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Committee of Public Accounts

# HMRC performance in 2022–23

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# Summary

The overall level of customer service provided by HM Revenue & Customs (HMRC) has reached an all-time low. We are disappointed that services have continued to deteriorate since our last report, with 62.7% of callers waiting more than 10 minutes to speak to an advisor, continuing five years of decline. The Committee received an unprecedented number of written submissions about HMRC's performance, demonstrating the extent of taxpayers' exasperation over the quality of services and the impact on businesses. Fiscal drag and inflation have increased pressures on HMRC, at a time when it was already dealing with the consequences of the pandemic. As the taxpayer population increases, along with the complexity of their tax affairs, it looks like HMRC is struggling to cope. At £814.0 billion in 2022–23, tax revenues are at a record high, but HMRC still fell short of its compliance yield target.

Taxpayers typically want to do the right thing when it comes to paying tax, but HMRC has now resorted to closing customer support channels to prevent people from contacting it to sort out their tax affairs. It has not been given the resources it needs from HM Treasury to meet the service standards that customers expect. HMRC is too keen to point to the long road to digitisation as an excuse for poor services to customers now.

HMRC says it is committed to treating taxpayers fairly, but the judgements it makes on where to balance its resources can appear at odds with the risks it is managing. It has gone to great lengths to challenge people in the courts over their employment status, yet elsewhere the number of criminal prosecutions has dropped from 691 in 2019–20 to 240 in 2022–23. HMRC must be seen to pursue all forms of non-compliance sufficiently. It is only as a result of prompting by this Committee and the National Audit Office that it has uncovered the extent of error and fraud in research and development tax relief for small and medium-sized companies. Its latest estimate for 2020–21 is that error and fraud was £1.1 billion, three-times greater than it previously thought.

We acknowledge that HMRC is making progress in tackling the extent of money owed in unpaid taxes, but note it is still struggling to keep pace with the amount of work given an increasing tax burden and ongoing cost of living pressures. With so much to tackle and increasing use of private agents, it is important that taxpayers can contact HMRC if they feel they are treated unfairly. HMRC must ensure it maintains sufficient accessibility in the system for people to raise concerns and have these dealt with in a timely manner.

# Introduction

HMRC employs around 64,000 people and is responsible for administering the UK's tax system. For 2022–23, 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 2022–23, HMRC reported £814.0 billion of tax revenues, an increase of £82.9 billion (11.3%) compared with 2021–22. HMRC estimates the tax revenue generated from its tax compliance activities (compliance yield) in 2022–23 was £34 billion, up 10% compared with 2021–22 (£30.8 billion). It estimated the tax gap (the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid) to be £739.3 billion in 2021–22, the latest year available, equal to 4.8% of total theoretical tax liabilities. HMRC paid out £34 billion in 2022–23, including £8.8 billon of Personal Tax Credits and £11.6 billion of Child Benefit. As part of administering the tax system HMRC is also responsible for managing tax reliefs, including the research and development reliefs available to businesses.

Corrigendum: In the Introduction page 4, the sentence beginning "It estimated the tax gap…" should instead read "It estimated the tax gap (the difference between the amount of tax that should, in theory, be paid to HMRC, and what is actually paid) to be £35.8 billion, or 4.8% of total theoretical liabilities (£739.3 billion) in 2021-22, the latest year available."

# Conclusions and recommendations

1. **HMRC's customer service levels are at an all-time low because of conscious choices made by HMRC and HM Treasury.** Since we last reported in January 2023, performance has continued to deteriorate, particularly for telephony services. In 2022–23, 62.7% of callers waited more than 10 minutes to speak to an adviser, up from 46.3% in 2021–22. Demand for HMRC's phone and post services is increasing by more than 10% a year, driven by increases in the number of people paying tax, due to fiscal drag, and the complexity of their tax affairs. HMRC says it does not have the resources to meet this demand at expected service standards. It is instead insisting callers use digital services where they are available, and is closing helplines and redirecting callers to online guidance. HMRC insists it has good-quality digital services for customers to manage their taxes but this is not the experience shared by the taxpayers and their agents that got in touch with us.

