Building Societies Association

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Response to the HMRC consultation: tackling lower value tax debts

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, including both mutual-owned banks, as well as 8 of the largest credit unions. Building societies and mutual-owned banks have total assets of almost £677 billion and together with their subsidiaries, hold residential mortgages of £493.4 billion, 29% of the total outstanding in the UK. They also hold £495.6 billion of retail deposits, accounting for 23% of all such deposits in the UK. Building societies and mutual-owned banks account for 47% of all cash ISA balances.

With all of their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services, they operate through approximately 1,300 branches, holding a 35% share of branches across the UK.

Executive summary

The BSA believes that an effective and proportionate debt-recovery framework can help reduce the tax gap, improve fairness for taxpayers and support confidence in the tax system. However, **our members cannot support the proposed recurring-deduction framework as currently designed**.

HMRC already has a range of established debt-recovery powers available to it, including the recently reintroduced Direct Recovery of Debts (DRD) regime. Before creating an additional recovery mechanism, HMRC should assess the operation, effectiveness, costs and customer outcomes of its existing powers and explain why current collection routes are insufficient for lower-value debts.

HMRC has not demonstrated that the expected benefits of the proposed framework outweigh the operational, regulatory and customer impacts it would create. Existing DRD processes are designed around one-off recovery events. Extending account-based recovery into a recurring deduction regime would require either substantial new systems and payment functionality or repeated manual intervention and administration. Neither approach has yet been shown to be proportionate, cost-effective or workable across the sector.

The proposed model also does not adequately reflect the way many building societies and their products operate. Savings products, fixed-rate products, notice accounts and ISAs often contain payment, access and withdrawal restrictions that mean **recurring third-party deductions could not be implemented in practice without substantial systems overhaul, product redesign and operational change**. Recovery activity could also result in loss of interest, withdrawal penalties, adverse tax consequences and other forms of customer detriment beyond repayment of the underlying debt itself. HMRC must provide significantly greater clarity on how these products would operate within the regime and whether alternatives such as recovery at maturity would be more appropriate.

The proposal also raises significant concerns regarding affordability, vulnerability, customer harm and accountability. HMRC would make the underlying recovery decisions, while account providers would execute deductions and deal with their immediate consequences. Customers are likely to associate deductions with their bank or building society and to direct enquiries and complaints to their provider, despite the provider having no role in determining the debt, affordability, vulnerability or appropriateness of recovery.

If HMRC nevertheless concludes that account-provider-administered recovery is the most appropriate approach, HMRC should make clear how it will reimburse firms for their reasonable implementation and ongoing administration costs. Comparable regimes, including Child Maintenance Deduction Orders and Attachment of Earnings Orders, already allow third parties to recover administrative costs.

HMRC should undertake a full cost-benefit analysis using quantified evidence from providers. That analysis should consider expected volumes and recoveries, fixed implementation costs, ongoing administration costs, customer outcomes, complaints, operational complexity and the performance of the existing DRD regime. One member has estimated that its individual implementation costs, including expected changes to account terms and conditions, would exceed £8 million.

The BSA welcomes HMRC's proposed test-and-learn approach and encourages continued engagement with industry. Firms will require complete technical specifications, suitable testing environments, implementation guidance and sufficient lead time before any new process is introduced. Implementation must also be coordinated with other significant government-led initiatives and changes affecting the sector.

The BSA therefore asks HMRC to:

1. Evaluate the recently reintroduced DRD regime and demonstrate why existing recovery powers are insufficient before developing an additional framework.
2. Undertake a full cost-benefit analysis using quantified provider evidence before deciding whether to proceed or setting any upper or lower debt thresholds.
3. Develop and test a complete operating model with industry, covering technical requirements, standardised instructions, account matching, exception handling, data governance, liability and remediation.
4. Retain responsibility for affordability, vulnerability, account-selection and recovery decisions, with rapid referral and escalation routes where firms identify customer harm.
5. Explain how HMRC will reimburse firms for their reasonable implementation and ongoing administration costs and resolve the associated FCA, FOS and PRA issues.

6. Conduct a controlled test-and-learn exercise and assess customer, complaint, vulnerability and operational outcomes before any wider implementation.

The BSA and its members remain willing to work closely with HMRC to assess the existing DRD regime, identify lessons from its operation and support the development and testing of any future approach. However, any further framework must first be shown to be necessary, proportionate, operationally workable and demonstrably more effective than existing recovery mechanisms, while delivering appropriate safeguards for customers.

Question-by-question response

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?

No. The BSA recognises HMRC's objective of recovering established tax debts from customers who have the means to pay and have persistently failed to engage. However, our members cannot support the proposed process as currently designed.

HMRC already has a range of established debt-recovery mechanisms available to it, including the existing DRD regime, which has only recently been reintroduced. HMRC should clearly explain why existing collection routes, including tax code adjustments, deductions from benefits where appropriate, attachment of earnings orders and other established recovery mechanisms, are insufficient to address these lower-value debts. Members have questioned why a new recovery framework is necessary before the effectiveness of existing powers has been fully assessed.

The proposed recurring-deduction model would be materially different from the existing DRD process. Under the existing regime, recovery is undertaken as a one-off exercise through a manual, case-by-case process. Members have explained that implementation may require funds to be moved from the customer's account and held separately before being remitted to HMRC. A recurring instalment regime could require elements of that process to be repeated for every deduction, substantially increasing the operational burden associated with each case. The existing process may be capable of supporting an individual recovery event, but that does not mean it can be readily extended into an ongoing payment mechanism.

The alternative would be for firms to build new functionality to automate recurring deductions. This would also create a substantial and disproportionate burden. The systems used by our members were not designed to support recurring third-party initiated payments from customer accounts. Implementing the proposal would require material system development, new interfaces and payment functionality, operational process redesign, exception handling, testing, staff training and ongoing maintenance.

In addition, introducing recurring third party-initiated payment functionality may require firms to implement additional transaction-monitoring and anti-money laundering controls. It would increase operational complexity and ongoing servicing costs, which would ultimately be borne by customers. It may also affect whether certain products fall within payment-services and conduct requirements, including PSD2 and BCOBS, despite those products not having been designed to operate as payment accounts.

The proposal may also require firms to revisit the contractual terms underpinning existing products. Products were offered on the basis that withdrawals are initiated by customers and may be subject to nominated-account controls, notice periods, fixed terms or other restrictions. Implementing such changes would require extensive customer communications and transitional arrangements and may influence customer decisions about where and how they bank. There is also a risk that customers simply move their money elsewhere once deductions begin or they receive notice that deductions will commence. Even if HMRC were to develop a mechanism that prevents customers cancelling a payment instruction, it cannot prevent customers from moving the underlying funds once instalments begin. This calls into question the effectiveness of a recurring deduction model in practice.

Members have also questioned whether recovery closer to the source of income may be more appropriate in some cases than requiring account providers to administer a new recurring deduction process. Existing routes may offer a more proportionate and operationally efficient approach than creating a new recurring deduction mechanism across the banking and building society sector.

The international comparators cited in the consultation do not directly support the specific model HMRC is proposing. The Dutch Overheidsvordering regime, which HMRC identifies as a comparator, is limited to payment accounts and excludes savings accounts.[1] The Australian, French and Canadian examples are more closely aligned with traditional garnishment or third-party attachment mechanisms, involving the seizure or redirection of bank balances, wages, pensions, rental income or other payments owed to the debtor. They are not directly comparable to a framework requiring account providers to establish and administer tailored monthly instalment plans across a broad range of deposit products.

HMRC has not yet provided sufficient evidence about the expected case volumes and ongoing administration costs. It is therefore not possible to conclude that the benefits justify the costs and risks. HMRC should undertake a full cost-benefit analysis, using quantified evidence from providers, before deciding whether to proceed.

The BSA therefore believes that the proposal requires fundamental reconsideration, rather than refinement of the payment mechanism alone. HMRC should first assess the operation of its existing powers, demonstrate the need for an additional regime and establish that the expected benefits outweigh the operational, regulatory and customer impacts.

If HMRC nevertheless concludes that account-provider administered recovery is the most appropriate approach, firms will expect HMRC to recognise that it is effectively asking them to undertake part of the debt-recovery process on HMRC's behalf. This would require significant upfront investment and ongoing operational expenditure. HMRC should make clear how it will reimburse firms for their reasonable implementation and administration costs. Comparable regimes, including Child Maintenance Deduction Orders and Attachment of Earnings Orders, already allow third parties to recover administrative costs.

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

[1] The Belastingdienst website states that Overheidsvordering can only be deducted from payment accounts, whilst guidance mentions that savings accounts are excluded.

Yes, there are considerable operational and technical considerations that HMRC should take into account.

The BSA does not believe deposit takers should be required to make subjective decisions on HMRC's behalf. Decisions relating to affordability, hardship, vulnerability, objections, pauses, cancellations, refunds and the selection of accounts for recovery action should remain the responsibility of HMRC.

HMRC has identified several possible payment mechanisms, including the use of the existing Direct Debit framework, a modified Direct Debit model, payment rails such as BACS and Faster Payments, and an Open Banking solution:

> **Direct Debit:** Direct Debit arrangements are built around customer consent, cancellation rights and indemnity protections. Savings products do not typically support outgoing Direct Debit functionality and there is a risk customers can cancel or pause payments for current accounts.
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> **Modified Direct Debit:** Any model that seeks to remove established customer protections could require material changes to existing processes and may necessitate the creation of alternative legal, governance and dispute-resolution frameworks. HMRC should provide further evidence on the proportionality of this approach, given the operational complexity it may introduce.
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> **BACS/Faster Payments option**: Many platforms used by our members use batch-based payment processing and were not designed to support recurring third-party initiated deductions. Existing payment capabilities are often restricted to transactions involving the customer's nominated account, meaning payments to a third-party destination such as HMRC may require more fundamental systems changes than might initially be assumed.
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> **Open Banking option:** While some firms utilise Open Banking functionality, this is often limited to customer-initiated deposits and does not support outbound third-party collection mechanisms. Variable Recurring Payment infrastructure is not currently established for this type of use case.

Across all of the options considered, the key challenge is not identifying a technically possible payment mechanism, but creating a framework that can be operated consistently, proportionately and safely across the sector.

A simplified implementation model based on spreadsheet-based instructions, a secure portal and manual processing may reduce some development requirements, but it does not eliminate the underlying challenge. Instead, it transfers the burden from systems development to repeated manual processing, staffing, exception management, customer servicing and operational risk. It could also result in firms adopting different processes to implement the same statutory regime, leading to inconsistent treatment and customer outcomes. The proposal therefore requires more than the identification of a technically possible payment route. It requires an operating model that can be delivered consistently, proportionately and cost-effectively across the sector.

There is also a risk that customers simply move funds elsewhere once deductions commence or they receive notice that deductions will begin. Even if HMRC develops a mechanism that prevents customers cancelling a payment instruction, it cannot prevent customers moving the underlying funds.

Where a deduction is subsequently found to have been made in error, firms may need to restore account balances, retrospectively apply foregone interest, reverse charges or withdrawal penalties, correct tax treatments and return customers to the position they would have been in had the deduction never occurred. HMRC should therefore explain how such scenarios would be managed in practice and, if firms are expected to undertake this remediation activity, how the associated operational burden and costs will be resourced.

HMRC has not explained how it expects firms to deal with situations where a deduction would place a customer into an arranged or unarranged overdraft. Members are concerned that the proposal could result in customers incurring interest, charges or other costs as a direct consequence of recovery action. If HMRC intends recovery to proceed in these circumstances, it should explain why it considers it appropriate for customers to suffer additional financial detriment beyond repayment of the underlying debt.

We support HMRC's proposed phased test-and-learn approach. Given the likely systems, operational and process changes, firms will need sufficient implementation time, complete technical specifications, testing environments and clear guidance before any new process is introduced. Phased implementation would help identify operational issues, customer impacts and unintended consequences before wider rollout. Success measures should cover not only debt recovery volumes, but also customer outcomes, complaints, vulnerability referrals, operational issues and evidence of customer harm.

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

The BSA believes that optimisation will depend on the use of a secure, standardised mechanism for issuing instructions and exchanging information between HMRC and deposit takers. HMRC should minimise the amount of new data firms are required to provide and avoid duplicating information already available through existing channels.

To support consistent implementation, HMRC should specify the information accompanying each instruction, including customer and account details, deduction amount, timing and frequency, HMRC references, and when instructions may be amended, paused or cancelled. Standard formats would reduce complexity, support automation and minimise errors. The process should operate as a statutory instruction issued by HMRC.

The BSA also supports standardised exception-handling and reporting processes. Firms may encounter scenarios such as insufficient funds, account closures, bereavement, insolvency restrictions, fraud concerns, power of attorney arrangements and other account-specific limitations. Consistent treatment would improve efficiency and help ensure similar customer outcomes across firms.

The operating model should include clear audit trails, reporting arrangements and service standards so that instructions, amendments, cancellations, objections and refunds can be tracked and reviewed. Clear governance will support operational resilience and accountability where disputes arise.

The BSA welcomes HMRC's intention to provide liability protection where firms act on instructions in good faith; liability for decisions relating to debt recovery activity should remain with the party making those decisions.

Optimisation of the process will depend on adequate implementation support.

HMRC should not introduce any new process until firms have received complete technical specifications, testing environments, implementation guidance and sufficient lead time to undertake development, testing and operational readiness activities.

HMRC should also provide clear guidance on data-sharing arrangements and the application of data protection legislation, the information firms will be expected to receive and provide, and the circumstances in which information may be shared.

Finally, we urge HMRC to consult the Financial Conduct Authority (FCA), the Financial Ombudsman Service (FOS) and the Prudential Regulation Authority (PRA) on these proposals, or to provide details of that engagement if it has already taken place.

As noted in our response to Question 1, if HMRC proceeds with an account-provider-administered recovery framework, it should recognise that firms will incur substantial implementation and ongoing administration costs in delivering that regime. HMRC should therefore make clear how it intends to reimburse firms for those costs. Comparable arrangements, including Child Maintenance Deduction Orders and Attachment of Earnings Orders, already recognise the administrative role imposed on third parties and allow them to recover costs.

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

Whilst the BSA believes that an effective and proportionate debt-recovery framework can help reduce the tax gap, improve fairness for taxpayers and support confidence in the tax system, we cannot support the proposed scope until HMRC provides significantly greater clarity on how the regime would operate across different account types and customer circumstances.

Different account types are not functionally equivalent and the impacts of recovery action will vary significantly depending on the nature of the product and the circumstances of the customer.

Fixed-rate, fixed-term and notice products raise particular concerns. Recovery activity could result in customers losing interest, incurring withdrawal penalties or breakage charges, or otherwise suffering detriment beyond repayment of the underlying tax debt itself. Members have questioned whether it is appropriate for a customer to suffer an additional financial penalty simply because the relevant funds happen to be held in a product with withdrawal restrictions. In some circumstances, interference with fixed-rate products may also create wider operational, balance-sheet and hedging implications for providers.

Members have also suggested that product-specific alternatives may be more appropriate than interference during the fixed term of a product. For example, HMRC could consider whether recovery from accrued interest or proceeds at maturity would be less disruptive than requiring access to funds before the contractual maturity date.

HMRC should also explain how recovery would interact with ISA rules, tax treatments and customer protections. Recovery activity could result in loss of tax advantages or otherwise adversely affect a customer's current or future tax position. Members therefore question whether it is appropriate to recover tax debts through products specifically designed to confer tax benefits where alternative sources of funds may be available.

Joint accounts, trust arrangements and other accounts involving third-party interests create additional complexity because the account holder, beneficial owner and person liable for the debt may not be the same individual. HMRC should clearly explain how ownership interests will be assessed and what safeguards will apply to ensure recovery action does not adversely affect individuals who are not responsible for the underlying debt.

HMRC should also provide further clarity on the treatment of customers holding multiple accounts, whether with a single provider or across multiple providers, and how account selection decisions will be made. Members have questioned how HMRC intends to prioritise between different account types where recovery from any of them could result in customer detriment. Similarly, HMRC should explain how recovery will operate where accounts are subject to restrictions, including bereavement, insolvency, fraud controls or other legal or operational limitations.

Accounts operated under a Power of Attorney, deputyship arrangement or other representative relationship require additional consideration. HMRC should explain how such arrangements will be identified and how it will ensure that recovery activity does not disadvantage individuals who rely on others to manage their financial affairs.

The Government has recently introduced vulnerability-related safeguards in the DWP debt recovery regime.[2] HMRC should explain how its proposed safeguards compare with those arrangements and why any differences are justified. Where government departments are developing comparable debt-recovery powers, efforts should be made to ensure a consistent approach to safeguards, definitions, customer protections and account treatment.

Members have also questioned whether all account types should be treated equally within the regime. If HMRC proceeds, it should explain whether different account types will be prioritised differently and whether recovery will be attempted from simpler account types before more complex products that give rise to additional customer-protection concerns.

Until HMRC provides greater clarity on how these account types and customer circumstances will be treated, it is difficult to assess whether the proposed scope is proportionate, operationally workable or capable of delivering fair customer outcomes.

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?

There is not enough evidence to determine whether the proposed upper limit is appropriate. Decisions regarding thresholds should be informed by evidence on expected case volumes, operational complexity, customer outcomes, implementation costs, HMRC support arrangements, safeguards and recovery rates.

[2] DWP Direct Deduction and Disqualification from Driving Orders: Code of Practice

Members are concerned that the proposed process is likely to involve significant fixed implementation and operational costs regardless of the size of the debt being recovered. This raises legitimate questions about whether a lower de minimis threshold may also be necessary to ensure the regime remains proportionate.

The existing DRD regime has only recently been reintroduced and HMRC should first evaluate its operation, costs, effectiveness and customer outcomes before introducing a new recurring deduction framework. Neither the BSA nor HMRC is currently in a position to determine whether £5,000 for individuals is an appropriate upper limit for debts considered "lower value", nor whether that needs to be supplemented by a lower de minimis threshold.

Before setting any threshold, HMRC should undertake a full cost-benefit analysis using quantified evidence from providers. That analysis should consider expected recovery volumes, implementation and administration costs, customer outcomes, complaints, operational complexity, and the likely recoveries generated by the regime. It should also assess whether the existing DRD regime is already delivering the intended outcomes and whether a new recurring deduction framework is justified in light of that evidence.

Any eventual upper or lower threshold should be evidence-based, proportionate and informed by a full understanding of the costs and benefits of the regime in practice.

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

The BSA welcomes HMRC's recognition that customer circumstances should be considered before recovery action is taken. HMRC should remain responsible for that assessment and should make clear that providers are not expected to assess customer circumstances as part of implementing a deduction order.

We also welcome HMRC's commitment to considering vulnerability as part of the process and note HMRC's proposal to refer cases for manual review where vulnerability or additional support needs are identified. Customers requiring additional support should not be progressed through an automated recovery process without appropriate human consideration.

The BSA would welcome further detail on how HMRC intends to identify customers who may require additional support where there has been limited or no customer engagement. Non-engagement should not automatically be treated as evidence that a customer is unwilling to pay. A failure to engage may itself be an indicator of vulnerability and could arise for a range of reasons, including mental health conditions, cognitive impairment, bereavement, serious illness, financial distress, financial abuse or economic coercion, language barriers, digital exclusion, difficulty meeting essential living costs or priority commitments such as mortgage or rent payments, or other personal circumstances that make engagement difficult.

The BSA would also welcome clarification on how this proposed measure will interact with the statutory Breathing Space schemes, including both Standard Breathing Space and Mental Health Crisis Breathing Space. HMRC should confirm whether customers who are subject to a Breathing Space moratorium will be automatically excluded from consideration for this measure and how HMRC will identify such cases, particularly where there has been limited customer engagement. The purpose of the Breathing Space framework is to provide individuals experiencing problem debt, and in some cases significant mental health difficulties, with protection from enforcement action while they access support and advice. HMRC should explain how it will ensure that recovery action under this proposed regime does not cut across those protections or undermine existing debt-resolution arrangements already being supported by debt advisers, charities or other authorised third parties.

The BSA would reiterate the concerns it previously raised in response to the DWP's debt recovery proposals regarding the treatment of joint accounts.[3] In particular, we remain concerned that recovery action may have unintended consequences for joint account holders who are not liable for the underlying debt. Funds held in joint accounts may not belong solely to the debtor and, in some circumstances, the other account holder may have no connection to the debt being recovered. HMRC should provide clear guidance on the treatment of joint accounts, including how beneficial ownership will be assessed, what safeguards will apply to non-debtor account holders, how objections can be raised, and how disputes regarding ownership of funds will be resolved. Appropriate protections will be essential to ensure that recovery action is targeted proportionately and does not adversely affect individuals who are not responsible for the debt.

Similar considerations arise where accounts are operated under a Lasting Power of Attorney, deputyship arrangement or other capacity-related framework. Additional safeguards may be needed where the account holder lacks capacity, since recovery action could indirectly affect carers, family members and others who rely on the account for day-to-day financial management.

Members have highlighted that the recovery process itself may create vulnerability. A customer who is not initially identified as vulnerable may become so if deductions force them into an overdraft, result in additional charges, prevent them meeting essential expenditure or create wider financial hardship. HMRC should therefore explain how it will identify, monitor and respond to vulnerability that arises as a direct consequence of the recovery process itself.

Building societies are already subject to FCA requirements relating to the identification, support and monitoring of customers in vulnerable circumstances, including through the FCA's Vulnerability Guidance[4] and Consumer Duty framework. Firms have invested significant resource in adopting these requirements. HMRC should seek to minimise the risk of introducing materially different definitions of vulnerability, indicators, customer-support requirements or escalation processes.

The BSA welcomes HMRC's commitment to ongoing engagement and encourages it to continue working with industry, consumer groups, the FCA and other stakeholders as it develops its approach. As the regime develops, the BSA would welcome further information on how HMRC intends to monitor customer outcomes, including vulnerability, financial hardship and any unintended consequences arising from the operation of the regime.

[3] Available upon request
[4] Guidance for firms on the fair treatment of vulnerable customers

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?

Building societies have significant experience in supporting vulnerable customers and have invested considerable resource in embedding vulnerability frameworks across policies, systems, governance arrangements and customer journeys. Firms may therefore identify indicators of vulnerability or additional support needs that are not visible to HMRC through the data available to it alone.

Where there is an appropriate legal basis to do so, we believe there would be value in providing firms with a clear, operationally straightforward voluntary mechanism through which potential indicators of vulnerability can be flagged. Such information should be capable of triggering manual review at the earliest possible stage of the process. This would not require firms to undertake affordability assessments but would recognise that firms may have visibility of issues that are not apparent from historic or third-party data alone. However, responsibility for assessing vulnerability and determining whether recovery action should proceed should ultimately remain with HMRC.

The BSA recognises that HMRC may wish to make use of information already available elsewhere within government to identify customers who may require additional support. However, vulnerability and support needs are not always apparent from datasets alone and many circumstances will only become evident through direct customer engagement. HMRC should therefore treat any external data sources as indicators rather than definitive assessments of a customer's circumstances.

The BSA would welcome further detail on the wider safeguards that will apply throughout the regime. Customers should receive clear advance notification of proposed recovery action and be given a reasonable opportunity to respond before deductions begin. There should be an accessible objections and appeals process, together with a mechanism to escalate cases quickly where vulnerability, hardship or other customer-protection concerns are identified. HMRC should also explain how it will identify and support customers who may be experiencing financial abuse or economic coercion, and what safeguards will apply where deductions may affect a customer's ability to meet essential living costs, including mortgage or rent payments. Following implementation, HMRC should monitor customer outcomes closely, including indicators of vulnerability, financial hardship, complaints, appeals, arrears on priority commitments and any other unintended consequences arising from the use of the regime. Based on that monitoring, HMRC should commit to reviewing and refining the regime where evidence of customer harm emerges.

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

It is difficult at this stage to conclude whether the BSA agrees with the overall approach to affordability, given that the details are yet to be determined. The BSA agrees in principle that affordability should be a central consideration before recovery action is taken and recognises the challenge HMRC faces in assessing affordability for customers who have not engaged directly. There is no simple automated substitute for direct engagement with a customer.

Credit reference agency (CRA) data alone is unlikely to provide a sufficiently complete or current picture of a customer's circumstances. CRA data may not reflect recent changes in income, expenditure, caring responsibilities, health conditions, financial hardship or other significant life events. Information may also vary in completeness across customer groups and data providers.

Where affordability assessments are based on third-party or historical datasets, there is an inherent risk that customer circumstances may have changed materially between the affordability assessment and the commencement of recovery action. This risk may be particularly significant where recovery activity takes place over an extended period rather than as a single one-off action.

The BSA therefore supports HMRC's proposal to use CRA information only as an indicator to inform wider affordability assessments, rather than as a determinative measure of a customer's ability to pay. HMRC should avoid over-reliance on any single data source and provide further detail on how affordability assessments will be undertaken in practice. One option that may be preferable is a simple threshold approach to affordability (protected minimum balance) as discussed in our answer to question 9.

It is important that deposit takers should not be expected to make affordability judgements on HMRC's behalf or determine whether recovery action is appropriate in individual cases.

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

The BSA would welcome further explanation of why HMRC has chosen a CRA-based affordability approach rather than a protected balance or safeguarded amount model similar to the threshold used in the current DRD regime. Given the similarities in policy objectives, HMRC should explain the rationale for adopting a different approach and whether additional safeguards, such as a protected minimum balance, have been considered. A protected balance may provide a simpler and more transparent means of protecting customers from hardship while ensuring that individuals retain access to funds required for essential living costs.

The BSA notes that this approach differs from the safeguards used in the existing DRD regime, which includes a protected balance. Given the similar policy objectives, HMRC should explain why a different approach is proposed in this case.

The BSA is not persuaded that the level of protection afforded to a customer should depend on the size of the debt owed. Customers should receive comparable levels of protection irrespective of the size of the debt being recovered. HMRC should therefore consider whether a protected minimum amount could operate alongside any affordability assessment. A safeguarded balance would provide an additional protection where deductions might otherwise coincide with priority payments or other essential living costs.

More generally, the BSA would welcome greater consistency across government debt recovery frameworks where similar policy objectives are being pursued. Where different approaches are adopted, HMRC should clearly explain the rationale and evidence supporting those differences.

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?

Customers should be able to object to recovery action and challenge decisions where appropriate. This will be important to maintain trust and ensure that recovery powers are used fairly and proportionately.

We broadly agree that customers should have a clear route to raise concerns and provide additional information where recovery action may be inappropriate. We also welcome HMRC's proposal to allow objections throughout the duration of the instalment plan and to pause recovery action while objections and appeals are being considered.

However, the effectiveness of the objections framework will depend on HMRC recognising that customers are far more likely to contact their bank or building society than HMRC once deductions begin. This measure is specifically targeted at customers who have persistently failed to engage with HMRC. It is therefore unclear why HMRC expects those same customers to engage directly with HMRC once recovery action has commenced.

In practice, deposit takers will become the visible face of recovery activity despite not being responsible for the underlying decision. Whilst HMRC will retain responsibility for the debt, affordability assessment, vulnerability assessment and decision to pursue recovery, customers will see money leaving their account and will naturally contact their provider rather than HMRC. This creates a disconnect between the organisation making the decision and the organisation dealing with the consequences of that decision.

This is particularly important for building societies because they are owned by their members and exist to serve those members' interests. Maintaining member trust is fundamental to the mutual model. Many building societies continue to invest in branch networks and face-to-face services because members value personal support, particularly when dealing with complex or sensitive financial matters.

HMRC should therefore ensure that customers are clearly informed throughout the process that responsibility for decisions relating to the underlying debt, affordability assessments, vulnerability considerations and the use of recovery powers rests with HMRC. Objections and complaints relating to those decisions should be directed to HMRC rather than the firm executing the instruction.

The BSA agrees with the principle that complaints relating to the underlying tax debt, affordability assessments, vulnerability decisions and the decision to initiate recovery should remain the responsibility of HMRC. However, in practice customers will complain to their provider regardless of where formal responsibility sits. Providers cannot simply redirect these complaints. Once a customer has complained, firms remain subject to the FCA's complaint-handling requirements under DISP and associated obligations.

This gives rise to significant concerns regarding the interaction of the proposed regime with the FCA's complaints framework and the Financial Ombudsman Service (FOS). Providers may be required to log complaints, investigate matters, issue final responses and provide access to FOS despite having had no role in the underlying recovery decision. Firms may therefore incur substantial complaint-handling costs and FOS case fees simply for implementing a statutory HMRC instruction.

The cost of investigating and responding to a complaint may, in some circumstances, exceed the value of the debt being recovered. A complaint relating to a debt of around £50 could ultimately result in a provider incurring a FOS case fee of more than £600, in addition to the provider's own internal investigation and administration costs. HMRC should explain why it considers this outcome proportionate.

HMRC should therefore engage closely with the FCA and FOS before proceeding further. In particular, HMRC should explain how complaints relating to deduction orders are expected to interact with the FCA's DISP framework and whether complaints relating solely to HMRC recovery decisions should remain within the jurisdiction of the Financial Ombudsman Service. The BSA believes there is a strong case for excluding complaints that relate solely to HMRC's recovery decisions, whilst retaining FOS jurisdiction over complaints relating to a provider's own actions in implementing a deduction order.

HMRC should also establish clear escalation routes, named points of contact and agreed hand-off arrangements so that customers are not passed between organisations whilst responsibility is disputed. This should include clear guidance for firms on how objections, vulnerability disclosures, hardship concerns and complaints raised through branch, telephone or digital channels should be handled and referred to HMRC.

Finally, HMRC should provide standard customer-facing communications and support materials, including FAQs, template letters, leaflets and signposting resources. These should clearly explain the objections process, the grounds upon which objections can be raised, who is responsible for each stage of the process and where customers should direct complaints, appeals and requests for support.

The success of the objections framework should not be measured solely by the number of objections received or debts recovered. HMRC should also monitor complaint volumes, FOS referrals, vulnerability referrals, hardship escalations and wider customer outcomes to ensure the process is operating fairly, proportionately and effectively.