



HM Revenue  
& Customs

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11 January 2024

Dear Dame Meg,

### **HMRC's Annual Report and Accounts 2022-23**

Following the hearing on HMRC's Annual Report and Accounts, 2022-23, which took place on 14 December 2023, I am writing to provide additional information and make a clarification to the evidence we gave.

#### **IR35**

HMRC allocates resource according to the risks we have identified. Our work on IR35 and employment status issues is no exception. Only a very small proportion of HMRC's casework focusses on disputes around IR35 status. The 2017 and 2021 Off-Payroll Working reforms enable HMRC to assure the employment status determinations of many workers at once, rather than individually. As a result, any challenges HMRC makes against these determinations will be taken forward with the engager, rather than the worker.

As Jim Harra mentioned during the session, IR35 litigation is rare. Since 2017, there have only been 22 IR35 cases heard at the First-tier Tribunal. For comparison, the 2021 reforms to Off-Payroll Working directly affected 130,000 workers. Of those 22 cases, 11 were appealed either by HMRC or the customer to the Upper Tribunal and two of these to the Court of Appeal. Of those appealed, the higher courts found in HMRC's favour in six hearings, the customer in one, while the rest are still pending.

These cases can be influential in determining policy and providing clarity to all parties. While we consider the tax at risk when determining whether to litigate, we also take into account if there is a wider point of law we need to defend.

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I would also like to clarify a statistic we referred to twice during the session, in response to Questions 3 and 15, regarding the impact of the Off-Payroll Working reforms.

Jim stated that: '100,000 - 150,000 people moved from PSCs [Personal Service Companies] on to payroll' as a result of the off payroll working reforms. These figures relate specifically to the 2021 private and voluntary sector reform and do not include the impacts from the public sector reform in 2017. Our analysis of the public sector estimated that at least 50,000 workers moved from working through their PSCs on to payroll in the two years post the 2017 reform.

### **Debt Collection Agencies**

We use 8 Debt Collection Agencies. Details of these agencies are available at this [link](#).

### **Research into small businesses with debts to HMRC**

In general, small businesses tend to prioritise settling debts that have an immediate impact on their operations such as those owed to key suppliers and those deemed essential for everyday living e.g., housing costs, electricity, credit cards, water costs etc. This is confirmed in external research undertaken by HMRC on [debtor behaviour](#) and [supporting customers in financial distress](#). We are continuing to monitor this customer behaviour.

### **Research and Development (R&D) relief impact evaluation**

In November 2020 HMRC published evaluation reports on both the [Research and Development Tax Relief for Small and Medium Enterprises](#) and the [Research and Development Expenditure Credit](#) which seek to review the effectiveness of the reliefs in meeting their design – to incentivise greater business investment in Research and Development. The impact of the two R&D tax relief schemes were evaluated in terms of additionality, which represents the extra private amount invested in R&D per pound of public support through the tax relief. For RDEC, the evaluation found an additionality of around 2.5. For the SME scheme the additionality ranged between 0.75 and 1.28 for the SME super deduction and 0.6 and 1.00 for the SME payable credit. The evaluation of the SME scheme also examined indirect economic impacts. These show the links between the reliefs and the wider economy that Jim Harra referred to during the hearing.

### **Actions to promote digital channels**

Peter Grant MP asked me to write to the Committee about changes we have made to our digital services. I wanted to set these changes in the context of HMRC's wider digital strategy and to share more about some of the changes and improvements we have planned over the next 12 months.

#### *HMRC's Approach to Digital Channels*

As part of HMRC's vision to be a trusted, modern tax and customs department, our ambition is to change how we interact with our customers by increasing the use of digital and self-serve channels for quick and easy services available whenever a customer needs them. Every day, millions of UK citizens go online to work, shop and bank, and they expect the

same ease and flexibility for managing their tax affairs. HMRC is committed to offering greater digital options to give customers the digital experience they expect from a modern tax authority. We are making strong progress – HMRC’s digital channels are already used by millions of people and their agents, with satisfaction scores consistently high at more than 80%.