   **Recommendation 1:** ***HM Treasury and HMRC should ensure HMRC's customer services are sufficiently resourced in the short as well as the longer-term so that it can meet its service standards until its digital services adequately address the needs of taxpayers and their agents.***

2. **While we recognise the progress HMRC is making to tackle tax debt, we are concerned that it should have sufficient checks to protect taxpayers from being pursued too forcefully.** HMRC says it has now worked through the debts created during the pandemic but still new tax debt is being created at record levels, driven by self-employed people and small businesses in financial difficulties. It is reassuring that HMRC appears to be staying on top of these new debts, with the debt balance expected to reduce slightly over the course of 2023–24. It is also positive that HMRC is driving more value from the external agencies it uses to collect debts, with the rate of return improving from £23:£1 to £32:£1. However, we have heard about cases where taxpayers are being pursued repeatedly for often trivial amounts. While HMRC should make every effort to recover its debts, this should be proportionate to the size of the debt and the circumstances of the taxpayer. We are not convinced that customers have an easily accessible and responsive route via which they can raise concerns about HMRC's debt collection activities.

   **Recommendation 2:** ***HMRC should:***

   a) ***establish a clear, easily accessible route for taxpayers to report issues they face when dealing with debt collection agencies working on behalf of HMRC; and***

   b) ***report back to the Committee with a summary of any issues raised and how HMRC has dealt with them.***

3. **HMRC is not taking seriously enough the distress caused to innocent citizens when companies use the wrong address to register their business.** One particular case involved a taxpayer receiving more than 10,000 letters due to an agent registering companies for VAT at the taxpayer's address rather than a serviced office that shared the same postcode. Despite this Committee repeatedly raising this case, HMRC was unable to prevent further letters being sent out to the wrong address, including

demands for payment, and even now HMRC cannot guarantee further letters will not be sent. We are concerned that there will be other cases not brought to our attention that remain unresolved. These cases create particular distress for innocent citizens receiving these demands for payments, and an extraordinary amount of time and effort to resolve with HMRC. While HMRC considers this particular case to be a "bizarre accident", it accepts there is a more widespread issue with bogus registrations from companies seeking to defraud HMRC. It expects new powers for Companies House will help the entire system tackle this issue.

**Recommendation 3:** ***We expect HMRC to take serious action against companies registering with the wrong addresses. HMRC should report back to the Committee on:***

- ***the scale of the issue and the level of tax at risk; and***
- ***its plans for ensuring innocent people do not suffer from bogus registrations and HMRC's demands for tax from the wrong people.***

4. **We are concerned that HMRC's approach to serious abuse is not deterring criminal activity sufficiently, while at the same time its approach to tackling IR35 is deterring legitimate economic activity.** HMRC says that it is increasingly focusing its criminal prosecutions on the most serious cases, with the number of criminal prosecutions falling from 691 in 2019–20 to 240 in 2022–23. But we are concerned that if fewer criminals are prosecuted this sends the wrong message. In the case of civil disputes over the application of IR35 rules, HMRC said that it has been using litigation through the courts to test the employment status rules and that it may need to update its guidance and tools on the basis of the courts' judgements. HMRC said that the reforms to IR35 shift the burden of determining employment status from workers to employers. Since the IR35 reforms, employers have moved between 150,000 and 200,000 workers from contractor status onto their own payroll. However, we are concerned that a lack of confidence in how to apply the rules, together with HMRC's tough approach when taxpayers make mistakes, is deterring companies from using contractors unnecessarily.

**Recommendation 4:** ***HMRC should:***

a) ***provide to the Committee further detail of the value of tax at stake in cases of criminal prosecutions in recent years and further explanation of how HMRC is using fewer prosecutions to achieve greater deterrence of egregious non-compliance;***

b) ***provide to the Committee the number of active litigation cases for IR35 and the amount of tax at risk; and***

c) ***assess the impact of HMRC's approach to administering IR35 reforms on the use of contractors in different sectors.***

5. **HMRC has been too slow to identify the scale of error and fraud in research and development tax reliefs and its approach to tackling offenders does not sufficiently target those committing serious fraud over those making honest mistakes.** We have been highlighting the risk of error and fraud on these schemes for a number of

years. HMRC has improved its methodology and now has a more accurate picture of the level of abuse. Its estimate of error and fraud on the schemes in 2020–21 has more than trebled, from £336 million to £1.1 billion. On the scheme for small- and medium-sized enterprises, it has found one-quarter of the value of claims were non-compliant. However, HMRC's approach to recovering this error and fraud is too passive and places too much reliance on companies correcting their own previous mistakes. We are not convinced that it is bearing down strongly enough on those companies, and the agents representing them, that have been consistently abusing the system.

**Recommendation 5:** ***Now that it understands the true scale of error and fraud, HMRC should ensure it goes back over previous years. This should involve:***

- ***going back sufficiently far to tackle egregious fraud; and***
- ***telling those businesses who made honest mistakes to correct their returns or risk investigation.***

6. **HMRC's reliance on the tax gap measure is not providing a sufficiently stretching target for its compliance performance.** The tax gap is subject to a variety of factors, not just HMRC's compliance performance, and its relationship to compliance yield is not straightforward. In 2021–22, the latest year available, HMRC estimated the tax gap had remained at 4.8% of all liabilities, despite compliance yield as a proportion of theoretical tax liabilities declining in that year. The lag in measuring the tax gap means that HMRC must pay closer attention to compliance yield as an indicator of performance in the short term. In 2022–23, HMRC's compliance yield was £34 billion, against a target of £36 billion, set at a level to maintain the tax gap. HMRC expects to miss its compliance yield target again in both 2023–24 and 2024–25, and identified inflation as negatively affecting its performance on compliance yield. We are concerned that HMRC places too much reliance on the tax gap measure to justify its performance, rather than focusing on achieving its compliance yield targets, which are a more direct measure of its performance.

**Recommendation 6:** ***HMRC needs to demonstrate that its compliance yield target is sufficiently ambitious to provide stretch in HMRC's performance each year and to take account of inflation in the tax base.***

# 1 Supporting taxpayers

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) on its performance in 2022–23.[1] HMRC published its annual report and accounts for 2022–23 in July 2023.

2. HMRC employs around 64,000 people and is responsible for administering the UK's tax system. HMRC reported total tax revenue of £814.0 billion in 2022–23, an increase of £82.9 billion (11.3%) compared with 2021–22, reflecting the impact of inflation and the freezing of tax bands and thresholds. For 2022–23, 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.[2] HMRC estimates the tax revenue generated from its compliance activities (compliance yield) in 2022–23 was £34 billion, up 10% compared with 2021–22 (£30.8 billion) but £2 billion below its target. HMRC paid out £34 billion in 2022–23, including £8.8 billon of Personal Tax Credits and £11.6 billion of Child Benefit. As part of administering the tax system HMRC is also responsible for managing tax reliefs, including the research and development reliefs available to businesses. HMRC did not meet any of the service standards it set to measure its customer service performance in 2022–23.[3]

## Customer service

3. Since our last report on HMRC's performance, in January 2023, HMRC's customer services have continued to deteriorate and remain well below its service standards. While it has made some improvements in handling post, HMRC highlighted particular problems in its telephony services.[4] It took on average 16:24 minutes in 2022–23 to answer the phone, up from 12:22 minutes in 2021–22 and with 62.7% of callers waiting more than 10 minutes to speak to an adviser, up from 46.3% in 2021–22. This proportion has increased every year since 2018–19.[5] We received an unprecedented number of written submissions to our inquiry, with many highlighting HMRC's deteriorating customer services and increasing delays as a key issue affecting businesses and the efficiency of the wider economy.[6] The Chartered Institute of Taxation told us that HMRC's service levels are the single greatest concern expressed by its members, and that they are having a detrimental impact on cash flow, the costs of doing business, attitudes to tax compliance and trust in the tax system.[7]

4. HMRC said that demand for its phone and post services is increasing, with volumes rising at more than 10% a year.[8] This is being driven by an increasing number of taxpayers, as tax bands are frozen and wages increase, with an estimated 4 million additional income taxpayers expected between 2022–23 and 2028–29 and 3 million more moving to the higher rate of income tax. Tax affairs are also getting more complex, with more people paying

1 Report by the Comptroller and Auditor General, HM Revenue & Customs 2022–23 Accounts, HC 1466, 17 July 2023
2 HM Revenue & Customs, *Annual Report and Accounts 2022 to 2023*, July 2023, pages 6,7
3 C&AG's Report, paras 4, 6, Figure 9, page R4
4 Q 83
5 C&AG's Report, para 8, Figure 10
6 For example, HMRCSR0007 ICAEW
7 HMRCSR0015 Chartered Institute of Taxation
8 Q 83

tax on dividends and investment income.[9] HMRC said it does not have the resources to meet this level of demand. It said that more than half of the phone calls it receives are capable of being serviced through an online service instead, including webinars, YouTube videos, chatbots and web chat.[10] It has set itself a target to reduce incoming phone and post contact by 30% by 2024–25, compared to 2021–22. HMRC said that if it can achieve this reduction it should have the resources to meet its service standards.[11]

5. HMRC said that to achieve this shift onto digital services, it is increasingly encouraging, supporting and insisting that customers use digital services where they are available. It said that the majority of customers already engage with their taxes digitally and that HMRC provides safe, secure and good-quality digital services.[12] However, several organisations that wrote to us felt that HMRC had implemented its digital services poorly and with inadequate testing, and that they lacked the functionality needed for taxpayers and agents to use effectively.[13] HMRC said there are still a lot of people that do not know about the array of digital services that it provides and that it needs to draw people's attention to them. HMRC told us about some of its interventions to insist customers use digital services, for example by closing the VAT registration helpline and redirecting callers to the Self Assessment helpline to online guidance. It said these measures are needed to free up capacity to deal with callers with more complex tax affairs, including from tax agents, for which it said it does not have the same array of digital services available.[14]

## Tax debt

6. HMRC's debt balance has significantly increased compared to before the pandemic.[15] Its tax debt balance was £43.9 billion at 31 March 2023, up £4.7 billion since 31 March 2022 and significantly higher than the pre-pandemic level, when it was typically around £14 billion.[16] HMRC said that it has now worked through the high level of debt that was created during the pandemic but now new debt is being created at record levels. It said that this is being driven by a large increase in self-employed people and small businesses not paying what they owe in income tax and VAT, typically due to financial distress rather than deliberate non-payment. HMRC said that in 2023–24 it has managed to clear this new debt slightly faster than it is arising and expects the debt balance at the end of 2023–24 to be slightly lower than at the start. It told us, though, that there are no indications, at least in the short term, that the debt balance will return to pre-pandemic levels. In the 2023 Autumn Statement, HMRC received funding for 700 additional debt officers to reduce the debt balance further, which it said it would use to fund both more in-house provision and external debt collection agencies.[17]

7. HMRC has recently increased its use of external agencies.[18] In 2022–23 it spent £34.0 million on agencies to recover tax debt, up from £20.6 million in 2021–22.[19] A new contract

9 Q 31
10 Q 83
11 Qq 84–85
12 Q 83
13 HMRCSR0007 Institute of Chartered Accountants in England and Wales; HMRCSR0009 Association of Taxation Technicians; HMRCSR0015 Chartered Institute of Taxation; HMRCSR0017 Low Incomes Tax Reform Group
14 Qq 87, 89–90
15 Q 37
16 C&AG's Report, para 7
17 Qq 37, 38
18 Q 36
19 C&AG's Report, para 1.14

