HM Revenue
& Customs

Collection of debt: coding out

Who is likely to be affected?

Those who owe a debt to HM Revenue & Customs (HMRC), employers and payroll providers.

General description of the measure

HMRC currently calculates tax codes so that individuals pay the right amount of tax. Tax codes can also be used as a way to collect tax and debts due to HMRC (coding out). This measure will increase the amount of debt which can be recovered by coding it out. It will also provide a statutory limit to prevent employers deducting more than 50% of an employee's pay.

Policy objective

This measure makes the tax system fairer and more effective by increasing the amount of debt that can be recovered from those on higher incomes. A graduated scale will apply so that those on higher incomes will have more recovered from their income than those on lower incomes. Although HMRC already has a business rule in place to prevent the issue of tax codes that would deduct more than 50% of an employee's pay this is now being made statutory.

There is no change in the amount which can be coded out either from debtors whose income is £30,000 or less, or for Self Assessment balancing payments and PAYE underpayments.

Background to the measure

This measure was announced in Budget 2013. A consultation *How to improve HMRC's collection of debt: coding out* was issued in July 2013 and a response document *How to improve HMRC's collection of debt: coding out: Summary of Responses* was published in February 2014.

Draft secondary legislation for the measure was published in July 2014 alongside this Tax Information and Impact Note.

Detailed proposal

Operative date

The new graduated scale will apply for the 2015-16 tax year. Debtors will be notified in advance of the amounts which will be deducted from their income from April 2015 onwards.

The overriding limit that will prevent employers from deducting more than 50% of an employee's pay, will apply from 6 April 2015.

Current law

Section 684 of the Income Tax Earnings and Act 2003 provides the legal basis for coding out and the details are set out in The Income Tax (Pay As You Earn) Regulations 2003 (SI 2003 No. 2682).

Proposed revisions

Two pieces of secondary legislation will be introduced to give effect to the changes.

The first, *The Income Tax (Earnings and Pensions) Act 2003 (Section 684(3A)) Order 2014*, raises the limit on the amount of debt that can be coded out from £3,000 to £17,000.
The second, *The Income Tax (Pay as you Earn) (Amendment No. 4) Regulations 2014*, sets out the graduated scale that will apply and gives effect to the new overall 50% limit.

Summary of impacts

<table>
<tr><td rowspan="3">Exchequer impact (£m)</td><td>2014-15</td><td>2015-16</td><td>2016-17</td><td>2017-18</td><td>2018-19</td></tr>
<tr><td>-</td><td>+115</td><td>+50</td><td>+30</td><td>+30</td></tr>
<tr><td colspan="5">These figures are set out in Table 2.2 of Budget 2014. The original costing was set out in Table 2.1 of Budget 2013 and was certified by the Office for Budget Responsibility. More details can be found in the policy costings document published alongside Budget 2013.</td></tr>
<tr><td>Economic impact</td><td colspan="5">This measure is not expected to have any significant economic impact.</td></tr>
<tr><td>Impact on individuals and households</td><td colspan="5">The measure will only impact on those individuals who have a debt due to HMRC. As the proposed change would be introduced via a graduated primary PAYE income related scale, the impact of the increase in the limit to those on lower incomes would be minimised.

The current coding out limit of £3,000 would be maintained for those earning under £30,000 per year, meaning that those customers would be protected from the increases in the coding out limit.

The new statutory 50% cap would apply.

Partial collection of debt via coding out could be more complex for customers to understand. However there are some customer benefits since it would allow more debts to be coded out than currently and over a longer period, rather than immediate payment being required.</td></tr>
<tr><td>Equalities impacts</td><td colspan="5">The proposed changes would affect HMRC debtors earning over £30,000 per year on a graduated scale, with the maximum increase to £17,000 per annum being reached only when primary source earnings are over £90,000. They do not affect those with earnings of less than £30,000. The new statutory 50% cap would apply. It is not expected that the measure would adversely or disproportionately affect any equality group.</td></tr>
<tr><td>Impact on business including civil society organisations</td><td colspan="5">As the debt would be collected by the established PAYE system, employers would not have any additional burden in collecting a larger amount/larger volume of debt. However, it may be that a larger proportion of employees/pensioners query their tax codes and, therefore, the employer/pension provider may have to spend more time addressing these questions or directing the payee to the HMRC website or helpline. Similarly, civil society organisations may receive more enquiries from taxpayers about this collection method.</td></tr>
<tr><td>Operational impact (£m) (HMRC or other)</td><td colspan="5">HMRC will need to make changes to Self Assessment and PAYE IT systems and processes. The cost for IT changes is expected to be in the region of £1.6 million.

This measure will allow HMRC operational resources to be deployed in a</td></tr>
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	more cost effective way.
Other impacts	Other impacts have been considered and none have been identified.

Monitoring and evaluation

HMRC will monitor the use of the increased coding out limit through information captured within its operational and administration systems.

Further advice

If you have any questions about this change, please contact John Tully on 03000 586687 (email:John.Tully@hmrc.gsi.gov.uk).

Declaration

David Gauke MP, Financial Secretary to the Treasury, has read this Tax Information and Impact Note and is satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impacts of the measure.