HMRC needs an even higher proportion of customers to self-serve online. In order to deliver maximum efficiency from the investment of taxpayers funds into HMRC, it is necessary that where quality digital services exist, customers and tax agents must use them. We will always provide alternative support for those who are vulnerable and digitally excluded. HMRCs actions are targeted to achieve this outcome.

### *Progress*

Over the past 12 months, HMRC has been taking steps to encourage digital channel shift. We make changes constantly, for example in the last 12 months we have released a new HMRC app version approximately each month as well as continuous updates to our digital assistant and guidance.

The new digital Child Benefit service went live in May 2023. Customers can make a straightforward claim for children under 6 months old in only 10 minutes, with payment made in as little as 3 days – down from an average of 19 days. As a result we saw a 53% reduction in Child Benefit Claims phone calls to the **Child Benefit helpline** in the period May to October (against the same period in the previous year) - nearly 100,000 fewer calls. Since the service was launched, more than 125,000 customers have made a claim through the digital claim service and around 2.9 million customers have viewed their last payment or proof of entitlement. A further 280,000 customers have used new functionality introduced in June to tell us that their child is staying in full-time education.

The **HMRC App** has seen a 70% increase in use in 2023. More than 3.3 million customers have used the app more than 80 million times in the last 12 months. The app has a 4.8/5 rating on the App Store and a 4.7/5 rating on Google Play. Services available in the app include: pay Self-Assessment via open banking, download National Insurance Number to digital wallet, download 5-year employment & tax history, view and manage income tax, child benefit and help to save accounts, check state pension estimate and National Insurance record and update personal details. A full list of services available can be found at <https://www.gov.uk/guidance/download-the-hmrc-app>.

We are targeting new digital features that our customers need so they can self-serve without the need to call us. In the HMRC App we have also introduced the ability to view and download your five-year employment history, a frequent reason for contact from our customers. As a result, we have seen a 53% decrease in employment history telephone calls between July 2022 and September 2023. We’ve also delivered the ability to store your National Insurance number (NINO) in your Apple and Google wallets. So far, 200,000

customers have saved their NINO in their digital wallet with no need to call us or have to wait weeks for a letter.

The online **Personal Tax Account** (PTA) has seen a 12% increase in use in 2023. More than 17.8 million customers have used the PTA more than 109 million times in 2023. We're seeing more customers use our existing digital services, such as checking your state pension (up 38% in usage) and checking your income tax/PAYE (up 22% in usage), as well as take up new digital services previously mentioned like Child Benefit. And the **Business Tax Account** (BTA) has seen a 3.5% increase in use in 2023. More than 5.97 million customers have used the BTA more than 48 million times in 2023.

Since April 2022, all VAT-registered businesses have been required to manage their VAT through quarterly returns using Making Tax Digital compatible software. This followed a phased rollout of Making Tax Digital for VAT which began in 2019. In 2022-23, more than 8 million **VAT returns** were successfully submitted. This includes over 99% of returns from businesses over the £85,000 threshold, and 98% from those under the threshold. Overall, our published evaluation concludes MTD for VAT has made it easier for business to get their tax right and it is predicted to deliver additional revenue of over £3.5 billion for public services up to the end of 2028-29 by reducing taxpayer errors. There is also a competitive software market for MTD for VAT, with more than 500 products available including free and low-cost products.

For those times when customers do need some extra support, our **Digital Assistant** is there to help them find the answers they need online. The Digital Assistant can be accessed from the mobile app and from the Personal Tax Account as well as GOV.UK. We have added the Digital Assistant to the Self-Assessment filing service. The Digital Assistant has been used nearly 3.5 million times in 2023-24. In total, 62% of those interactions did not require escalation to a webchat advisor – meaning more than 2.17 million tasks were completed without having to speak to an HMRC adviser. The Self Assessment digital assistant alone has been used nearly 1.2 million times in 2023-24. Overall, in 2022-23, HMRC's online channels achieved an 83.7% satisfaction rate.

