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Committee of Public Accounts

Tax evasion in the retail sector

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Committee of Public Accounts

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HM Revenue & Customs (HMRC) estimates that tax evasion cost the UK £5.5 billion in 2022–23. This is increasing among small businesses, with an estimated 81% of tax lost due to evasion in 2022–23 arising from small businesses, up from 66% in 2019–20. Despite these losses, HMRC does not have a specific strategy to tackle tax evasion. Although it is now HMRC's objective to reduce the overall tax gap, it does not have a specific objective to reduce the tax lost due to evasion.

In January 2021 government introduced legislation making online marketplaces liable for VAT from overseas sellers, resulting in £1.5 billion of additional tax a year. However, this is five times greater than HMRC estimated at the time, meaning HMRC is likely to have underestimated the scale of evasion. We are concerned that HMRC is not sufficiently curious about this difference, and therefore what it might learn and apply elsewhere. Furthermore, significant gaps remain in controls designed to prevent evasion, most notably overseas traders can still falsely register as UK established sellers and companies due to lax checks in HMRC and Companies House registration processes. This means bad actors beyond the reach of UK authorities can too easily evade paying the VAT they owe and gain an unfair advantage over genuine traders.

The Economic Crime and Corporate Transparency Act 2023 introduced new powers for Companies House to check the legitimacy of UK companies, but key changes, such as identity verification for company directors, will not be fully rolled out until the end of 2026. Companies House still does not have powers or plans to check company addresses, despite recognising that this would help to reduce evasion.

We are concerned that the UK has too little deterrent, with far fewer prosecutions for tax evasion compared to pre-pandemic levels and limited use of HMRC powers to tackle widely used forms of evasion such as electronic sales suppression. The Insolvency Service disqualifies too few directors given the scale of corporate abuse. Contrived insolvencies cost the exchequer at least £500 million in 2022–23 but the Insolvency Service has disqualified just seven directors for this reason since 2018–19.

HMRC, Companies House and the Insolvency Service acknowledge that there is a significant prize to be had from closer working, but there has been painfully little until now. We look to all three organisations to urgently accelerate this process, starting with a more ambitious vision and a shared plan.

Introduction

Tax evasion occurs where taxpayers deliberately omit or falsify information in tax returns to reduce their tax liability. As well as resulting in lost revenue, it can also prevent a level playing field between businesses, by giving evaders an unfair competitive advantage. HMRC estimates that tax evasion cost £5.5 billion in lost revenue in 2022–23 and is most prevalent among small businesses. Tax evasion can take different forms and motivations can vary, from businesses struggling with financial pressures to wilful and persistent evasion. In the retail sector tax evasion can include, for example, overseas sellers evading VAT through online marketplaces, businesses understating sales figures, or companies artificially declaring themselves insolvent and setting up a new company to continue the same business debt-free (known as "phoenixism").

HMRC is responsible for tackling tax evasion for the taxes it administers, and it must work with other public bodies to do so. This includes Companies House (responsible for company registrations) and the Insolvency Service (responsible for enforcement relating to director disqualifications and corporate abuse).

Conclusions and recommendations

1. **We are concerned that HMRC is not sufficiently curious about the true scale of tax evasion.** HMRC estimates that tax evasion cost £5.5 billion in lost revenue in 2022–23, equivalent to around 0.7% of all taxes owed. HMRC said this represents its best estimate but acknowledged that its estimate is uncertain. Tax evasion is inherently difficult to estimate as evaders aim to keep it hidden, and HMRC does not put a range on its estimate, meaning actual levels of evasion could be much higher or lower. In January 2021 government introduced legislation making online marketplaces liable for VAT from overseas sellers, resulting in £1.5 billion of additional tax a year. However, this is five times greater than HMRC estimated at the time, meaning HMRC is likely to have underestimated the scale of evasion. HMRC acknowledges that it had imperfect information at the time but could not tell us to what extent this contributed to its underestimate. We are concerned that HMRC is not sufficiently curious to understand this difference. Companies House said that, prior to the introduction of the Economic Crime and Corporate Transparency Act (ECCTA), between 5% and 20% of UK registered companies were fraudulent. HMRC acknowledges that fraudulent company registrations create a tax risk but could not tell us the amount of tax lost as a result.

