HM Revenue & Customs

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Room 2/75
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By email

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Dear Harriett,

Further to my letter sent on 15 December 2022, please see below the remaining information following our commitments made on 30 November 2022. Please accept my apologies for the delay to providing you with this information.

Breakdown of COVID-19 support scheme error and fraud (Q141)

The COVID-19 support schemes helped millions of people and businesses through the pandemic. The Self-Employed Income Support Scheme and Coronavirus Job Retention Scheme supported 14.6 million jobs and self-employed individuals. From the beginning we were clear that the schemes would be targets for fraud and also that customers operating at pace and under pressure would make mistakes: that's why we designed the schemes in such a way as to minimise fraud and error while not unnecessarily delaying payments.

You asked if I could provide a further breakdown of our error and fraud estimates. Across the full lifecycle of the three schemes support schemes administered by HMRC (covering 2020 to 2021 and 2021 to 2022), our most likely estimate of the total value of error and fraud is £4.5 billion (4.6% of the total net cost). This is before counting money recovered by HMRC.

Of this £4.5bn, £3.5bn is attributed to the Coronavirus Job Retention Scheme, £1bn to the Self Employed Income Support Scheme and £71m to Eat Out To Help Out. These figures, as well as the proportional split into what we estimate to be organised crime, opportunistic fraud, or error, are published on gov.uk[1] and can be found below, (table one for 2020-2021 and table two for 2021-2022).

Table 1: Detailed error and fraud provisional assessments for Coronavirus Job Retention Scheme, Self-Employment Income Support Scheme and Eat Out to Help Out during 2020 to 2021 most likely estimates by risk type

Scheme	Most likely error and fraud % rate	Most likely value £million	Proportion organised crime	Proportion opportunistic fraud	Proportion error
Coronavirus Job Retention Scheme	5.3%	£3,218 million	3%	48%	49%

Self-Employment Income Support Scheme (1 to 3 combined)	3.2%	£631 million	35%	34%	31%
Eat Out to Help Out	8.7%	£71 million	7%	75%	18%

Table 2: Detailed error and fraud provisional assessments for Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme during 2021 to 2022 most likely estimates by risk type

Scheme	**Most likely error and fraud % rate**	**Most likely value £million**	**Proportion organised crime**	**Proportion opportunistic fraud**	**Proportion error**
Coronavirus Job Retention Scheme	2.8%	£241	3%	44%	53%
Self-Employment Income Support Scheme (4 and 5)	4.5%	£376	10%	51%	39%

We will produce and publish our final estimates of error and fraud for CJRS and SEISS in 2023 using further data from random enquiry programmes and more complete compliance data.

Return on investment in compliance resources (Q192)

The tax gap due to evasion was estimated to be £4.8bn in 2020-21. It is difficult to draw comparisons internationally as very few revenue authorities publish detailed tax gap estimates. Those that do, use a range of different estimate methodologies that complicate direct comparisons. Where tax gap data is published, HMRC compares favourably.

Investment in HMRC's compliance activity can have strong positive rate of return. The precise impacts of investment depend on the exact nature of the compliance work it is intended to fund. By way of example, at Autumn Statement 2022 the government announced a further £79m investment to enable HMRC to allocate additional staff to tackle more cases of serious tax fraud and address tax compliance risks among wealthy taxpayers. This is expected to deliver a return of over 9:1 over the period from 2023-24 to 2027-28 with a return comparable to the 18:1 in 2027-28 when staff taking up these roles are fully trained and experienced in post.

The average ratio of cost of compliance activity to yield is just one factor HMRC considers when deciding how best to deploy its resources. Other factors include wider impacts on voluntary compliance, the impact on honest taxpayers, fairness and reducing harm. HMRC's strategy is to design out opportunities for non-compliance before they can occur where possible, making things easier for taxpayers and allowing HMRC to focus its resources where they can make the most difference.

Lessons learned from customer loss of life cases (Q205)

HMRC recognises that dealing with a compliance investigation, and receiving a large tax bill as a result of such an investigation, can be stressful. HMRC takes loss of life or serious injury extremely seriously.

Where we learn that a customer has lost their life or suffered serious injury and there is any suggestion that this might be linked to contact with HMRC, the matter is reviewed by an internal governance team within HMRC that is separate from the case team, and relevant cases are referred to the Independent Office for Police Conduct (IOPC). HMRC has made ten referrals to the IOPC where a customer has sadly taken their life and had used a disguised remuneration scheme, the first of which was made in March 2019. Eight investigations have concluded and there was no evidence of misconduct by any HMRC officer. Two investigations are currently ongoing.

HMRC is taking forward organisational learning from concluded investigations and is committed to learning and making improvements so that we avoid causing undue stress and, wherever possible, we identify vulnerable taxpayers and give them the extra help they need.

Transition of COVID-19 compliance work from the Taxpayer Protection Taskforce to business-as-usual compliance teams (Q232)

You also asked for more information regarding the movement of COVID-19 compliance activity from the Taxpayer Protection Taskforce (TPT) to our business-as-usual compliance teams. We started compliance activity on the COVID-19 support schemes as soon as HMRC had the legal powers to do so following Royal Assent in July 2020. At Budget 2021, the government announced an investment of over £100 million in the TPT to combat fraud in the COVID-19 financial support schemes administered by HMRC. This investment enabled HMRC to deploy experienced compliance staff to the TPT for a period of two years, up to the end of March 2023, and to backfill for those staff to prevent an opportunity cost to the collection of tax revenues.

Including amounts recovered through compliance work on the COVID-19 schemes before the taskforce was formed, HMRC expects to recover £1.1bn by the time the work of the TPT transitions to the business-as –usual compliance teams. This amounts to about a quarter of the most likely estimate of losses to error and fraud. The most complex cases will take longer and will conclude after transition from the TPT is completed in September 2023. In addition to our compliance activity on the schemes, claimants have also returned around £970m in grants that they no longer required or where they had identified an error.

When the TPT was announced, it was to be funded to the end of 2022/23. We published a document confirming this on 13 October 2022; this document also set out our plans to transition COVID-19 compliance activity to business-as-usual compliance teams by the end of September 2023.

Keeping the TPT operational and focused solely on detecting and recovering error and fraud in the COVID-19 support schemes beyond September 2023 does not provide the best value for the taxpayer. Moving the work of the TPT into business-as-usual compliance activity is the most efficient way to ensure we deploy resources most effectively to protect and recover taxpayers’ money.

The rate of return that we can get from the TPT will diminish over time, and we can get a better rate of return from that resource by deploying it on wider compliance risks, including, but not restricted to, COVID-19 support scheme risks. In monetary terms, the current return on investment is £0.25m per full time equivalent officer (FTE). This is significantly lower than business-as-usual tax compliance work, where we would expect £1.3m per FTE.

We remain committed to tackling error and fraud in the COVID-19 support schemes where this is the most cost-effective use of resources, and we are not writing anything off. We will continue to take action against those who have deliberately sought to abuse the COVID-19 financial support schemes, while recognising there will be people who have made honest mistakes.

Exports to the EU (Q234 '*There are reports that there is a reduction of about 40% in terms of UK exports to the EU.'*)

HMRC believes that the figures quoted in the Treasury Select Committee question relate to an article in the Independent, based on research from Aston University.

According to this research, '*An estimated loss of 42% of product varieties over the 15 months since Brexit, combined with an increased concentration of export values to fewer products, signify some serious long-term concerns about the UK's future exporting and productivity [...] The Trade and Co-operation Agreement (TCA) resulted in a 42.3% decline in the extensive margins of exports to the EU (47.3% if measured against bilateral exports to the EU) between 2019Q1 and 2022Q1'.*

HMRC is not able to replicate the analysis carried out by the academics, as the methodology used is not fully described in the article and involves complex calculations on product varieties and margins of exports. Moreover, the analysis does not take into account various factors, meaning the estimated figures are unlikely to provide an accurate measure of trade impacts, namely:

The research was compiled using United Nations data. Although this dataset is supplied to the UN by HMRC, it provides an incomplete list of commodities traded by the United Kingdom, as low value goods are published as an aggregate total. This means it does not allow a full analysis of products as reported within the research.

Across the time periods compared, there have been significant data collection and methodology changes following the UK's exit from the EU, which impacted data collected in January 2021. Prior to 2021, data on UK exports to the EU was collected through the Intrastat survey. In 2021, HMRC moved the data collection of Great Britain (GB) exports to the EU to customs declarations and maintained the existing Intrastat survey only for collecting Northern Ireland (NI) exports to the EU. Additionally, in January 2022, an administrative data collection change affected data on exports from the EU to Great Britain (GB). Both of these factors impacted the datasets, yet this has not been acknowledged, nor seems to have been taken into account within the analysis.

Cost of customs declarations and number per annum (Q239)

HMRC has published details on customs declaration volumes for international trade in goods in the calendar year 2021. This can be found in the following HMRC statistic release published in July 2022 - https://www.gov.uk/government/statistics/customs-declaration-volumes-for-international-trade-in-goods-in-2021

There are different types of customs declarations depending on how goods are moved and under which procedure. The latest published estimates on costs of customs declarations are in the third edition impact assessment from October 2019, which are based on historical data, and can be accessed here: https://www.gov.uk/government/publications/hmrc-impact-assessment-for-the-movement-of-goods-if-the-uk-leaves-the-eu-without-a-deal

HMRC estimates that the range is between £20 - £56 for individual import customs declarations.

The final costs of completing customs declarations will vary significantly from business to business depending on how often they trade, and how they choose to fulfil customs requirements. For example, some will use an intermediary while others will do it themselves.

To support updates to admin burden estimates for customs declarations, HMRC has commissioned external research with traders and intermediaries. This research focuses on understanding the processes involved and the administrative cost and burden to traders of complying with customs obligations for importing and exporting. Research fieldwork is due to take place in early 2023 with findings expected in the spring.

Yours sincerely,

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY