HM Revenue
& Customs

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Meg Hillier MP
Chair, Committee of Public Accounts
House of Commons
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Dear Ms Hillier,

Following the publication of the Committee's report on Tackling the Tax Gap, I am writing to you to explain how HMRC plans to balance its efforts to tackle the Tax Gap in small businesses with the support that those businesses will need to survive the impact of COVID-19. This request was set out in recommendation 6

HMRC recognises that COVID-19 is having a huge effect on small businesses, leaving a significant number in an extremely difficult position. We are committed to supporting viable businesses to cope with the impact of the pandemic, both by making it easy for them to receive key COVID-19 business support grants to which they are entitled and by administering the tax system in a way that takes account of their ability to meet their obligations to file their returns and pay their tax bills on time. We have made general adaptations to tax administration and in addition we have responded in a tailored way to individual businesses' needs.

It remains essential that businesses comply with their tax obligations if they can, and that where a business is able to comply but fails to do so, HMRC takes the right action to secure the revenues that pay for essential public services and ensure a level playing field for those businesses that do meet their obligations.

In order to provide transparency and reassurance to small businesses, we published our approach to all of this in an HMRC issue briefing: COVID-19: how HMRC will continue to support customers and the economy.

Tax administration
In recognition of the challenges facing small businesses, we have made significant changes in how we administer the tax system to support those who want to comply with their obligations but are struggling to do so.

The biggest general adaptation has been the option for businesses to defer payment of VAT due between 20 March and 30 June and the Self-Assessment payment on account due on 31 July. On 24 September, the Chancellor announced the further options available to businesses when these deferral periods end. Beyond that, small businesses can agree a tailored time to pay arrangement with us if they cannot afford their tax bill and the general deferral options described above do not meet their needs.

In addition, HMRC has implemented more than 60 other temporary policy changes or simplifications in how people can interact with the tax system, in response to the impact of COVID-19. These include measures to:

- reduce the demands placed on businesses and individuals e.g. a three-month extension to appeal deadlines where the customer has been affected by COVID-19;
- keep goods flowing at our borders e.g. operational measures to allow businesses to carry out some customs clearances at their business premises to remove the need to present goods in other locations; and
- ensure the tax system continues to operate effectively during lockdown e.g. accepting scanned signatures and introducing proxy stamping procedures.

Approach to compliance
It is important that small businesses continue to file their returns and pay their tax on time, where they can. While there was an initial drop in filing compliance as the COVID-19 pandemic first affected the UK, the situation has since improved and is largely holding up well compared to pre-pandemic levels. Where a small business notifies us that they cannot file on time due to the impact of COVID-19, we will accept this as a reasonable excuse, and will therefore not issue, or will cancel, penalties to give them the time they need to get things right.

Where taxpayers do not comply with their obligations and fail to notify us of any reason, taking action to secure compliance remains an important part of HMRC's responsibility, and we will issue penalties and explore further compliance action. Our compliance work supports the recovery of revenue and the maintenance of fairness in the tax system, so that those who do comply are not undercut by those who do not.

Where there is an ongoing compliance check, we have taken a customer-first approach, and will continue with, or pause, our check as the taxpayer's circumstances dictate. We will usually only open a new enquiry into businesses that are being badly affected by COVID-19, or those leading the fight against the virus, if we think they can engage with and resolve the enquiry. We will give these customers enough time to focus on more urgent priorities, whether keeping their business afloat or keeping the country safe and well.

There are, however, some specific circumstances where we will continue to act, namely:

- where we suspect criminal activity or significant deliberate non-compliance, including fraud and avoidance
- where not doing so would mean missing a legal deadline, preventing us from ever collecting the unpaid tax
- where we are protecting their employees (for example, in relation to the National Minimum Wage)
- or for a mandatory check

It can be difficult for us to identify customers who are severely affected or are on the frontline in the fight against COVID-19, and we may not always get this right first time, but we will always consider individual circumstances when taxpayers share these with us. Where small businesses are concerned about their ability to comply with their obligations, it is essential that they let us know as soon as possible.

Beyond tax compliance, HMRC is also ensuring that it protects the COVID-19 support schemes against abuse from organised criminal attacks, inflated claims, and other non-compliance. Where honest mistakes happen, we will support customers to get it right, but we will continue to take tough action to tackle fraud.

Payment
Where small businesses are unable to pay, they should contact HMRC via the Coronavirus Helpline to discuss setting up a Time to Pay arrangement. This will enable them to pay what they owe by instalments. The length of that payment arrangement will be determined by their individual circumstances. Apart from charges within the deferral periods described above and VAT charges (on which interest is only charged in specific circumstances, such as where a compliance assessment is raised), interest will apply to any overdue amount until it is paid off in full.

Tackling the tax gap by working with small businesses
Beyond how we are working to support small businesses during the current crisis, it is important to note that a key part of our longer term strategy for tackling the small business tax gap is also to support them to get their tax right the first time rather than through enquiring after the fact, which we know can add costs and create anxiety for businesses. In July, the Government published its strategy Building a trusted, modern tax administration system, which describes how we are seeking to make tax more straightforward for businesses to get right and harder to get wrong.

Our strategy is that through integrating tax compliance with the day-to-day running of the business, drawing on information directly from business accounting systems and third parties, we will minimise opportunities for error arising from assembling tax records long after the relevant business transactions have taken place. In addition, we are exploring the scope for new tools that will enable real-time risk assessment, so HMRC can help prevent errors before incorrect data has been submitted and an incorrect charge created.
I hope the above illustrates how we are tackling the small business tax gap in a way that supports those businesses to cope with the impact of COVID-19. I am happy to discuss this with the Committee at one the scheduled hearings due to take place this month.

Yours sincerely

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY