IFA REPRESENTATION 04/26

Open Consultation – Proposals to tackle lower value tax debts

The IFA welcomes the opportunity to comment on this open consultation published on 23 June 2026.

We are happy to discuss any aspect of our response and to take part in any further consultations in this area.

Institute of Financial Accountants
502, Clerkenwell Workshops
27-31 Clerkenwell Close
Farringdon
London EC1R 0AT

Established in 1916, the Institute of Financial Accountants (IFA) is an internationally recognised professional accountancy membership body. Our members work within micro and small to medium-sized enterprises or in micro and small to medium-sized accounting practices advising micro and SME clients. We are part of the Institute of Public Accountants (IPA) of Australia Group, the world's largest SME focused accountancy group, with more than 49,000 members and students in 100 countries.

The IFA is a full member of the International Federation of Accountants (IFAC), the global accounting standard-setter. As such, the IFA takes its place alongside the UK and Ireland's six chartered accountancy bodies.

The IFA have been approved by:

HM Treasury to supervise our members for the purposes of compliance with the Money Laundering Regulations, and by the Financial Services Authority in the Isle of Man;

The Charity Commission in England and Wales, for conducting independent reviews of charity accounts below the audit threshold;

The Scottish Charity Regulator, for providing independent examination of Scottish charity accounts; and

The Civil Aviation Authority (CAA) for IFA practising members to join the ATOL Reporting Accountants (ARA) scheme.

The IFA is represented on several UK Government committees and forums alongside other IFAC members, including the HMRC Agent Support Group, HMRC Compliance Reform Forum, HMRC Guidance Strategy Forum, HMRC Charter Stakeholder Group and Companies House Stakeholder group.

For more information, please contact the IFA mail@ifa.org.uk.

www.ifa.org.uk

General comments

1. The Institute of Financial Accountants (IFA) welcomes the opportunity to comment on HMRC's proposals to introduce automated instalment deductions for lower-value tax debts. As a professional body predominantly representing sole practitioners and small-to-medium practices (SMPs), our members provide vital bookkeeping, accountancy, and taxation services to local micro-businesses and small enterprises.

2. While the IFA understands the policy's intent to maintain fairness and protect the Exchequer from persistent non-engagement, we hold significant concerns about automating bank account enforcement. For small businesses, cash flow is volatile, and digital exclusion is a real barrier. Any extension of collection powers must protect small practitioners and their clients from unnecessary financial hardship and accidental automation failures.

3. This response is provided by the Institute of Financial Accountants after consulting with an expert panel made up of IFA members engaged in Public Practice, as well as responses received from members after publicising the consultation.

4. We provide the following responses as a representative body and have indicated 'not applicable' where we feel responses direct from agents are more appropriate.

Responses to consultation questions

Data safeguards

Q1: 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. The IFA broadly agrees with the policy's intent to tackle persistent non-engagement but has concerns relating to the highly automated nature of the proposed process without human-led, prior agent-notification checkpoints.

6. The IFA agrees with HMRC that persistent failure to respond to standard correspondence creates an unfair playing field for the vast majority of micro-businesses who meet their tax liabilities or actively engage to set up Time to Pay (TTP) plans. We recognise that existing enforcement tools (such as County Court Actions or Taking Control of Goods) are costly, administratively heavy, and disproportionate for smaller balances.

7. While HMRC proposes an automated process to handle these debts "at scale", the reliance on automated system triggers presents a significant threat to small businesses. Our members' clients are frequently small, local enterprises and sole traders who may be "digitally challenged" or disorganised. In many cases, mail or digital notices are missed not due to a refusal to pay, but because of temporary personal crises, mail delivery issues, or digital exclusion. Letting an automated algorithm directly instruct a bank to pull funds without mandatory manual review by an HMRC officer at the pre-instruction *stage* is a dangerous escalation.

8. The proposed 14-day notice window following the Pre-Deduction Notice (PDN) is dangerously narrow for micro-entities. Small business owners are often hands-on operators who do not check their business tax accounts daily or may be away from their physical premises. If a PDN is sent via the Government Gateway or by post, 14 days does not provide adequate time for an unrepresented or stressed taxpayer to contact their accountant, gather records, and lodge an objection before the bank mandate is executed.

9. The illustrative process completely overlooks the vital role of the professional tax adviser. In many instances of "non-engagement," the client has simply failed to pass HMRC letters to their accountant. If HMRC automates deductions without simultaneously copying the PDN to the client's authorised agent via the Agent Services Account (ASA), it bypasses the exact professional who has the capability to resolve the debt swiftly and voluntarily.

10. HMRC must modify the process to ensure that if a taxpayer has an authorised agent, that agent receives a duplicate digital alert of the PDN. This allows the practitioner to intervene, establish

contact with the client, and set up a voluntary TTP plan before any heavy-handed bank account enforcement takes place.

11. The period between issuing the PDN and sending instructions to the deposit taker must be extended from 14 days to **at least 30 days**. This mirrors standard tax dispute timelines and allows small practitioners a reasonable working window to review the client's financial position, correct any factual errors, or file a valid objection.

12. The process must legally forbid any automated deduction that drops a business trading account or personal account below a baseline survival threshold (e.g., leaving a minimum of £2,000 to protect immediate, business-critical outgoings like payroll, energy bills, and supplier payments).

How deductions would be processed by deposit takers

Q2: Are there operational or technical considerations HMRC should take into account when developing this approach?

13. IFA urges HMRC to thoroughly consider the significant downstream technical friction this proposal will introduce into the day-to-day accounting workflows of micro-businesses and the sole practitioners who support them. We foresee major complications across three primary technical areas:
    a. **Disruption to Automated Bank Feeds and Cloud Reconciliation:** Modern small businesses rely heavily on cloud accounting software (such as Xero, QuickBooks, or Sage) paired with real-time automated bank feeds. When HMRC executes an automated monthly "pull" instalment directly from a client's bank account, it will generate a generic transaction line. If the customer owes multiple small liabilities across different regimes (e.g., a combined debt of Corporation Tax, PAYE, and late payment interest), software matching algorithms will fail to reconcile the single lump-sum deduction against distinct tax entries. This will force sole practitioners to waste unbillable hours manually unpicking, splitting, and mapping HMRC's automated transactions.

    b. **Severe Cash-Flow Invisibility for Sole Traders:** Automated direct deductions strip away real-time cash flow visibility. Micro-businesses manage their working capital dynamically on a week-to-week basis. Unlike standard commercial Direct Debits, which are forecasted within accounting software, an automated HMRC enforcement pull may occur suddenly after a missed communication window. If the software cannot anticipate the exact timing or value of the deduction, it severely distorts cash-flow forecasting tools, potentially leading to accidental breaches of other commercial commitments, such as supplier standing orders or utility bills.

    c. **Bounced Transaction Cascades and Multi-Authorisation Bank Accounts:** Many small family businesses, partnerships, and community micro-entities operate bank accounts requiring dual signatures or multi-factor authentication (MFA) to approve outbound funds. Forcing an automated deduction through these accounts without manual, real-time client intervention will cause the transaction to fail systematically at the banking level. This will trigger automated "failed payment" error codes back to HMRC and burden the small business with steep bank-issued penalty fees for unpaid items.

14. HMRC must collaborate directly with major accounting software providers to develop a standardised Open Banking tax-deduction data protocol. Every automated deduction must carry an embedded, detailed reference string identifying exactly which tax regime, period, and principal/interest split the payment belongs to, allowing cloud accounting platforms to auto-reconcile the transactions seamlessly.

Q3: How can HMRC ensure the process of receiving, processing and transferring payments and instructions is optimised?

15. To optimise the transfer of instructions and payments without causing operational chaos, HMRC must shift away from a fully blind, automated algorithm and instead introduce standardised, transparent API frameworks that integrate the tax agent directly into the communication chain.

16. The absolute best way to optimise this process and avoid unnecessary enforcement is to have clear administrative blocks before the instruction ever reaches the bank. HMRC should build an automated notification trigger within the ASA. When a client passes into the "persistently disengaged" threshold, a red-flag alert should be pushed to the practitioner's dashboard. In many cases, the practitioner will instantly contact the client, secure authorisation, and establish a voluntary TTP plan, entirely removing the need to involve the deposit taker.

17. **Mandatory Integration with Open Banking APIs:** Rather than executing an unpredictable, hard standing-order style pull that risks bouncing, HMRC should explore using Open Banking variable recurring payment (VRP) frameworks. This technology would allow the system to check if an account possesses sufficient, safe funds above a statutory survival threshold before executing the deduction. If the account is running a deficit, the API should automatically pause the transfer attempt and trigger a notification, preventing the small business from being pushed into unauthorised overdrafts and accruing punitive banking interest.

18. **Unified Transaction Reference Codes:** To optimise payment processing on the state's end, HMRC must not mix multiple tax debts under a single, generic "HMRC DEBT" narrative. The processing must use a distinct, universally recognised transaction code format across all participating financial institutions. This ensures that when funds are transferred, HMRC's internal ledgers can instantly and accurately credit the taxpayer's specific outstanding accounts without human intervention, preventing situations where a client is penalised for a debt they have technically already deducted from their account.

Scope of the measure

Upper debt value limits

Q4: Do you agree with the proposed debts and customers that should be within scope for this measure?

19. We agree in part, but with strong reservations regarding the inclusion of unrepresented, digitally excluded sole traders and the calculation method for aggregated liabilities.

20. The IFA strongly welcomes the statutory exclusion of debts that are not yet established, such as those under active appeal, enquiry, or compliance review. It is a fundamental principle of tax justice that criminal or automated administrative enforcement must never apply to disputed sums.

21. HMRC proposes assessing the upper debt limits on a total customer basis across all tax regimes (e.g., combining small, separate balances from Self-Assessment, VAT, and PAYE). While this prevents artificial debt fragmentation, it presents a hidden danger for disorganised SMEs and sole traders. A client might be actively addressing a VAT dispute with their accountant while accidentally neglecting a minor PAYE balance. Aggregating these amounts could inadvertently pull a taxpayer into the automated enforcement loop for their entire tax portfolio, disrupting a separate, legitimate compliance process.

22. We fully support the automatic exclusion of deceased taxpayers or businesses in formal insolvency. However, the scope must be explicitly narrowed further to exclude any business whose primary operator is currently registered under HMRC's "Extra Support" framework or who meets the statutory criteria for digital exclusion.

23. The scope must be restricted so that automated deductions cannot be initiated if any single component of the aggregated cross-regime debt is currently subject to an open technical query, formal appeal, or ongoing amendment.

Q5: Do you envisage any issues with the proposed upper debt value limits? If so, what should the proposed upper debt value limit be?

24. We feel that the proposed upper limit of £5,000 for individuals is too high and poses an acute risk of financial hardship for low-income businesses. We propose a lower, split-tier limit to protect vulnerable micro-entities.

25. Key Issues with the Proposed Limits:

a. **Disproportionate Impact of a £5,000 Cap on Individuals:** HMRC notes that the average individual debt below £5,000 sits at approximately £950. Setting the maximum cap at £5,000, more than five times the average debt, is disproportionately high for sole traders, freelancers, and micro-entrepreneurs. Capturing a £5,000 debt within an automated monthly instalment framework could result in massive monthly "pulls" (e.g., £400–£500 a month) that would completely wipe out the slim trading margins and personal survival capital of a local small business.

b. **The "Interest and Penalty Inflation" Trap:** The consultation states that the upper limits are inclusive of interest and penalties at the point of action. Because late payment penalties and statutory interest pile up quickly on unrepresented taxpayers, a modest underlying tax debt of £3,000 can easily scale past £5,000. Under the current proposal, a small business could be pushed into a harsher enforcement tier simply due to administrative delays and compounding interest, rather than widespread tax evasion.

26. The IFA suggests the following Alternative Proposals for Upper Limits:

a. **Reduce the Individual / Sole Trader Cap to £2,500:** For individuals, particularly sole traders whose business and personal finances are legally intertwined, the upper limit should be capped at a maximum of **£2,500**. This ensures the power strictly targets low-value, manageable debts without risking severe personal hardship.

b. **Maintain the Business Cap at £10,000 with a Turnover Threshold:** We accept the £10,000 limit for incorporated companies, but this should only apply to businesses with an annual turnover exceeding the VAT registration threshold (currently £90,000). Incorporated micro-entities with very low turnover should be treated under the lower individual cap of £2,500 to protect local, community-based enterprises.

Safeguards: Protecting customers who require extra support

Q6: Do you agree with the proposed approach to identify and support customers when administering this proposed measure?

27. The IFA has reservations on the proposed approach, arguing that relying on automated data systems fails to accurately identify and support vulnerable taxpayers, particularly those facing sudden personal or financial crises.

