northern Ireland to seize certain types of goods without first needing to apply to the courts, as other creditors must. The use of DRD is consistent with HMRC’s existing powers to seize goods from debtors and has additional safeguards built in to ensure it does not cause hardship.

Thank you for raising these concerns.

George Osborne
Dear Sir/ Madam

**Please pay £X.X**

Our records show that you owe Self Assessment tax.

We are charging you interest daily. You will save money if you pay today. If you pay this debt now you can stop us taking any further action.

Please call 0300 200 3824 or go to [www.hmrc.gov.uk/payinghmrc](http://www.hmrc.gov.uk/payinghmrc)

If you have recently paid, thank you. If not, please act now.

Yours faithfully

Officer of Revenue & Customs
Debt Management and Banking
Mr/Mrs XXXXX
HMRC
DMBxxx

Phone
www.hmrc.gov.uk

Dear Sir/ Madam

Please pay £X.X

We recently contacted you about your overdue Self Assessment payment. However, our records show you still owe the amount above.

Please call 0300 200 3824 or go to www.hmrc.gov.uk/payinghmrc now.

If you do not pay or contact us, we can visit your premises and arrange for your possessions to be sold by public auction, as the law allows.

If you have recently paid, thank you. If not, please act now to stop us enforcing payment.

Yours faithfully

Officer of Revenue & Customs
Dear Sir/ Madam,

Our records show that you have a new overdue Self Assessment tax payment.

You are in the very small minority of people who have not paid us yet. Therefore we will treat this additional unpaid debt as a high priority.

Please call 0300 200 3824 now.

If you do not pay or contact us, we will take more serious action to force you to pay. We could visit your home to view your possessions and arrange for them to be sold at public auction, as the law allows. Or we may pass your debt to a debt collection agency.

You can pay by debit card, credit card or Direct Debit. You can also pay using internet and telephone banking. For information on how to pay, go to www.hmrc.gov.uk/payinghmrc.

If you don’t believe this payment is overdue please contact us straight away on the above number.

If you have paid this in the last few days, thank you. If not, act now to stop us enforcing payment.

Yours faithfully,

Officer of Revenue & Customs