RECOMMENDATION

a. HMRC should assess why the additional tax it now collects from online marketplaces is five times greater than it predicted. In particular, how much is due to underestimating the scale of evasion, how much is due to higher sales, and how much is due to policy change. Using this assessment, it should write to the Committee within six months with its findings, including a revision of its estimate of the amount of tax lost from VAT evasion by online retailers on online marketplaces, and any wider implications for its estimates of the tax gap.

b. HMRC should ensure it works with Companies House and the Insolvency service to understand how the amount of corporate fraud affects the tax gap. It should lay out how it plans to do this in its Treasury Minute Response to the Committee.

2. **Despite significant lost revenue, HMRC does not have a clear objective or strategy to tackle tax evasion.** Rather than a separate strategy to tackle tax evasion, HMRC has an overall compliance strategy which it applies to errors and carelessness as well as to deliberate and wilful non-compliance such as evasion. But these behaviours are very different and therefore require different approaches on the part of HMRC if it is to tackle them. HMRC says it is looking at whether evasion requires its own strategy. Previously HMRC was funded to prevent the tax gap from increasing, although after receiving significant investment at Autumn Budget 2024 it now aims to reduce the overall tax gap, of which evasion is one element, and raise an additional £6.5 billion a year of tax revenue by 2029–30. However, HMRC does not have a specific target to reduce annual losses due to evasion or other forms of deliberate non-compliance. HMRC say that no tax evasion is acceptable. Given this low tolerance for evasion, it is concerning that HMRC has not articulated a goal to reduce it.

RECOMMENDATION

a. In its Treasury Minute response, HMRC should set out clearly what its aims are for tackling deliberate non-compliance, including tax evasion, and by how much it is seeking to reduce this by the end of this Parliament.

b. HMRC should establish a clear strategy for tackling tax evasion and deliberate non-compliance, in which it makes clear its future ambitions with specific, measurable and timetabled objectives. In doing this, HMRC should consider including how it plans to make use of its existing enforcement tools and introduce clear goals for how it will prosecute tax evaders.

3. **HMRC, Companies House and the Insolvency Service have failed to work collaboratively, missing opportunities to increase the tax take.** Due to the fraudulent use of UK company registrations, contrived insolvencies and phoenixism to evade tax, HMRC, Companies House and the Insolvency Service must work closely to tackle these threats together. The introduction of ECCTA presents opportunities for all three organisations to work more closely. At Autumn Budget 2024 the government announced it would increase collaboration between HMRC, Companies House and the Insolvency Service to tackle phoenixism. The organisations say they will be developing a joint plan for closer working over the next financial year. Companies House and HMRC are discussing closer integration of systems to tighten registration requirements, including a joint registration service, but they estimate this will take between five to ten years to implement. This is too long whilst major gaps remain in checks for both company and VAT registrations. Whilst it is encouraging that all three organisations are

committed to joint working and agree there are significant benefits to be had, we are disappointed that it is taking so long for this to happen. Delays in implementation decrease the additional revenue available.

RECOMMENDATION
HMRC, Companies House and the Insolvency Service should develop a plan for more effective joint working and write to the Committee within six months with further details. This should include:

a. clear roles and responsibilities for tackling fraudulent registrations, corporate abuse and contrived insolvencies;

b. clear objectives on tackling these threats;

c. an assessment of how local and shared controls can be strengthened between them and operated most cost-effectively; and

d. a more ambitious timeframe for introducing a joint registration process, given there is significant benefit to this.

4. **The planned reforms to the role of Companies House leave huge gaps and it is still too easy to register companies fraudulently.** The Economic Crime and Corporate Transparency Act 2023 introduces significant changes to the role of Companies House, including new powers to remove inaccurate information from the company register and share data with other government bodies. Prior to the Act, Companies House had limited powers to check the validity of information provided to it, meaning it was easy for fraudsters to set up legitimate UK companies for illegitimate means. Companies House's data show that company incorporations in the UK between 2021 and 2022 greatly exceed those in other countries. Companies House is using its new powers to clean up the register, having removed 50,000 registered office addresses from the register so far. However, Companies House says the reforms will not be fully operational until March 2027. Identity verification for company directors will not be mandatory until autumn 2025. Moreover, verifying the addresses of companies on the register was not pursued under the Act, and there is no legislation in place which would allow Companies House to check addresses. Companies House acknowledges that checking addresses would help it address corporate fraud and evasion. We are concerned that the slow rollout and lack of address verification means it will remain too easy to register companies for fraudulent means.

RECOMMENDATION
Companies House should work with the Department for Business and Trade, and other relevant parts of government, to urgently set out the case for increased powers to verify new and existing company addresses, and develop implementation plans so checks can be in place as soon as possible if legislation is enacted.

5. **HMRC's VAT registrations processes are far too open to abuse, and it is not exploring options to tighten controls sufficiently.** Checking whether businesses are genuinely UK established is important for VAT because online marketplaces are liable for VAT from overseas businesses selling on their platforms but not for UK established businesses. HMRC does not routinely check addresses when businesses register for VAT, but says it has confidence that its risk-based checks, combined with due diligence rules for online marketplaces, are working well. Despite this, HMRC seems unable to stop businesses registering for VAT using incorrect addresses, illustrated by the case of an individual in Cardiff who continues to receive letters seeking unpaid tax from HMRC addressed to overseas companies incorrectly registered at his residential address – despite this Committee pressing the issue for over a year. Moreover, HMRC does not appear to be actively exploring options used internationally to tighten wider controls around VAT. Notably, while it recognises transaction-based reporting would give it access to more data to manage compliance risks, it has not carried out any analysis to assess whether it would be good value for money.

RECOMMENDATION

a. HMRC should strengthen its VAT registration controls, including by checking more addresses and stopping demands for unpaid tax going to innocent citizens who are unconnected with companies using their addresses, and working with online marketplaces to share information and intelligence effectively. It should write to the Committee in six months to explain how it has done this.

b. HMRC should, in its Treasury Minute response, set out its plans to explore the costs and benefits of transaction-based reporting and other controls used in other countries.

6. **HMRC and the Insolvency Service are not tackling tax evaders or rogue directors sufficiently, particularly for phoenixism.** The number of prosecutions resulting from HMRC's criminal investigations reduced from 749 in 2018–19 to 344 in 2023–24. The previous Public Accounts Committee has raised concerns about fewer prosecutions meaning there is less of a deterrent effect for those inclined to evade tax. We are encouraged that

HMRC says it wants to increase the number of prosecutions resulting from its work, and that it has increased the number of positive charging decisions it has recommended to the Crown Prosecution Service. However, we are concerned that HMRC has not issued any penalties under powers to tackle suppliers of sales suppression software it gained in 2022. The Insolvency Service disqualified just 7 directors for phoenixism between 2018–19 and 2023–24. In total it has disqualified 6,274 directors in that time. Both figures are far too low given estimates of the number of fraudulent company registrations (5% to 20% of all company registrations) and the estimated cost to the Exchequer of contrived insolvency (£500 million a year). The Insolvency Service says it has disqualified directors who carried out phoenixism for more severe offences, and it has doubled the average length of disqualification to 10 years. It says it wants to go further both in volume and increasing publicity, particularly around phoenixism, but has not committed to any targets or forecasts.

RECOMMENDATION

HMRC and the Insolvency Service should write to the Committee within six months with a plan to bear down on tax evaders and rogue directors who flout insolvency rules. This plan should include details of:

a. how both organisations will increase prosecutions and disqualifications;

b. how they will better publicise cases of successful prosecutions and disqualifications; and

c. how they will report on their performance and ensure they are measuring the deterrent effect of their responsive work.

