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Meg Hillier MP
Chair of the Public Accounts Committee

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Dear Chair,

Twelfth Report of Session 2019-20

Management of tax reliefs: response to recommendation 6

We are writing to you with regard to Recommendation 6 in the Public Account Committee's report: Management of tax reliefs.

In your report, recommendation 6 stated that "HMRC and HM Treasury should, within 3 months, write to the Committee to explain how they will accelerate their response when reliefs are costing much more than expected, are subject to abuse, or are not achieving their objectives".

The Government welcomes the Committee's recommendation and agrees that it is important to identify quickly when and why reliefs deviate from their expected impact. HMT and HMRC take a number of steps to make sure this happens.

Timely and informed advice to Ministers

HM Treasury and HMRC are committed to providing timely, high quality advice to Ministers on the tax system, in line with the objectives of Ministers and our Departments. The Government keeps tax reliefs under regular review and takes action where it considers appropriate. Tax changes are considered at Budget, when Ministers take decisions on priority changes required in the tax system and bring them forward to Parliament to consider. There are changes to reliefs in most Finance Acts, for instance the recent changes to Entrepreneurs' Relief, now Business Asset Disposal Relief.

Ministers' decisions on priority actions required in the tax system are informed by reviews and evaluations of tax reliefs carried out by HMRC. These help to improve understanding of whether tax reliefs are working as intended and of their impact. To support this work, HM Treasury and HMRC will explore development of a 'value for money methodology' and other value indicators.

Improving information and transparency around reliefs

Ministerial decisions are also informed by HMRC's annual official statistics on tax reliefs. Data on the most significant reliefs and their cost as a proportion of GDP allow for monitoring of cost trends over time and a better understanding of whether cost changes are proportionate to the size of the relief. As part of this process, officials already provide Ministers with an overview of cost and effectiveness across reliefs and identify areas where they consider there may be a case for action. Going forward, HM Treasury and HMRC will provide more detailed advice to Ministers on cost trends of tax reliefs, alongside the annual tax relief cost publication.

In addition, later this month, HMRC plans to publish more information on initial forecast estimates focusing on high priority non-structural tax reliefs which have been announced since the introduction of the Office for Budget Responsibility. This will improve public understanding of the differences between the actual costs of high-priority tax reliefs and published government forecasts.

The Government is committed to increasing the transparency of the cost of tax reliefs further. HMRC is prioritising work to provide more information on the costs for reliefs where none is currently published. In May 2020 HMRC published new cost estimates for 47 reliefs which were previously uncosted. We expect to publish cost estimates for further tax reliefs in autumn 2020 and will continue to expand coverage into 2021 and 2022.

Responding to abuse of tax reliefs

HMRC's aim is for everyone to pay the tax that is legally due, no matter who they are. Abuse of tax reliefs is treated with the same rigour as any other abuse of the tax system. A salient example of this approach are the actions underway in respect of Research and Development (R&D) tax reliefs.

HMRC is tackling error and fraud in the R&D tax reliefs by increasing resources deployed on compliance activity (HMRC has increased the number of compliance staff in its R&D team by 100 full time equivalent) and by extensive work with customer insight teams to improve our behavioural insight and identification of instances of non-compliance. This will enable HMRC both to identify and respond more quickly to suspected instances of abuse.

We are also working on improvements to the methodology for estimating the error and fraud to reduce the level of estimation uncertainty. From 1 April 2019 returns which make or amend a claim for R&D relief must be made in the relevant tax return (CT600) accompanied by a tax computation. The Government has also recently consulted on changing the law to reduce claims by companies that have very little presence in the UK.

Conclusion

The work we outline above will help to improve the quality and timeliness of our advice to Ministers so the Government can make timely interventions in the tax system where needed. It will also help to manage compliance risks in tax reliefs.

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