with these agencies from September 2022 means the rate of return that HMRC gets from this spending has improved, from £23 of debt recovered for every £1 spent to £32 for every £1 spent.[20] HMRC said it has long-standing relationships with some of the agencies, which has allowed it to streamline the processes and help the agencies to be more effective. We asked HMRC about the accountability arrangements for these agencies. HMRC told us that they are all part of a Government framework and regulated by the Financial Conduct Authority and that HMRC agrees and oversees the letters and the processes that they follow.[21] HMRC said that customers wishing to make a complaint about how they have been treated by an agency working on behalf of HMRC would do so through HMRC's complaints procedures.[22] However, we noted that in June 2023 the Adjudicator's Office reported concerns with HMRC's complaints procedures, with significant backlogs and increasing numbers of customers receiving no or little meaningful response from HMRC for long periods of time. HMRC said that the number of complaints has been increasing, mainly down to the time taken by HMRC to respond to queries, and that it is increasing its resources for complaints management.[23]

8. We have received written evidence that HMRC repeatedly pursues small debts over a number of years.[24] We asked HMRC whether this was disproportionate to the size of the debt. HMRC told us it takes a risk-based approach to debt management and will pursue even small debts if it is cost-effective to do so. It said that small debts will stay on a taxpayer's record and HMRC will periodically contact taxpayers for payment.[25] Each year HMRC judges particular debts as no longer worth pursuing, either because there are no practical means of pursuing that debt or because it is not worthwhile on value-for-money or hardship grounds. In 2022–23 these revenue losses totalled £3.8 billion, up from £2.4 billion in 2021–22.[26] HMRC told us it expects these losses to continue to increase as HMRC progresses with clearing its debt balance.[27]

## Address registration

9. We asked HMRC about a taxpayer who has received more than 10,000 letters from HMRC in relation to companies registered incorrectly at his address. HMRC told us it has investigated and found a foreign agent acting on behalf of overseas companies had incorrectly registered those companies for VAT at the taxpayer's address rather than a serviced office that shared the same postcode. HMRC told us it had found no evidence of an attempt to defraud HMRC and that the incorrect registrations were a "bizarre accident".[28] HMRC said that these overseas businesses do not always understand their obligations.[29] However, Borderfree Trade Limited told us HMRC's guidance is often

20 Qq 45–46; C&AG's Report, para 1.14
21 Qq 46, 48
22 Qq 52–53
23 Q 86; C&AG's Report, para 1.43
24 HMRCSR0003 David Dibbens
25 Q 36
26 C&AG's Report, para 1.17
27 Q 43
28 Q 16
29 Q 19

contradictory and sometimes incorrect.[30] HMRC described some of the ways it is seeking to educate overseas companies further, including through providing Mandarin language guidance and having a liaison officer in Beijing.[31]

10. We have raised this case with HMRC on several occasions in the past, but the taxpayer affected has continued to receive letters, including demands for payments.[32] HMRC told us that addresses on its VAT system feed through into other systems, including for customs purposes. But the corrections it has made to addresses on the VAT system have not always fed through to these other systems and HMRC accepted its systems still need to catch up. It said until they do there was still a risk that the affected taxpayer will receive further letters in error.[33] HMRC said it was not confident it will recover all of the outstanding debts it is pursuing in this particular case.[34]

11. HMRC highlighted a more widespread problem with bogus registrations, where companies hijack taxpayers' identities in an attempt to defraud HMRC.[35] We have received written evidence on the time it takes for HMRC to resolve these cases and the distress this causes to those concerned.[36] HMRC told us that Companies House has recently acquired new powers that will allow it to challenge information before it goes on its register as well as remove information. HMRC said that these changes will allow the entire system to better protect citizens from this type of fraud.[37]

30 HMRCSR004 Borderfree Trade Limited
31 Q 19
32 Q 19
33 Qq 16–17
34 Q 19
35 Q 18
36 HMRCSR0012 Hillier Hopkins LLP
37 Q 18

# 2 Managing error and fraud, compliance and tax avoidance

## Off-payroll working

12. We asked HMRC about how it is addressing issues created by the implementation of reforms to the IR35 rules on off-payroll working. HMRC said that the reforms to IR35 shift the burden of determining employment status from workers to employers. HMRC told us that it provides tools and guidance to ensure employers can apply the correct tax treatment to their workers.[38] We asked about the impact of the reforms on certain sectors, particularly the broadcasting sector, and the restrictions the rules were placing on people working as self-employed contractors. We also raised concerns that the complexity of the rules was driving some companies overseas.[39] HMRC said that since the reforms, employers have moved between 150,000 and 200,000 people from being paid through personal service companies to being on the company's payroll.[40] It said it would be HM Treasury's role to review the impact of IR35 as a policy, although HMRC keeps under review how it is administering the policy.[41]

13. We asked whether HMRC's pursuit of some IR35 cases through the courts was fair and proportionate. HMRC said it will always try to resolve disputes by agreement but that some litigation is inevitable. HMRC said it does not underestimate the stress involved when a taxpayer is facing potential litigation. It has published a litigation and settlement strategy that sets out when it will pursue a dispute through litigation.[42] It said that much of the well-publicised litigation relates to cases before the reforms, and that around 70% of recent employment status disputes have been ruled in favour of HMRC.[43] HMRC reports that IR35 litigation is rare, with only 22 cases heard at the First-Tier Tribunal since 2017.[44] HMRC said through this litigation it has been testing the employment status rules and how they can be applied.[45] It said it may need to update its guidance and tools on the basis of the courts' judgements.[46] However, HMRC did not accept that its guidance was not clear.[47]

14. HMRC's approach to civil litigation contrasts with its approach to criminal prosecutions. HMRC said it is increasingly selective about when it uses its criminal investigation powers and when it seeks prosecution.[48] HMRC's criminal investigations resulted in 240 prosecutions in 2022–23. This is a significant reduction on the 691 prosecutions achieved in 2019–20.[49] To pursue deliberate errors, it is now more likely to use its civil powers and penalties, including new powers to freeze accounts or get people disqualified as directors. It said it will only resort to criminal investigation and prosecution

38 Qq 1–3
39 Qq 10, 11
40 Q 4; Letter to the Public Accounts Committee from HMRC, dated 11 January 2024
41 Q 11
42 Q 10
43 Qq 4,10
44 Letter to the Public Accounts Committee from HMRC, dated 11 January 2024
45 Q 1
46 Qq 8,13
47 Q 9
48 Q 33
49 C&AG's Report, para 1.30

when the crimes are serious or when it needs to use criminal powers to get at the evidence. HMRC told us the reduction in criminal prosecutions is also partly due to backlogs in the criminal justice system.[50]

## Research and development tax reliefs

15. HMRC administers two research and development relief schemes to support companies that work on innovative projects in science and technology, one for large companies and one for small- and medium-sized enterprises (SMEs). In 2022–23, businesses claimed research and development tax reliefs worth £10.2 billion.[51] HMRC has previously told the Committee that the reliefs are an attractive target for abuse by companies that have not carried out any research and development or by advisors pushing the boundaries of what is eligible to be claimed.[52] However, HMRC has previously underestimated the level of error and fraud in these schemes and in 2022–23 used the results of a mandatory random enquiry programme (MREP) for the first time to calculate its estimate of error and fraud. HMRC estimated the level of error and fraud in 2022–23 was £1.1 billion, or 13.3% of related expenditure. HMRC also used the results of the MREP to revise its estimate of error and fraud in 2020–21 up from £336 million (3.6%) to £1.13 billion (16.7%).[53] HMRC did not restate its estimate for 2019–20 or 2021–22, but told us that it is reasonable to assume that the actual level of error and fraud in those years was significantly higher than it had estimated.[54] For the SME scheme, HMRC has found 24.4% of the value of claims in 2020–21 were non-compliant, with around two-fifths of these (10% of all claims) showing indicators of fraud rather than resulting from error.[55] HMRC said that it expects claimants to correct previous years' claims where fraud or error has been identified through its compliance activity.[56]

16. HMRC has introduced a number of changes in response to the high levels of abuse. Since August 2023 HMRC requires companies to make all claims digitally, with more detail and endorsed by a named senior officer.[57] It told us it is no longer paying claims directly to tax agents, and it now requires companies to disclose the identity of agents involved in the claim. It said that these changes should help fewer genuine claimants be subjected to HMRC's compliance approach. HMRC has increased the number of compliance checks for research and development tax relief claims, now checking over 20% of claims compared with around 1% previously.[58] HMRC told us that its increased compliance work has raised an estimated £250 million in 2022–23, but it has not estimated the impact of the new policy measures it has introduced.[59]

17. Organisations representing accountants and tax professionals wrote to us with concerns about the impact of HMRC's volume compliance approach on companies.[60]

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50 Qq 33, 34
51 C&AG's Report, paras 2.2, 2.4
52 Committee of Public Accounts, HMRC performance in 2021–22, 33rd Report of Session 2022–23, HC 686, 11 January 2023, para 22
53 C&AG's Report, para 2.6, Figure 11
54 Q 56; C&AG's Report, Figure 11
55 Q 57; C&AG's Report, para 11
56 Q 59
57 C&AG's Report, para 2.18
58 Qq 60–62
59 Q 58
60 HMRCSR0007 Institute of Chartered Accountants in England and Wales; HMRCSR0015 Chartered Institute of Taxation

They felt HMRC compliance staff treated companies with suspicion and lack the necessary expertise and training to determine whether projects qualify as research and development for tax purposes. They raised concerns that HMRC's approach was discouraging some firms from investing in research and development. HMRC told us it had needed to act in response to the high levels of error and fraud and does not accept its actions have discouraged research and development investment. It said that it needs to listen to feedback from its customers, and that the new information requirements it has introduced should allow HMRC to better target its compliance checks.[61] It accepted that it does not have large numbers of engineering experts in-house but that these are typically not needed for its volume compliance work. It explained that for higher-level disputes it can bring in expertise externally or from other parts of government.[62]

## The tax gap

18. The tax gap is the difference between the amount of tax that should, in theory, be paid to HMRC and what was actually paid. HMRC estimates the tax gap in 2021–22, the latest year available, has remained at 4.8% of all liabilities. This is despite the tax revenue HMRC generated from its compliance work declining as a percentage of theoretical tax liabilities in that year.[63] HMRC said that the relationship between the tax gap and compliance yield is not straightforward and that there are a variety of other factors that can affect the tax gap.[64]

19. HMRC said that it estimates the tax gap in accordance with best practice, and pointed to a review by the Office for Statistics Regulation in 2019 as evidence of rigorous external scrutiny. It said it was always keen to improve its tax gap estimates if it can.[65] HMRC said that the tax gap can only be properly measured two or three years after the year in question, and that it is best viewed over a number of years rather than a point in time.[66] For assessing performance in the latest year, HMRC instead uses compliance yield to assess how effectively it is managing the tax gap in the short term.[67]

20. HMRC agrees a compliance yield target each year with HM Treasury and ministers, set at a level to maintain the tax gap at its current level.[68] HMRC told us that this target is derived from a model endorsed by the Office for Budget Responsibility. Given how this model is set up, the target is closely linked to expected tax revenue for that year.[69] We have previously expressed concern that any compliance yield projections or targets HMRC expresses in cash terms will not be sufficiently stretching during a period of high inflation.[70] However, HMRC said that more employees earning more and hence paying more tax does not necessarily increase the tax gap, as there is little non-compliance associated with Pay As You Earn taxation.[71] In addition, a lot of HMRC's compliance yield comes from settling cases relating to prior years. HMRC said that this causes a lag in

61 Q 62
62 Q 64
63 C&AG's Report, para 5
64 Qq 24–25
65 Q 24
66 Qq 24, 31
67 Q 30; C&AG's Report, para 1.26
68 C&AG's Report, para 1.26
69 Q 26
70 Committee of Public Accounts, HMRC performance in 2021–22, 33rd Report of Session 2022–23, HC 686, 11 January 2023
71 Q 31

its compliance yield performance, which has been accentuated by increasing tax revenues due to inflation. In 2022–23, HMRC's compliance yield was £34 billion, up 10% from the previous year but £2 billion below its target of £36 billion. HMRC said that it did not expect to hit its compliance yield targets for 2023–24 or 2024–25.[72]

72 Qq 25, 26; C&AG's Report, para 6

# Formal minutes

## Wednesday 21 February 2024

### Members present

Dame Meg Hillier, in the Chair

Olivia Blake

Sir Geoffrey Clifton-Brown

Mr Jonathan Djanogly

Mr Mark Francois

Ben Lake

Anne Marie Morris

Ms Marie Rimmer

### HMRC performance in 2022–23

Draft Report (*HMRC performance in 2022–23*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 20 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

*Resolved*, That the Report be the Sixteenth Report of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available (Standing Order No. 134).

### Adjournment

Adjourned till Monday 26 February at 3.00 p.m.

# Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

### Thursday 14 December 2023

| | |
|---|---|
| **Jim Harra**, Permanent Secretary and Chief Executive, HMRC; **Justin Holliday**, Chief Finance Officer and Tax Assurance Commissioner, HMRC; **Angela MacDonald**, Second Permanent Secretary, HMRC | Q1–97 |

# Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

HMRCS numbers are generated by the evidence processing system and so may not be complete.

1 Anonymised (HMRCSR0019)

2 Association of Accounting Technicians (HMRCSR0010)

3 Association of Taxation Technicians (HMRCSR0009)

4 Borderfree Trade Limited (HMRCSR0004)

5 Chaplin, Mr Dave (HMRCSR0023)

6 ContractorCalculator (HMRCSR0011)

7 Dibbens, David (HMRCSR0003)

8 Hillier Hopkins LLP (HMRCSR0012)

9 Institute of Chartered Accountants in England and Wales (HMRCSR0007)

10 Kelly, Michael (HMRCSR0005)

11 Loan Charge & Taxpayer Fairness APPG (HMRCSR0018)

12 Low Incomes Tax Reform Group of the Chartered Institute of Taxation (HMRCSR0017)

13 Minns, Jo (HMRCSR0021)

14 Pioneering Solutions Limited (HMRCSR0001)

15 Stocks, Mr Ian (HMRCSR0022)

16 The Chartered Institute of Taxation (CIOT) (HMRCSR0015)

17 The Investment Fraud APPG (HMRCSR0020)

18 Transparency International UK (HMRCSR0013)

# List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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| 4th | The Department for Work & Pensions Annual Report and Accounts 2022–23 | HC 290 |
| 5th | Government's programme of waste reforms | HC 333 |
| 6th | Competition in public procurement | HC 385 |
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| 10th | Restoration and Renewal of Parliament | HC 49 |

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| 13th | Secure training centres and secure schools | HC 30 |
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| 15th | The Police Uplift Programme | HC 261 |
| 16th | Managing cross-border travel during the COVID-19 pandemic | HC 29 |
| 17th | Government's contracts with Randox Laboratories Ltd | HC 28 |
| 18th | Government actions to combat waste crime | HC 33 |
| 19th | Regulating after EU Exit | HC 32 |
| 20th | Whole of Government Accounts 2019–20 | HC 31 |
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| 25th | Regulation of energy suppliers | HC 41 |
| 26th | The Department for Work and Pensions' Accounts 2021–22 – Fraud and error in the benefits system | HC 44 |
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| 37th | Support for vulnerable adolescents | HC 730 |
| 38th | Managing NHS backlogs and waiting times in England | HC 729 |
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| 41st | Driving licence backlogs at the DVLA | HC 735 |
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| 45th | Department for Business, Energy & Industrial Strategy Annual Report and Accounts 2021–22 | HC 1254 |
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| 51st | Tackling Defra's ageing digital services | HC 737 |
| 52nd | Restoration & Renewal of the Palace of Westminster – 2023 Recall | HC 1021 |
| 53rd | The performance of UK Security Vetting | HC 994 |
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| 60th | Timeliness of local auditor reporting | HC 995 |
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| 62nd | Department of Health and Social Care 2021–22 Annual Report and Accounts | HC 997 |
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| 49th | Regulation of private renting | HC 996 |
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| 49th | COVID-19: housing people sleeping rough | HC 934 |
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