We have **improved guidance for customers**, which is viewed around three quarters of a billion times a year on GOV.UK. HMRC is providing increasingly interactive, decision-based guidance which has been improving customer satisfaction and has helped reduce the number of customers who then go on to try to contact us by phone. For example, our Self Assessment guidance helps almost 94% of our customers do what they need to do without going on to look for a phone number to contact us. And between September to December 2023 the usage of that guidance has increased by more than 55% compared to the same period in 2022. In total, we have published 28 interactive products this year including forms, decision trees and calculators.

#### *Plans for 2024*

Alongside programmes delivering major, long-term transformation such as Single Trade Window and Making Tax Digital for Income Tax Self Assessment, we have plans to deliver

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several new digital services over the next 12 months that will make **interacting with HMRC easier and more efficient**. This includes a more consistent, personalised experience online and in the HMRC app, built around customers' needs. For example, we know that customers get frustrated if they start in the digital channel but have to complete a task in another channel. We are introducing **new technologies that allow customers to move seamlessly from app to online** – they may start a task in the app but can finish it online. Customers will be supported by an integrated digital assistant which can escalate to a webchat advisor where it's required. Customers will receive a mix of SMS and push notifications to remind them to complete a task and then gain assurance the task has been successfully completed, all without having to call HMRC. We are testing this with our new Child Benefit digital service with plans to use this across new digital services to simplify the experience for customers and enable us to respond quickly to new initiatives and changing customer behaviour.

Individuals paying Income Tax via PAYE and Self Assessment are the group who call and write to us the most. We are introducing changes to provide **an even better digital experience for PAYE and Self Assessment customers**, so that they can self-serve and they are less likely to need to call us. As a result, more customers will pay the right tax, first time when they start or change jobs. And where this doesn't happen, they will be able to self-serve to resolve issues more quickly. Changes will include:

- a simple service for customers to manage their allowances, receive refunds or pay money owed at a time that suits them
- The ability to see and understand how their PAYE tax free allowance is made up, enabling them to check the information HMRC holds is correct. This can reassure customers their tax is correct when there is a change in their take home pay.
- Functionality to tell us anything that changes in their employment or income status that will affect their tax-free allowance/take home pay as well as refund or pay money if something is wrong.
- Throughout, secure digital communications will be used, for example email, SMS and push notifications to keep customers informed of changes. This will give greater reassurance and people will understand the impact on their take home pay.

In the coming year, we will also enable customers to see and pay their liabilities within their own third party provided software, without having to leave that software, reducing payment errors. We will have also enhanced the Pay by Bank Transfer function with the ability for customers to schedule future dated payments, ensuring more payment are received on time and error free.

To help customers do more digitally we have **a wide programme of further guidance changes** planned including:

- a VAT liability calculator
- an eligibility checker to help businesses decide if they will need to declare income under Making Tax Digital for Income Tax
- interactive guidance to help customers when setting up a new small business
- improvements to guidance to help small businesses plan for their Self Assessment payments.

We are **redesigning more paper-based processes to promote and signpost customers to our online services to manage their tax affairs**. For example, all Self Assessment notices to file to be issued in April 2024 will carry a QR code that will take customers to the appropriate online guidance. We plan to make more use of QR codes to make it easier for customers to interact with us, throughout 2024.

HMRC are also a key part of the **new cross government identity verification and authentication service** GOV.UK One Login, which we expect to deliver during 2024. This will allow customers to eventually have one way to access all government services. Some HMRC individual customers who don't already have a Government Gateway will start to move to GOV.UK One Login which will make it easier than ever before for them to access services and manage their tax affairs online. For HMRC, as we invest in high-quality digital services for customers, this is just another way we can help make it easier for customers to get their tax right, first time.

I hope that the Committee finds this response useful, and I would be happy to talk about our digital services at future hearings.

Yours sincerely,



**Angela MacDonald**  
**DEPUTY CHIEF EXECUTIVE AND SECOND PERMANENT SECRETARY**