28. The proposal lacks a mechanism for professional agents to intervene and fails to account for individuals who do not self-identify as vulnerable, risking severe hardship for micro-businesses. The IFA recommends mandatory human-led pre-deduction audits, a 14-day agent "right to intervene," and an automatic "safe harbour" for vulnerable taxpayers.

Q7: Are there other suitable sources of information about a customer's potential support needs that HMRC might access in the absence of customer contact?

29. Before initiating automated bank deductions, HMRC should exhaust internal and external data sources, including authorised tax agent engagement records, DWP benefits data, the Insolvency Service register, and "Breathing Space" debt respite registries to identify vulnerable taxpayers.

30. The IFA recommends a mandatory "Pre-Enforcement Data Audit" to trigger manual review by the Extra Support Team for taxpayers in financial distress or with recognised vulnerabilities.

Safeguards: Assessing affordability

Q8: Do you agree with the overall approach to affordability for the purpose of this measure?

31. The IFA has reservations regarding a purely mechanical, algorithmic approach to calculating a small business's or sole trader's financial affordability. Relying on automated software calculations to determine how much money can be safely extracted from a commercial bank account fails to reflect

the volatile cash-flow realities of the SME sector, and risks driving viable local enterprises into accidental insolvency.

32. **Critical Flaws in the Proposed Automated Affordability Calculation:**

    a. **The "Ghost Balance" Illusion:** An automated system looking at a bank balance at a single snapshot in time sees a static number. It cannot see outstanding, unpresented cheques, upcoming direct debits for essential utilities, or BACS payroll runs scheduled for the following day. If an automated HMRC instruction extracts funds based on a temporary "high" balance, it will cause vital operational transactions to bounce, paralysing the business's daily operations.

    b. **Failure to Account for Seasonal Working Capital:** For many of our members' clients, such as those in agriculture, tourism, construction, or hospitality, cash balances peak dramatically at specific points in the year. This capital is not surplus profit; it is vital working capital meant to sustain the business through low-revenue months. An algorithm calculating affordability based on trailing 3-month bank data during a peak season will drastically over-estimate the business's true, long-term capacity to pay, draining funds needed for off-season survival.

    c. **The Omission of Non-Discretionary Business Overheads:** Standard consumer affordability models do not translate to commercial entities. A sole trader's account must service non-discretionary overheads that are legally or operationally binding, such as professional indemnity insurance, commercial rent, vehicle leases, and raw material supplier credit lines. Automated extraction models historically fail to isolate these critical business-preservation expenses, prioritising the tax debt at the cost of the business's commercial viability.

33. **IFA Recommendations for a Robust Affordability Framework:**

    a. **Implement a Mandatory "Trading Survival Buffer":** HMRC must establish an absolute, non-negotiable financial floor. No automated calculation should ever permit a deduction that leaves a business current account with less than a flat statutory buffer (we suggest a minimum of **£2,500** for sole traders and **£5,000** for small limited companies) to ensure core operational liquidity is preserved.

    b. **Incorporate an "Agent Validation Gate":** Before any calculated affordability instruction is transmitted to a deposit-taker, the calculation metrics must be made visible to the authorised tax agent via the ASA. Give the sole practitioner a 14-day window to submit real-time management accounts or a cash-flow forecast to prove that the automated calculation is flawed, preventing catastrophic, erroneous cash extractions.

    c. **Utilise the Standard Financial Statement (SFS) Framework:** Rather than inventing an insular HMRC algorithm, any assessment of an individual sole trader's affordability must map strictly to the universally recognised, multi-agency SFS guidelines, ensuring debt collection parameters match realistic living and business maintenance costs.

Q9: Are there other suitable ways HMRC could systematically establish affordability across a high volume of cases?

34. We would advise HMRC to prioritise real-time data sources like quarterly VAT updates and RTI payroll feeds over lagging credit reports to evaluate business viability.

35. Furthermore, the IFA recommends incorporating practitioner-certified management accounts and Open Banking transactional tools to create a "Taxpayer Health Dashboard" for more accurate financial assessments.

Complaints and Redress

Q10: 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?

36. The IFA supports the proposed grounds for objecting to lower-value tax debt deductions but strongly opposes the 14-day objection timeline, as this may be insufficient for small businesses.

37. We suggest extending this window to 30 days alongside an automatic legal stay on fund deductions upon filing an objection to prevent erroneous cash extraction.

Contact details

Should you wish to discuss this response further, please contact Tim Pinkney, IFA Director of Professional Standards, by email at timp@ifa.org.uk.