



**HM Revenue
& Customs**

**Jim Harra
Chief Executive and First
Permanent Secretary**

Dame Meg Hillier MP
Chair of the Public Accounts Committee
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Dear Dame Meg,

Ahead of my scheduled appearance at the Committee of Public Accounts, I would like to update you on our response to recommendation 2b of Thirty-Seventh Report of Session 2021-22: HMRC Performance in 2020–21 on research and development tax reliefs.

I would also like to update you on progress in relation to combating error and fraud in the COVID-19 schemes administered by HMRC. Over £98 billion was distributed in grants across these schemes. Post-payment compliance activity on the schemes began in July 2020 once we had been granted specific powers by the Finance Act 2020.

Our compliance activity on the COVID-19 support schemes up to the end of September 2023 has now protected over £1.6 billion worth of grants. This is made up of £430 million prevented from being paid out and over £1.2 billion recovered from overpayments.

Taxpayer Protection Taskforce

At Budget 2021, the government announced a two-year investment of over £100 million in the Taxpayer Protection Taskforce to combat fraud in the COVID-19 financial support schemes administered by HMRC and to cover the opportunity cost of redeploying compliance officers from higher yielding tax compliance work.

Tackling error and fraud in COVID-19 support schemes was a priority. The taskforce was made up of tax specialists who had experience in responding to error and fraud and was funded on the basis that HMRC deployed around 1,250 full time equivalent (FTE) experienced compliance staff to the taskforce for a period of two years.

The taskforce exceeded expectations by opening over 46,000 compliance checks against a target of 30,000. HMRC continues to conduct compliance checks, and at the end September, when we completed the transition of the work of the taskforce to business-as-usual tax

compliance work, we had 2,702 open compliance cases. We will continue to open compliance checks where appropriate.

The taskforce recovered £693m in COVID-19 compliance yield against the original expectation (£800m-£1bn), although this did exceed the revised expectation (£525m-£625m). We also recovered £141m in additional Income Tax declared in Self Assessment returns. When these additional tax recoveries are included, this brings the amount recovered by the taskforce to £834m in tax and COVID-19 compliance yield. This is in addition to our compliance activity prior to the establishment of the Taxpayer Protection Taskforce, where to the end of March 2021, we recovered more than £536 million in overpaid grants.

Post Taxpayer Protection Taskforce Compliance Activity

As planned, from March 2023 to September 2023 we transitioned the work of the taskforce to business-as-usual tax compliance work. COVID-19 schemes risks are now addressed alongside risks of tax non-compliance. This approach allows us to deal holistically and efficiently with all aspects of a customer's potential non-compliance, related to the COVID-19 schemes and more widely.

The rate of return achievable from the taskforce diminished over time. HMRC, and the taxpayer, 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 taskforce's return on investment is £0.27m per full time equivalent officer (FTE). This is significantly lower than business-as-usual tax compliance work, where we would expect to achieve more than £1.10m per FTE.

HMRC remains committed to tackling error and fraud in the COVID-19 support schemes where this is the most cost-effective use of resources.

Recommendation 2b of Thirty-Seventh Report of Session 2021-22: HMRC Performance in 2020–21

Regarding HMRC's response on recommendation 2b, regarding research and development tax reliefs, that HMRC should, in its Treasury Minute response, set down:

- the reduction in the level of error and fraud it is seeking together with how and when that will happen. This should include clear milestones for this Committee to monitor.

On 17 July 2023, the department published [HMRC's approach to Research and Development tax reliefs](#), setting out the scale and shape of non-compliance in the R&D schemes, action taken by the government to date and how HMRC is tackling error and fraud.

We committed to publishing a further plan to improve compliance in R&D tax reliefs in winter 2023, to address the Committee's recommendation regarding the reduction in error and fraud we are targeting and milestones to achieve this.

This area of the tax system has undergone significant change in recent years, and the Government and HMRC have already introduced policy and operational changes which are projected to improve the level of compliance. In order to ensure that we take into account the most recent developments, including decisions taken in the Autumn Statement and key stakeholder feedback, we will not be in a position to publish in full in winter 2023 and instead intend to publish this plan in the new year. I am sorry for this delay. I will ensure this change is noted in subsequent Treasury Minute Progress Reports.

I look forward to appearing before the Committee on 14 December.

I am copying this letter to the Chair of the House of Commons Treasury Select Committee and the Treasury Officer of Accounts.

Yours sincerely,



Jim Harra

CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY