



HM Revenue
& Customs

Jim Harra
Chief Executive and First Permanent
Secretary

Room 2/75
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By email

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Dear Dame Meg,

Following the Public Accounts Committee session on Thursday 26 January 2023, which I attended alongside Penny Ciniewicz and Alison Bexfield, I am writing to make a correction to oral evidence and to provide further information that we committed to send to the Committee.

Correction to oral evidence given

As shown in the transcript, in response to Q70 and Q71 Alison Bexfield and I informed the Committee no action had been taken to collect money from the customer. As detailed in the final bullet of additional information on overcharges below, the department did initially issue communications to request payment, however no response was received from the customer and no further collection activity took place.

Penalties

HMRC publishes data on the number of penalty cases on a quarterly basis in its quarterly performance update, the latest of which can be found at the following link: <https://www.gov.uk/government/collections/hmrc-quarterly-performance-updates> HMRC does not publish the number of cases for each class of penalty by behaviour or by the level of penalty charged.

Attrition rate

The current rate of staff attrition for 2022-23 within Customer Compliance Group is 9%. This is in line with the rate of attrition in 2021-22 and 2019-20. The rate fell to 7% in 2020-21; we consider this to be a temporary fluctuation caused by the pandemic.

Attrition	2018-19	2019-20	2020-21	2021-22	2022-23
People leaving HMRC	7%	6%	5%	6%	7%
Transfers from CCG to other Groups in HMRC	3%	2%	2%	3%	2%
Total Attrition	11%	9%	7%	9%	9%

Table note: totals may not sum due to rounding.

Update on the progress of the Credit Reference Agency (CRA) data trial HMRC concluded in January 2023

As set out in my letter of 22 December 2022, the CRA data trial was designed to test whether additional data would improve our “ability to pay” assessment for Self-Assessment customers which would, in turn, enable more accurate segmentation of debtors.

The trial finished on 16th January 2023 and demonstrated that CRA data had a positive impact on our capability to assess a debtor’s ability to pay. The fiscal benefits of this data are realised by identifying more debtors who were unlikely to pay but had the means to do so. By combining CRA data with HMRC data in our modelling we were able to identify more debtors in the ‘high ability to pay’/‘low propensity to pay’ segment than when only internal HMRC data was used. This could enable estimated additional Self-Assessment cash collections of £10 million per tax year. This additional tax revenue is generated from debts that would not have been resolved without the assistance of CRA data. The rest of the exchequer impact, £15 million, is generated from accelerated payment (tax debt that would have been collected anyway but is resolved in an earlier tax year).

Although we are confident that the application of this data will result in additional tax debt collection, the nature of the underlying debts in our debt balance is constantly shifting due to factors outside of our control. This makes it hard to determine the exact benefits beyond the specific group the data was tested on, and the additional tax revenue is our best estimate. As set out in my letter of 22 December, we are assessing if this improvement is of sufficient value when compared to the return on other forms of investment across HMRC.

Overcharges

Our aim is for everyone to pay the tax that is legally due and we support taxpayers to get their tax right. The tax system relies on public trust and taxpayers, rightly, want to know that we will treat them fairly and with professionalism. We take our responsibilities and therefore any overcharging errors, including any identified through the Tax Settlement Assurance Programme (TSAP), very seriously.

HMRC has a range of controls and assurance in place across its compliance activity and dispute resolution processes. This includes pre- and post- case resolution assurance and governance, from line manager reviews and dispute resolution boards to internal audit reviews. The TSAP reviews a small sample of civil compliance cases to test whether we have met our case quality standards and governed decisions relating to disputes correctly. This includes testing adherence to internal processes such as meeting customer service expectations. TSAP provides feedback to compliance teams for corrective action and to support improvements to prevent errors reoccurring.

As set out at paragraph 2.12 of the NAO’s report and as discussed with the Committee, the sample testing that was undertaken for HMRC’s 2021-22 TSAP found that seven customers had been overcharged. This is different to an overpayment. In the context

of the TSAP, an overcharge can arise in a number of situations including where HMRC's view of the liability remains the same but there has been an administrative issue or error. Examples of these are included within the seven cases, as set out below. Of the seven, one case accounted for the vast majority of the potential financial impact, and that case, was corrected before any payment by the customer. However, seven errors are still too many and we always follow up to capture and apply any learning.

In relation to the seven cases identified in the 2021-22 TSAP testing, two cases involved payment by the customer of an excess amount following an enquiry. One case involved an incorrectly charged penalty which was refunded and the other was a charge that was out of time and a refund was offered. In both cases we took appropriate action and the details are set out below.

The taxpayer groups affected by the overcharges were individuals, wealthy individuals, and small and medium-sized businesses. We have set out below some further information:

- in two cases the overcharge related to an administrative error in the closure procedure. Subsequently the correct closure procedures were completed resulting in the same charges being put in place. The amounts involved were around £14,000 and around £1,800. In one case the assessment was sent by e-mail when it should have also been sent by post and in the other there was a lack of evidence of formal closure in the form of closing letter used.
- in one case, the documentation was incorrectly served. Upon looking to correct the issue, elements were no longer in time. The charge was amended by around £8,100. The amendment was made before the charge was paid.
- in two cases the charges were issued out of time. In one case the charge (around £34,700) was removed before payment was made. In the other case, the customer had already made payment (of around £900) and declined the offer for that to be repaid
- in one case, an incorrect penalty amount was charged and had been paid. The relevant amount was around £200 and this was refunded.
- In the final case, the customer had made a repayment claim. In line with our guidance, we contacted the customer to request evidence to support the claim. The customer did not provide any evidence. As a result, the caseworker denied the repayment claim and raised a charge (£32.2m). We would ordinarily expect additional advice to be taken before a charge of this size was raised. The charge was later removed, the repayment claim continued to be denied. The department initially issued communications to request payment, however no response was received from the customer and no further collection activity took place.

As set out above, the Tax Settlement Assurance Programme (TSAP) reviews a small sample of civil compliance cases to test whether we have met our own case quality standards and governed decisions relating to disputes correctly. To date we have selected the sample to cover the whole range of casework activity to make sure we

are covering different areas of work, regardless of size. It provides feedback to relevant areas for corrective action and to support improvements to prevent errors reoccurring. If we find a systemic error, we go back and check that whole population. TSAP has not been designed as a financial audit tool to assure yield reporting, and is just one element of a wide-ranging approach to case assurance and governance. The NAO have highlighted an opportunity to potentially choose our sample in a different way to inform our assurance of compliance yield reporting and we are looking into that.

Yours sincerely

A handwritten signature in black ink, appearing to read "Harra". The signature is written in a cursive, flowing style.

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY