Thirty-third Report of Session 2022-23

HM Revenue and Customs

HMRC Performance in 2021-22

Introduction from the Committee

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.

- NAO report: HM Revenue and Customs 2021-22 Accounts
- PAC report: HMRC Performance 2021-22 – Session 2022-23 (HC 686)

Government response to the Committee

1: PAC conclusion: HMRC has not yet returned to setting a formal compliance yield target, against which it can be meaningfully held accountable.

1: PAC 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.

1.1 The government agrees with the Committee's recommendation.

Target implementation date: Spring 2023

1.2 The target will be published externally in HM Revenue and Customs' 2023-24 Outcome Delivery Plan.

1.3 The compliance yield target is set at a level that is consistent with the government's fiscal plans.

2: PAC conclusion: Resourcing HMRC's compliance work to maintain rather than reduce the tax gap means the government is missing out on billions in lost revenue.

2a: PAC recommendation:

- ***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.***

2.1 The government disagrees with the Committee's recommendation.

2.2 HMRC's funding levels are a decision for Treasury ministers based on advice from HMRC (the department) and HM Treasury officials, and it is right that this advice is considered in private. The government has a track record of investing additional funds in HMRC's compliance work to generate additional revenue. For example, at Autumn Statement 2022 the government announced a further £79 million investment in HMRC generating an additional £740 million of tax revenues over the scorecard period.

2b: PAC recommendation:

- ***HMRC should also calculate and report an uncertainty range for its headline tax gap estimate to provide more transparency to users of the estimate.***

2.3 The government agrees with the Committee's recommendation.

Target implementation date: December 2023

2.4 Although HMRC has developed its capability in applying statistical techniques to calculate and publish ranges of error and fraud in the COVID-19 pandemic support schemes it may not be feasible to produce a robust uncertainty range for the headline tax gap figure. HMRC will explore the feasibility of whether these advanced statistical techniques can be applied to produce an overall uncertainty range and publish a range if it is analytically robust.

2.5 Statistics using data and modelling are subject to uncertainty and this is an inherent aspect of all tax gap estimates. The headline tax gap, the sum of 25 separate tax gap estimate methodologies, is subject to uncertainties due to the data available, how that data was collected (for example, as a result of a survey; administrative data; consumer expenditure data from the National Accounts produced by the Office for National Statistics, or a random compliance check) and the estimation method used.

2.6 The department publishes a total point estimate for the tax gap which is equal to the sum of the central estimates components and point estimates components where ranges are not produced.

2.7 The department has increased transparency on the levels of uncertainty of the estimates where this is feasible. Since 'Measuring tax gaps 2021 edition' an uncertainty rating for each of the tax gap components is published. These ratings range from 'very low' to 'very high' uncertainty. For 2020-21, 71% of the tax gap estimate attained a 'low' or 'medium' uncertainty rating.

3: PAC conclusion: 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.

3a: PAC 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***

3.1 The government agrees with the Committee’s recommendation.

Recommendation implemented

3.2 During 2021-22, the Taxpayer Protection Taskforce prevented over £125 million of grants being paid out on claims made fraudulently or in error and recovered over £225 million from its compliance activities. This is in addition to circa £536 million recovered and circa £304 million prevented in 20/21 before the taskforce was in place.

3.3 HMRC maintains a suite of performance indicators which record compliance performance, and which are considered alongside HMRC’s assessment of the overall risks in the tax system, and regular appraisal of returns on investment and compliance outcomes, to inform decisions about the deployment of compliance resources.

3.4 Currently, the rate of return on investment for fraud and error in the COVID-19 schemes administered by HMRC is £0.25 million per full time equivalent officer (FTE) under the Taxpayer Protection Taskforce. For business-as-usual tax compliance work, the expected rate of return is £1.3 million per FTE.

3.5 HMRC can get a better rate of return from its resources by deploying them on wider tax compliance risks and including work on the COVID-19 support scheme risks. Therefore, as planned, the compliance activity undertaken by the Taxpayer Protection Taskforce will be transitioned into “business as usual” compliance activity from April 2023. This will allow HMRC to consider the risk of overclaims of COVID-19 grants alongside other tax compliance risks when prioritising cases for a compliance check.

3.6 This is the most efficient way to ensure HMRC protects and recovers taxpayers’ money, as it allows HMRC to deal with all aspects of a customer’s potential non-compliance in a single check.

3.7 HMRC will continue to address COVID-19 compliance risks and recover over-payments, where it is cost effective to do so, for many years to come.

3b: PAC recommendation:

- ***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.***

3.8 The government agrees with the Committee’s recommendation.

Recommendation implemented

3.9 HMRC will continue to address and recover overclaimed grants as part of its business-as-usual compliance activity, taking action against those who have abused the COVID-19 financial support schemes where it is cost effective to do so. This approach will allow HMRC to deal holistically and efficiently with all aspects of a customer’s potential non-compliance, both in relation to potentially overclaimed COVID-19 scheme grants and other risks of non-compliance with taxation obligations.

3.10 To recover overpaid grants, HMRC’s post-payment compliance strategy has addressed risks differently depending on the claimant’s behaviour and the amounts and complexity involved. For low value, non-complex matters, claimants have been prompted to check their grant and return monies if they had overclaimed, with follow-up action by HMRC where necessary. More serious cases, where HMRC has suspected a fraudulent claim had been made, have been addressed by a one-to-one investigation. Any repayment of an overclaimed grant attracts statutory interest, and penalties are also charged where it is clear that the grant was deliberately overclaimed.

3.11 Deliberately overclaimed grants can escalate to criminal prosecution or be addressed through civil law investigations and penalties.

4: PAC conclusion: We are concerned that HMRC may be lagging behind other established tax authorities in preventing fraudulent VAT registrations.

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

4.1 The government agrees with the Committee's recommendation.

Target implementation date: end March 2024

4.2 HMRC has in place an effective range of controls that protect the tax system from attack by criminals and other frauds. Since 2020-21, HMRC has prevented over £4.5 billion revenue loss from attempted repayment fraud. HMRC has well-established links with overseas tax authorities, through its fiscal crime liaison officer (FCLO) network, the Joint Chiefs of Global Tax Enforcement (J5) community and the OECD Forum on Tax Administration. HMRC works with those partners to understand the changing nature of criminal threats and respective capabilities to counter them. HMRC will engage further with international partners to understand more about how other tax authorities tackle VAT fraud through controls on registration, including engaging with the German tax authorities via its FCLO in Berlin (as referenced in the report).

5: PAC conclusion: Taxpayers and their agents are still not receiving an acceptable level of customer service

5: PAC 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.***

5.1 The government agrees with the Committee's recommendation.

Target implementation date: April 2023

5.2 HMRC accepts this recommendation and will write to the Committee in April 2023.

5.3 The metrics that will be used to monitor customer service performance will be published externally in HMRC's 2023-24 Outcome Delivery Plan in line with guidance from Cabinet Office and HM Treasury

5.4 HMRC publish quarterly and monthly performance updates against key customer service metrics which will continue to be updated.

6: PAC conclusion: 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.

6a: PAC 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.

6.1 The government agrees with the Committee’s recommendation.

Recommendation implemented

6.2 In its approach to debt collection, the department recognises the importance of differentiating between taxpayers who are struggling to pay and those who can afford to meet their liabilities but choose not to do so. Its priority remains to support customers in short term financial difficulty to manage their way out of debt quickly and sustainably while taking enforcement action against those who can pay but choose not to.

6.3 The Committee has already noted the progress HMRC has made in testing external data sources, and the expansion of its debt management service, which will give the department greater insight into debtors’ circumstances and greater capacity to deal with them appropriately.

6.4 The government is investing a further £47.2 million to improve HMRC’s capability to manage tax debts. This will allow HMRC to better distinguish between taxpayers who can afford to settle their tax debts but choose not to, from those who are temporarily unable to pay, ensuring taxpayers are offered the right support. It will support taxpayers who are temporarily unable to pay by enhancing the online Self-Serve Time To Pay service, while also providing HMRC with additional capacity to ensure that those who can afford to settle their debts do so.

6.5 HMRC will apply the external data it has tested to its internal modelling by the end of 2023/24. This will provide greater insight into the debtor population and result in more appropriate treatment based on their circumstances.

6.6 HMRC wrote to the Committee on 24 January 2023 outlining its transition to six new debt journeys based on data-led insight that will ensure that debtors receive treatment which is more closely aligned to their circumstances.

6.7 Going forward, it is the department's ambition is to improve data analysis capability to enable the implementation of more dynamic debt recovery journeys. This will better ensure that debtors receive the most appropriate intervention at the right time based on their individual circumstances.

6b: PAC recommendation: HMRC should also set out when its single customer account will be ready and consider how it can bring the implementation of it forward.

6.8 The government agrees with the Committee’s recommendation.

Target implementation date: June 2025

6.9 The Single Customer Account (SCA) will transform HMRC’s digital services for individuals through a number of incremental releases and improvements over the next two years. The SCA Programme is prioritising delivery that will drive the largest customer benefit and efficiency impacts, so that value can be released as early as possible.

6.10 HMRC has already started a regular release of new digital features to improve the customer experience, for example, enabling customers to get proof of entitlement to Child Benefit online. This means customers can get their children in to free school meals and other essential services without having to call HMRC or wait for a paper letter.

6.11 HMRC will roll out features to support customers to change their details (phone numbers, emails, address, marital status) online in a single place and have those changes apply to all services to which they are subscribed. These features will be available through an improved digital account, starting with personal tax services in Summer 2023. This will bring digital services together under a consistent brand with improved account navigation that is designed around customers' needs and tasks. As well as improving the digital account, HMRC is improving the range of digital services available to taxpayers; this includes moving Child Benefit claims online and helping customers understand and manage changes to their tax code.

7: PAC conclusion: Research and development tax reliefs are costly, prone to abuse and provide questionable benefit to the UK economy.

7: PAC 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.

7.1 The government disagrees with the Committee's recommendation.

7.2 HMRC has already published reports on the additional research and development (R&D) expenditure stimulated by the R&D tax relief schemes.

7.3 There is also a wide range of academic studies that have shown that R&D expenditure has positive impacts on economic growth.

7.4 HMRC intends to carry out further analysis in future to evaluate the impact on R&D expenditure of upcoming reforms to R&D tax relief policy, once the data is available. It will not therefore report within 12 months, although HMRC will provide an update on progress within that period.