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HMRC performance in 2021–22

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Summary

HM Revenue & Customs (HMRC) published its 2021–22 Annual Report and Accounts ahead of the summer recess last July, an important milestone in returning to more timely reporting to Parliament. HMRC collected £731.1 billion in taxes and duties, the highest on record, reflecting the end of the acute phase of the pandemic and has made modest progress in restoring its performance to pre-pandemic levels. However, we do not consider that it has the resources required to provide the level of service its customers need, or to maximise the tax revenues it collects, at a time when the public finances are under huge strain. Improving customer service is set to become even more difficult as the current inflationary pressures squeeze taxpayer budgets and reduce HMRC's own spending power.

In June 2022 £42 billion was owed to HMRC in tax debt, much more than before the pandemic. This debt is now set to fall more slowly than initially expected as taxpayers feel the effects of the cost-of-living crisis. In 2021–22 HMRC generated £30.8 billion from its compliance activities, though this also remains below pre-pandemic levels of performance. For every £1 that HMRC spends on compliance activities, it recovers £18 in additional tax revenue. The government is missing the opportunity to recover billions in lost revenue by not resourcing compliance.

HMRC will need to develop its ability to identify and support those taxpayers who are genuinely struggling while targeting its scarce resources to ensure that businesses and individuals who are able to meet their liabilities are paying their fair share. HMRC's customer service performance has been declining for many years and is not acceptable to the taxpayers or agents it serves. We are unconvinced that HMRC's plans to address this through moving more enquiries to digital channels will sustainably reduce demand or deal with the poor level of service quickly enough.

We are disappointed that HMRC only expects to recover around a quarter of the £4.5 billion it estimates was lost to fraud and error in the COVID-19 support schemes. Fraud and error are also high for the Department's costly research and development tax reliefs, which provide questionable benefit to the UK economy. While recognising the challenges involved, we believe that there is a moral duty to pursue fraud to ensure fairness and maintain a level playing field for individuals and businesses that did not abuse the schemes, rather than HMRC being seen to reward those that were dishonest. HMRC should be much more ambitious with its plans to tackle fraud and error and recover losses. It needs to rethink its approach so that it can bring in more money with its limited resources, ensuring honest claimants are not left at a relative disadvantage simply because they are more compliant.

Introduction

HMRC employs around 63,000 people and is responsible for administering the UK's tax system. For 2021–22, HMRC's strategic objectives were to: collect the right tax and pay out the right financial support; make it easy to get tax right and hard to bend or break the rules; maintain taxpayers' consent through fair treatment and protect society from harm; make HMRC a great place to work; and support wider government economic aims through a resilient, agile tax administration system. In 2021–22, HMRC reported £731.1 billion of tax revenues, an increase of £122.3 billion (20.1%) compared to 2020–21. HMRC estimates the yield from its tax compliance activities in 2021–22 was £30.8 billion, up 1.1% compared with 2020–21 (£30.4 billion). As well as its traditional responsibilities for tax collection and administering Personal Tax Credits and Child Benefit, HMRC continued to play a major role in implementing the government's response to the COVID-19 pandemic. In 2021–22 it provided £16.5 billion of support to businesses and individuals under the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme, both of which ended in September 2022. Total support provided across the lifetime of the schemes was £96.9 billion. As part of administering the tax system HMRC is also responsible for managing tax reliefs, including the research and development reliefs.

Conclusions and recommendations

1. **HMRC has not yet returned to setting a formal compliance yield target, against which it can be meaningfully held accountable.** HMRC has not set a formal target since 2020–21 because of the uncertainty caused by the pandemic, and instead has published expectations for its compliance yield that it uses to manage its performance rather than as an accountability mechanism. For 2022–23, HMRC is aiming to achieve a compliance yield of £36 billion. This yield may include compliance cases opened several years ago. High inflation provides a further challenge to HMRC being able to effectively measure and understand underlying changes in its performance. Increased revenues and yields due to inflation will make it easier for HMRC to achieve historic rates of compliance yield. HMRC will therefore need to establish what is a genuine change in performance from a change in underlying revenues.

   Recommendation: ***HMRC should return to a formal compliance yield target with HM Treasury from April 2023 and report the target publicly. In doing so, targets should take account of inflation and economic factors, for example by setting the target relative to tax revenue.***

2. **Resourcing HMRC's compliance work to maintain rather than reduce the tax gap means the government is missing out on billions in lost revenue.** HMRC estimates that the tax gap—the difference between the amount of tax that should, in theory be paid to HMRC, and what was actually paid—was £32 billion in 2020–21, or 5.1% of all tax liabilities, the same proportion as in 2019–20. This masks changes in the tax gap for each category of tax, with the tax gap for VAT decreasing while the tax gap for Corporation Tax, excise duties and income tax Self-Assessment increasing in 2020–21. HMRC bases its compliance performance and resourcing on maintaining the tax gap and stopping it from growing. However, there remains scope for reducing it; for every £1 that HMRC spends on compliance activities, it recovers £18 in additional tax revenue. The pandemic has created more uncertainty in the data that HMRC uses to estimate the tax gap, but HMRC does not currently report the range of uncertainty in its headline estimate. HMRC told us that this would be difficult to do, but possible.

   Recommendations:

   - ***HMRC should set out what level of investment in its compliance teams would be needed to reduce the size of the tax gap, and confirm what, if any, intention it has to pursue this.***
   - ***HMRC should also calculate and report an uncertainty range for its headline tax gap estimate to provide more transparency to users of the estimate.***

3. **HMRC's plan to only recover a quarter of losses due to fraud and error on its COVID-support schemes does not go far enough.** HMRC estimates that total error and fraud across the lifetime of the COVID-support schemes is £4.5 billion, representing 4.6% of the £96.9 billion total support provided. This is lower than HMRC's previous estimate, though the actual level of fraud and error remains very uncertain. HMRC has drawn together a wider set of data to improve its estimate, but

this is limited by the shortage of data that HMRC collected on taxpayers' working patterns at the time the schemes were running. HMRC has been given £100 million to fund a temporary taskforce to investigate fraud and error on the schemes and has opened about 40,000 investigations so far. However, of the £4.5 billion in fraud and error losses, HMRC forecasts by the time the taskforce closes it will have recovered only around £1.1 billion, with the rate of return for the funding expected to be less than if invested in tax compliance. HMRC is yet to demonstrate it has done all it reasonably can to recover the losses and avoid the dent to public finances. HMRC risks rewarding those taxpayers that were dishonest if it does not pursue more of the losses than currently planned.

Recommendation: ***In determining what further recovery action to take on fraud and error on the COVID-19 support schemes, HMRC should:***

- ***keep under review the return on investment of spending more resources on recovery; and***
- ***set out how it will ensure it maintains a level playing field for individuals and businesses that did not abuse the schemes, rather than being seen to reward those that were dishonest.***

4. **We are concerned that HMRC may be lagging behind other established tax authorities in preventing fraudulent VAT registrations.** HMRC is constantly changing its processes to prevent criminals from exploiting the tax system. VAT is particularly susceptible to fraud and criminality as it can involve HMRC repaying large amounts to taxpayers. We raised concerns about a case where a criminal used a legitimate company's details to apply for a VAT registration number and make fraudulent VAT repayment claims. We understand that the criminal was successful in the UK, but that safeguards adopted by the German tax authorities appeared more effective at identifying similar fraudulent activities at an earlier stage.

Recommendation: ***HMRC should engage with its international counterparts to understand what lessons it can learn in preventing fraudulent VAT registrations and minimising the impact on honest taxpayers.***

5. **Taxpayers and their agents are still not receiving an acceptable level of customer service.** In the last five years, HMRC has reduced its customer service staff numbers from 25,500 to 19,500. During the pandemic, HMRC's performance in replying to post or handling calls fell significantly, partly because it did not have sufficient customer service staff to manage the pressures that the pandemic brought. We were surprised to learn that at times in the past, HMRC has simply closed its telephone line when it could not cope with demand. It is not acceptable not to answer calls from people who are trying to pay the government money. HMRC's plan for improving customer service is to continue digitalising the tax system, moving people away from phone and post onto online systems. Taxpayers report being more satisfied with HMRC's digital services than its phone and post services. However, we are not convinced that its plans will sustainably reduce demand for traditional channels or deal with the unacceptable level of service that taxpayers and agents are currently suffering. The move to online services will not happen quickly and will not be appropriate for all circumstances or customers.

Recommendation: ***HMRC should write to the Committee setting out its plan to improve customer service to adequate levels as quickly as possible, and within three months, including:***

- ***the metrics HMRC will use to monitor its customer service performance, including metrics it needs to demonstrate it can answer calls and deal with post in a timely manner;***
- ***the level of customer service taxpayers and their agents can expect to receive over the next three years against each of these performance metrics;***
- ***how it will support customers who are unable to engage digitally or have a preference for post or telephone contact; and***
- ***its contingency arrangements if its plans to reduce demand for traditional channels are unsuccessful or take longer to implement.***

6. **HMRC has further to go until it can differentiate between taxpayers who are genuinely struggling, and those who can afford to meet their liabilities but are choosing not to.** Total tax debt in August 2022 was £46 billion, less than at the height of the pandemic in March 2021, but significantly higher than before the pandemic. HMRC's data suggest that the tax debt has started to increase again as the economy slows down and taxpayers feel the effects of the cost-of-living crisis. HMRC has previously taken a standardised approach to debtors, but is now trying to vary its approach depending on whether a debtor is in genuine financial distress. This segmentation requires good data on the behaviour of its debtors, as well as sufficient capacity to take a tailored approach. HMRC has increased its debt management service by 700 people and is experimenting with data from credit reference agencies to gain insights into its debtors. However, HMRC's ability to understand debtors' circumstances will be limited until it has completed its single customer account project, which will join up taxpayers' records that are currently held in its different digital systems.

   Recommendation: ***HMRC should set out how it will strike the right balance between providing support to taxpayers who need it, whilst ensuring that those able to meet their liabilities are doing so. HMRC should also set out when its single customer account will be ready and consider how it can bring the implementation of it forward.***

7. **Research and development tax reliefs are costly, prone to abuse and provide questionable benefit to the UK economy.** The government has a target of 2.4% of GDP to be invested in research and development. In 2021–22, HMRC spent £9.5 billion on research and development reliefs, with expenditure having continued to grow year-on-year. HMRC told us that analysis it has undertaken demonstrates that these reliefs increase research and development investment, albeit marginally for small and medium-sized enterprises, but the benefit to the UK economy of that investment is not clear. Based on HMRC's latest estimates, abuse of the reliefs cost the taxpayer £469 million in 2021–22, though work to establish the true scale of the problem remains ongoing. Abuse of the small and medium-sized scheme is particularly worrying, with 7.3% of claims for relief estimated to be fraudulent or erroneous. HMRC has undertaken work to reconcile the £21.6 billion gap

between HM Treasury and Office for National Statistics estimates of research and development expenditure, but discrepancies remain. HMRC is introducing new measures from April 2023 to strengthen its compliance approach and bear down on abuse of the schemes.

Recommendation: ***HMRC should develop its analysis of the additional research and development expenditure its relief schemes result in, to consider what impact that expenditure has on the UK economy. HMRC should report to the Committee on its findings within 12 months.***

1 Managing error and fraud, compliance and tax avoidance

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) on its performance in 2021–22.[1] HMRC published its annual report and accounts for 2021–22 on 18 July 2022, shortly before Parliament's summer recess. It had published its annual report and accounts for 2020–21 in November 2021.

2. HMRC employs around 63,000 people and is responsible for administering the UK's tax system. HMRC reported total tax revenue of £731.1 billion in 2021–22, an increase of £122.3 billion (20.1%) compared to 2020–21, reflecting the recovery of the economy following the peak of the COVID-19 pandemic. For 2021–22, HMRC's strategic objectives were to: collect the right tax and pay out the right financial support; make it easy to get tax right and hard to bend or break the rules; maintain taxpayers' consent through fair treatment and protect society from harm; make HMRC a great place to work; and support wider government economic aims through a resilient, agile tax administration system. Since 2020–21, HMRC has not set a target for compliance yield due to the uncertainty around the COVID-19 pandemic and the need to respond quickly to urgent government priorities. HMRC estimates the yield from its tax compliance activities in 2021–22 was £30.8 billion, up 1.1% compared to 2020–21 (£30.4 billion). HMRC did not set targets either for its customer service measures in 2021–22, although did set performance expectations. HMRC achieved nine of the 20 quarterly performance expectations it set for 2021–22 in respect of customer service. As part of administering the tax system HMRC is responsible for managing tax reliefs, including the research and development reliefs.[2]

3. HMRC continued to play a major role in implementing the government's response to the COVID-19 pandemic. In 2021–22 it provided £16.5 billion of support to businesses and individuals under the Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme, both of which ended in September 2022. Total support provided across the lifetime of the schemes was £96.9 billion.[3] While the impact of the pandemic has eased, HMRC is facing a fresh strategic challenge from high inflation and the cost of living crisis that will impact on taxpayers' ability to repay their debts and on HMRC's own spending power.

Tax compliance

4. HMRC estimates that the yield from its tax compliance activities in 2021–22 was £30.8 billion, up 1.1% compared with 2020–21. This is lower than the £36.9 billion reported in 2019–20 before the impact of the pandemic on HMRC's compliance activity occurred.[4] HMRC recruited 4,200 people in 2021–22 into its compliance group. However, given the resources needed to induct, train and mentor the new recruits, it does not expect to see the benefits immediately.[5] For 2020–21 and 2021–22, HMRC did not set a formal target

1 Report by the Comptroller and Auditor General, *HM Revenue & Customs 2021–22 Accounts*, HC 494, 18 July 2022

2 C&AG's report, paras 1, 4, 6, 8; HM Revenue and Customs, *Annual Report and Accounts 2021 to 2022*, July 2022, page 132

3 C&AG's report, Figure 9

4 C&AG's report, para 6

5 Qq 30, 35

for compliance yield because of the uncertainty caused by the pandemic and the need to respond to urgent government priorities. Instead HMRC published forward-looking performance expectations for its compliance yield that it used to help it manage its performance rather than as an accountability mechanism.[6]

5. For 2022–23, HMRC is expecting to achieve compliance yield of between £32 billion and £39 billion. Its current target is £36 billion, though achieving this is expected to be challenging. The level of yield can be reliant on HMRC settling a small number of large cases within the year. For 2022–23, HMRC has carried over a few large cases that it was not able to settle in 2021–22.[7]

6. We asked HMRC about what impact it felt from the current high inflation being experienced across the economy, and how it accounts for the amount of money owed to HMRC increasing as a result. HMRC told us that there tends to be a lag between tax receipts and compliance yield, and so the yield in 2022–23 may include compliance cases opened several years ago. We asked how HMRC was factoring this into its compliance targets and ensuring that high inflation wasn't masking any performance issues. HMRC said that it will have to make sure it is able to distinguish between genuine changes in its performance and changes that are a result of inflation in receipts. HMRC said that it sets its targets for compliance to maintain the tax gap and prevent it from growing, and it is on this basis that it measures its performance.[8]

Tax gap

7. HMRC estimates that the tax gap—the difference between the amount of tax that should, in theory be paid to HMRC, and what was actually paid—was £32 billion in 2020–21, or 5.1% of all tax liabilities. This was the same proportion as in 2019–20.[9] We asked HMRC how, given the pandemic and the upheaval in the economy, the tax gap had stayed the same. HMRC said that within the headline estimate, the tax gap for VAT decreased while the tax gap for Corporation Tax, excise duties and income tax Self-Assessment increased in 2020–21.[10] It told us that while the economy has now returned to pre-pandemic ways of working, taxpayers have not returned to pre-pandemic patterns of tax compliance.[11]

8. HMRC's 2020–21 estimates of the tax gap are more uncertain than usual due to the impact of COVID-19 on the data it uses to inform its estimates. For example, HMRC said it has had to make some assumptions about the underlying level of write-offs and remissions that might happen. HMRC does not publish an overall range around the tax gap at the moment, and said it was quite difficult to do given the different methodologies used to calculate the tax gap for each individual component. In its reporting, HMRC comments on the confidence it has in each of these components, and sets out the sensitivity associated with any assumptions used. We asked whether HMRC was confident that the tax gap had actually stayed the same in 2020–21. HMRC said that it was confident that the 2020–21 estimate is the best possible estimate at the moment given the data available.[12]

6 C&AG's report, para 1.25
7 Qq 24–29
8 Qq 13–14
9 C&AG's report, para 5
10 Q 15
11 Q 46
12 Qq 15, 19–23; C&AG's report, para 5

9. With the resources it was given in the 2021 Spending Review, HMRC's aim is to maintain the tax gap and prevent it from growing. For every £1 that it spends on compliance activity, it said it recovers £18 in additional tax revenues. HMRC sometimes gets additional resources from HM Treasury for particular purposes in return for additional tax revenues. HMRC said that typically this investment recovers between £10 and £20 in tax revenue for every £1 it spends.[13]

Fraud and error in the COVID-19 support schemes

10. HMRC estimates that total fraud and error across the lifetime of the COVID-support schemes was £4.5 billion, representing 4.6% of the total support provided. This is lower than the estimate HMRC included in its 2020–21 accounts. HMRC has drawn on new data to improve its estimate, from a random enquiry programme, more compliance activity and Self Assessment returns for 2020–21. The estimates are, however, still very uncertain. HMRC said that the most uncertain element was around claims for people working while their employer claimed support for them. Given the speed at which HMRC had to work to get support to individuals and businesses, it said some level of fraud and error was inevitable. HMRC accepted that it needed more timely data on taxpayers' working patterns at the time the schemes were running, rather than activities after the event that relied on people recalling their working patterns from some time ago. It told us it would look into drawing together its lessons from the schemes to support other parts of government that are tasked with disbursing funds at pace, such as the Household Support Fund.[14]

11. HMRC has been given £100 million to fund a temporary taskforce to investigate fraud and error on the schemes and has opened about 40,000 investigations so far. HMRC forecasts that by the time the taskforce winds down, it will have recovered around £1.1 billion, around a quarter of the fraud and error losses. HMRC expects some of the more complex cases to still be unresolved by that point. HMRC expects to also recover further losses through its usual tax compliance activity, though it did not articulate how much more it will realistically be able to recover.[15]

12. We raised the point that there was a moral duty and fairness issue to pursue fraud with, for example, some companies getting an unfair competitive advantage through their abuse of the schemes. HMRC said that it looks into every single allegation of fraud, drawing together other supporting data such as business performance. HMRC said that its controls had been effective at preventing organised crime from abusing the support schemes. It has found that a higher proportion of the losses than it first thought is due to error, rather than fraud, by a large number of fairly small concerns. HMRC said this affects the cost-effectiveness of recovering the losses, because it has to investigate a larger number of people. It said the rate of return it can expect from this activity is less than if it spent the same investment on tax compliance.[16]

VAT registration

13. We asked HMRC about a case where a criminal used a legitimate company's details, apparently successfully, to apply for a VAT registration number and make fraudulent VAT

13 Qq 14, 33, 43–45
14 Qq 80–83, 92–95
15 Q 84
16 Qq 89–91, 113

repayment claims. This fraud was only picked up when the legitimate company received communication from a debt collection agency requesting payment. We raised concerns that safeguards adopted in other countries appear more effective at identifying this type of fraud at an earlier stage, with the German tax authorities apparently refusing the same criminal a VAT registration and reporting the incident to the police.[17]

14. HMRC told us that VAT is a particular target for organised crime as it can involve HMRC repaying large amounts to taxpayers. HMRC described it as an 'arms race', with HMRC constantly changing its processes and risk assessment to prevent criminals from abusing the tax registration process, and criminals constantly finding new ways around them. HMRC felt it was effective at identifying these attempts at fraud early and adjusting to them. It said it needs to balance making the system secure with making it as quick and easy as possible for legitimate companies to register. HMRC said it had put in extra steps to verify the identification of individuals and companies, which has meant it has been able to reject a large number of VAT registrations. However, the extra steps have also meant that there had been delays in legitimate applications for VAT registration in the last year.[18]

17 Q 9
18 Qq 9–10

2 Supporting taxpayers

Customer service

15. HMRC's post and call handling performance fell significantly during the pandemic. For example, in 2021–22 HMRC responded to 39.5% of post within 15 days, compared to 70.3% in 2019–20. The average speed of answering calls to HMRC helplines was 12:22 minutes in 2021–22, compared to 6:39 minutes in 2019–20.[19] The Chartered Institute of Taxation submitted evidence to us that highlighted concerns about the difficulties both advisers and taxpayers face getting timely responses and action from HMRC.[20] HMRC said that its ability to manage shocks such as the impact of COVID-19 was impacted by reductions in staff: in the last five years its number of customer service staff has reduced from 25,500 to 19,500 as HMRC has moved more customers to digital systems.[21] We raised concerns that this reduction in staff was premature and were effectively cuts rather than efficiency savings. HMRC said that it had achieved efficiencies, but that the additional pressure of responding to the pandemic meant that performance had suffered, for instance through a backlog of 3.3 million items of post building up. HMRC sees further digital improvements as key to moving customers away from phone and post and making further efficiencies.[22] Beyond what it has already planned, it said it would be difficult to deliver any new efficiencies before 2024–25.[23]

16. HMRC said that it limits the number of callers that can join the call queue, which can have an impact on its call waiting time measure. Anyone not able to join the call queue is played a "busy message" and is forced to end the call. HMRC told us that in previous years it would play this message about 11% or 12% of the time. It has now reduced this to 5.5%, as its customers have told HMRC that they would prefer to wait in a queue for longer than keep calling back. HMRC said that these changes mean that it is not fair to compare average call waiting times year on year. Instead it is focusing on the proportion of customers who need to speak to an agent that get through to an agent the first time they call. HMRC has set itself a service standard of 85%, although is currently achieving 77%.[24]

17. HMRC's expects to improve customer service by continuing digitalise the tax system, for instance by developing its digital assistant and single customer account. In this way HMRC hopes to reduce the demand for phone and post by servicing more people through online systems. HMRC's customers report being more satisfied with HMRC's digital services than its phone and post services. We raised concerns that taxpayers were being forced to interact with HMRC online rather than by phone or post. HMRC said it recognises some customers will always need to speak to someone, either because they are unable to deal with HMRC digitally or because of the nature of their enquiry. But HMRC believes there is a lot of "low-value demand" from taxpayers that can be removed through better customer self-service or better HMRC processes.[25]

19 C&AG's report, para 8
20 Written evidence ARA0002 – Chartered Institute of Taxation, para 1.10
21 Q 114
22 Qq 2, 120–121
23 Qq 4, 79
24 Qq 114–118
25 Qq 60, 120–122; C&AG's report, para 8

Segmenting taxpayers in debt

18. The total tax debt owed to HMRC in August 2022 was £46 billion. This is less than at the height of the pandemic in March 2021 but significantly higher than before the pandemic. HMRC told us that while the size of the debt fluctuates throughout the year, the trend continues to be upwards. It said that the cost of living crisis meant that more people are unable to pay their debts or feel they have to prioritise other spending. It raised concern that some taxpayers had started using HMRC as an overdraft facility.[26] In October 2022, for taxpayers on agreed Time to Pay arrangements HMRC was charging interest for late payment at 2.5 percentage points above the Bank of England base rate, far lower than what taxpayers would get charged on a credit card.[27]

19. HMRC said it is dealing with a larger number of smaller debts than it is has dealt with before. It told us that it had previously took a one-size-fits-all approach to managing debts, but is now trying to vary its approach depending on whether a debtor is in genuine financial distress or is prioritising other spending over paying HMRC. HMRC tries to put those in genuine distress into affordable arrangements to repay the debt, while taking a firmer approach with those that need it. It has increased its debt management service by 700 people to support this, and as of March 2022 had 851,000 taxpayers on Time to Pay arrangements. HMRC now allows taxpayers to create their own Time to Pay arrangement online if they meet certain criteria. The average length of a Time to Pay arrangement has increased from six months to 14 months.[28]

20. HMRC said it is trying to improve the data it uses to understand the behaviour of its debtors. It is experimenting with data from credit reference agencies.[29] It is also developing a comprehensive single customer account, using funding it received in the 2021 Spending Review.[30] HMRC's digital services are currently separate and not integrated. The single customer account aims to bring together the data that HMRC has on a customer from across the separate services into a single account.[31]

Research and development tax reliefs

21. The government has a target of 2.4% of GDP to be spent on research and development.[32] To encourage this investment, HMRC administers tax reliefs to companies via two schemes – one for large companies and one for small and medium-sized enterprises. HMRC said that the scale of the schemes is growing all the time. HMRC said that it has published research that demonstrates that the two schemes increase research and development investment, albeit marginally for small and medium-sized enterprises. While this research demonstrates what additional research and development activity was stimulated, it does not quantify the benefit to the UK economy.[33]

26 Qq 47–49; C&AG's report, para 7
27 Qq 58, 66
28 Qq 30, 47–48, 51, 55
29 Q 51
30 Q 60
31 Q 64
32 Q 96
33 Qq 103–106

22. In 2021–22, HMRC granted research and development tax reliefs worth £9.5 billion.[34] HMRC said the relief is an attractive target for abuse, whether by companies that have not carried out any research and development or by advisors encouraging companies to push the boundaries of what expenditure is eligible to be claimed for under the schemes.[35] HMRC estimates that the level of fraud and error on research and development relief was £469 million, or 4.9%. This is an increase from 3.6% in 2020–21, although HMRC believes this is due to improvements in its methodology rather than non-compliance worsening.[36] HM Treasury has found UK companies claimed tax relief on £47.5 billion of research and development expenditure in 2019, but the Office for National Statistics estimated that businesses only carried out £25.9 billion of privately financed research and development in the UK.[37] HMRC has recently published a joint paper with the Office for National Statistics that explains some of this disparity, but HMRC said that it is still working to resolve the remaining gap.[38] Some of the gap can be explained by tax relief funding research and development costs incurred outside of the UK. We asked HMRC whether this was a legitimate use of the funding. HMRC said that the objective of the relief schemes was to fund research and development that benefits the UK economy, and that it has made some reforms to the small and medium enterprise scheme that better targets research and development undertaken in the UK.[39]

23. Fraud and error is particularly high on the scheme for small and medium-sized enterprises, estimated at 7.3% in 2021–22. HMRC said it gets about 76,000 claims on this scheme every year, providing a lot of activity for HMRC to police.[40] It said it is introducing new measures from April 2023 to strengthen its compliance activity on the schemes, including requiring more information from businesses when submitting their claim, such as the name of their advisor and a named person within the business accountable for the information in the claim.[41]

34 C&AG's report, para 3.26
35 Q 96
36 Q 99; C&AG's report, para 12
37 C&AG's report, para 3.35
38 Qq 97–98; Office for National Statistics, Comparison of ONS business enterprise research and development statistics with HMRC research and development tax credit statistics, 29 September 2022
39 Q 98
40 Q 102
41 Q 96

Formal minutes

Monday 19 December 2022

Members present:

Dame Meg Hillier

Sir Geoffrey Clifton-Brown

Mr Jonathan Djanogly

Mrs Flick Drummond

Mr Mark Francois

Mr Louie French

Peter Grant

Anne Marie Morris

Sarah Olney

Nick Smith

HMRC performance in 2021–22

Draft Report (*HMRC performance in 2021–22*), proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Thirty-third of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Adjournment

Adjourned till Thursday 12 January at 9.30am

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Thursday 20 October 2022

Jim Harra, Chief Executive and First Permanent Secretary, HM Revenue and Customs; **Angela MacDonald**, Deputy Chief Executive and Second Permanent Secretary, HM Revenue and Customs; **Justin Holliday**, Chief Finance Officer, HM Revenue and Customs; **Jane Whittaker**, Director for Knowledge, Analysis and Intelligence, HM Revenue and Customs Q1–125

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

ARA numbers are generated by the evidence processing system and so may not be complete.

1 The Chartered Institute of Taxation (CIOT) (ARA0002)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

Session 2022–23

Number	Title	Reference
1st	Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2020–21	HC 59
2nd	Lessons from implementing IR35 reforms	HC 60
3rd	The future of the Advanced Gas-cooled Reactors	HC 118
4th	Use of evaluation and modelling in government	HC 254
5th	Local economic growth	HC 252
6th	Department of Health and Social Care 2020–21 Annual Report and Accounts	HC 253
7th	Armoured Vehicles: the Ajax programme	HC 259
8th	Financial sustainability of the higher education sector in England	HC 257
9th	Child Maintenance	HC 255
10th	Restoration and Renewal of Parliament	HC 49
11th	The rollout of the COVID-19 vaccine programme in England	HC 258
12th	Management of PPE contracts	HC 260
13th	Secure training centres and secure schools	HC 30
14th	Investigation into the British Steel Pension Scheme	HC 251
15th	The Police Uplift Programme	HC 261
16th	Managing cross-border travel during the COVID-19 pandemic	HC 29
17th	Government's contracts with Randox Laboratories Ltd	HC 28
18th	Government actions to combat waste crime	HC 33
19th	Regulating after EU Exit	HC 32
20th	Whole of Government Accounts 2019–20	HC 31
21st	Transforming electronic monitoring services	HC 34
22nd	Tackling local air quality breaches	HC 37
23rd	Measuring and reporting public sector greenhouse gas emissions	HC 39
24th	Redevelopment of Defra's animal health infrastructure	HC 42
25th	Regulation of energy suppliers	HC 41
26th	The Department for Work and Pensions' Accounts 2021–22 – Fraud and error in the benefits system	HC 44
27th	Evaluating innovation projects in children's social care	HC 38

Number	Title	Reference
28th	Improving the Accounting Officer Assessment process	HC 43
29th	The Affordable Homes Programme since 2015	HC 684
30th	Developing workforce skills for a strong economy	HC 685
31st	Managing central government property	HC 48
32nd	Grassroots participation in sport and physical activity	HC 46
1st Special Report	Sixth Annual Report of the Chair of the Committee of Public Accounts	HC 50

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2nd	BBC strategic financial management	HC 187
3rd	COVID-19: Support for children's education	HC 240
4th	COVID-19: Local government finance	HC 239
5th	COVID-19: Government Support for Charities	HC 250
6th	Public Sector Pensions	HC 289
7th	Adult Social Care Markets	HC 252
8th	COVID 19: Culture Recovery Fund	HC 340
9th	Fraud and Error	HC 253
10th	Overview of the English rail system	HC 170
11th	Local auditor reporting on local government in England	HC 171
12th	COVID 19: Cost Tracker Update	HC 173
13th	Initial lessons from the government's response to the COVID-19 pandemic	HC 175
14th	Windrush Compensation Scheme	HC 174
15th	DWP Employment support	HC 177
16th	Principles of effective regulation	HC 176
17th	High Speed 2: Progress at Summer 2021	HC 329
18th	Government's delivery through arm's-length bodies	HC 181
19th	Protecting consumers from unsafe products	HC 180
20th	Optimising the defence estate	HC 179
21st	School Funding	HC 183
22nd	Improving the performance of major defence equipment contracts	HC 185
23rd	Test and Trace update	HC 182
24th	Crossrail: A progress update	HC 184

Number	Title	Reference
25th	The Department for Work and Pensions' Accounts 2020–21 – Fraud and error in the benefits system	HC 633
26th	Lessons from Greensill Capital: accreditation to business support schemes	HC 169
27th	Green Homes Grant Voucher Scheme	HC 635
28th	Efficiency in government	HC 636
29th	The National Law Enforcement Data Programme	HC 638
30th	Challenges in implementing digital change	HC 637
31st	Environmental Land Management Scheme	HC 639
32nd	Delivering gigabitcapable broadband	HC 743
33rd	Underpayments of the State Pension	HC 654
34th	Local Government Finance System: Overview and Challenges	HC 646
35th	The pharmacy early payment and salary advance schemes in the NHS	HC 745
36th	EU Exit: UK Border post transition	HC 746
37th	HMRC Performance in 2020–21	HC 641
38th	COVID-19 cost tracker update	HC 640
39th	DWP Employment Support: Kickstart Scheme	HC 655
40th	Excess votes 2020–21: Serious Fraud Office	HC 1099
41st	Achieving Net Zero: Follow up	HC 642
42nd	Financial sustainability of schools in England	HC 650
43rd	Reducing the backlog in criminal courts	HC 643
44th	NHS backlogs and waiting times in England	HC 747
45th	Progress with trade negotiations	HC 993
46th	Government preparedness for the COVID-19 pandemic: lessons for government on risk	HC 952
47th	Academies Sector Annual Report and Accounts 2019/20	HC 994
48th	HMRC's management of tax debt	HC 953
49th	Regulation of private renting	HC 996
50th	Bounce Back Loans Scheme: Follow-up	HC 951
51st	Improving outcomes for women in the criminal justice system	HC 997
52nd	Ministry of Defence Equipment Plan 2021–31	HC 1164
1st Special Report	Fifth Annual Report of the Chair of the Committee of Public Accounts	HC 222

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Number	Title	Reference
1st	Support for children with special educational needs and disabilities	HC 85
2nd	Defence Nuclear Infrastructure	HC 86
3rd	High Speed 2: Spring 2020 Update	HC 84
4th	EU Exit: Get ready for Brexit Campaign	HC 131
5th	University technical colleges	HC 87
6th	Excess votes 2018–19	HC 243
7th	Gambling regulation: problem gambling and protecting vulnerable people	HC 134
8th	NHS capital expenditure and financial management	HC 344
9th	Water supply and demand management	HC 378
10th	Defence capability and the Equipment Plan	HC 247
11th	Local authority investment in commercial property	HC 312
12th	Management of tax reliefs	HC 379
13th	Whole of Government Response to COVID-19	HC 404
14th	Readying the NHS and social care for the COVID-19 peak	HC 405
15th	Improving the prison estate	HC 244
16th	Progress in remediating dangerous cladding	HC 406
17th	Immigration enforcement	HC 407
18th	NHS nursing workforce	HC 408
19th	Restoration and renewal of the Palace of Westminster	HC 549
20th	Tackling the tax gap	HC 650
21st	Government support for UK exporters	HC 679
22nd	Digital transformation in the NHS	HC 680
23rd	Delivering carrier strike	HC 684
24th	Selecting towns for the Towns Fund	HC 651
25th	Asylum accommodation and support transformation programme	HC 683
26th	Department of Work and Pensions Accounts 2019–20	HC 681
27th	Covid-19: Supply of ventilators	HC 685
28th	The Nuclear Decommissioning Authority’s management of the Magnox contract	HC 653
29th	Whitehall preparations for EU Exit	HC 682
30th	The production and distribution of cash	HC 654
31st	Starter Homes	HC 88
32nd	Specialist Skills in the civil service	HC 686
33rd	Covid-19: Bounce Back Loan Scheme	HC 687

Number	Title	Reference
34th	Covid-19: Support for jobs	HC 920
35th	Improving Broadband	HC 688
36th	HMRC performance 2019–20	HC 690
37th	Whole of Government Accounts 2018–19	HC 655
38th	Managing colleges' financial sustainability	HC 692
39th	Lessons from major projects and programmes	HC 694
40th	Achieving government's long-term environmental goals	HC 927
41st	COVID 19: the free school meals voucher scheme	HC 689
42nd	COVID-19: Government procurement and supply of Personal Protective Equipment	HC 928
43rd	COVID-19: Planning for a vaccine Part 1	HC 930
44th	Excess Votes 2019–20	HC 1205
45th	Managing flood risk	HC 931
46th	Achieving Net Zero	HC 935
47th	COVID-19: Test, track and trace (part 1)	HC 932
48th	Digital Services at the Border	HC 936
49th	COVID-19: housing people sleeping rough	HC 934
50th	Defence Equipment Plan 2020–2030	HC 693
51st	Managing the expiry of PFI contracts	HC 1114
52nd	Key challenges facing the Ministry of Justice	HC 1190
53rd	Covid 19: supporting the vulnerable during lockdown	HC 938
54th	Improving single living accommodation for service personnel	HC 940
55th	Environmental tax measures	HC 937
56th	Industrial Strategy Challenge Fund	HC 941