1 Understanding the scale of tax evasion and the government's strategy to reduce it

Introduction

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HMRC, Companies House and the Insolvency Service on their approach to tackling tax evasion in the retail sector.[1]

2. Tax evasion occurs where taxpayers deliberately omit or falsify information in tax returns to reduce their tax liability. As well as resulting in lost revenue, it can also prevent a level playing field between businesses, by giving evaders an unfair competitive advantage.[2] We received evidence from Retailers against VAT Abuse Schemes (RAVAS) and the Hairdressing Council that highlighted how evasion is impacting sectors such as the personal care and retail sectors.[3]

3. The tax gap is HMRC's estimate of the difference between the tax theoretically owed and the tax actually paid. HMRC defines a range of behaviours which contribute to the tax gap, including error and failure to take reasonable care, as well as more deliberate non-compliance such as tax evasion.[4] HMRC estimates that the total tax gap in 2022–23 was £39.8 billion, and that the evasion tax gap was £5.5 billion in that year. HMRC also considers that evasion is increasing among small businesses, with an estimated 81% of the evasion tax gap in 2022–23 arising from small businesses, up from 66% in 2019–20.[5]

1 C&AG's Report, Tackling tax evasion in high street and online retail, Session 2024–25, HC 229, 9 September 2024
2 C&AG's Report, para 1
3 TERS0002; TERS0003
4 C&AG's Report, Figure 2
5 C&AG's Report, paras 1.4 and 1.5 and Figure 2

4. Tax evasion can take different forms and motivations can vary, from businesses struggling with financial pressures to wilful and persistent evasion. In the retail sector tax evasion can include, for example, overseas sellers evading VAT through online marketplaces, businesses understating sales figures, or companies artificially declaring themselves insolvent and setting up a new company (known as "phoenixism").[6]

5. HMRC is responsible for tackling tax evasion for the taxes it administers, and it must work with other public bodies to do so. This includes Companies House (responsible for company registrations) and the Insolvency Service (responsible for enforcement relating to director disqualifications and corporate abuse).[7]

Understanding the scale of tax evasion

6. HMRC estimates the lost revenue resulting from tax evasion each year in its measuring tax gaps publication.[8] Its most recent estimate is that tax evasion cost £5.5 billion in 2022–23, equivalent to around 0.7% of all taxes owed. Tax evasion is inherently difficult to estimate because evaders aim to keep it hidden. Yet HMRC does not put a range on its estimate, meaning actual levels of evasion could be much higher or lower.[9]

7. HMRC told us that the tax gap measure is its best estimate with the data available to it. It acknowledged that its estimates for behaviours, including evasion, are uncertain.[10] HMRC explained that it revises its estimates in subsequent years, for example when data from external sources is updated or it settles inquiries with taxpayers.[11] In 2020, the previous Public Accounts Committee recommended that HMRC analyse the tax gaps for each industrial sector.[12] HMRC disagreed, saying that it did not collect data which would allow it to produce reliable estimates and to do so would increase the burden on taxpayers.[13] HMRC maintained this position when we asked why it continues to not monitor the tax gap by sector.[14]

6 C&AG's Report, para 3
7 C&AG's Report, para 2
8 Measuring tax gaps 2024 edition: tax gap estimates for 2022 to 2023 - GOV.UK
9 C&AG's Report, para 1.4
10 Q 13
11 Q 14
12 Committee of Public Accounts, Tackling the tax gap, Twentieth Report of Session 2019–2021, HC 650, October 2020
13 HM Treasury, Government responses to the Committee of Public Accounts on the Eighteenth and the Twentieth to the Twenty-Fourth reports from Session 2019–2021, Treasury Minutes, CP 363, January 2021
14 Q 27

8. In January 2021 government introduced legislation making online marketplaces liable for VAT from overseas sellers, resulting in £1.5 billion of additional tax a year. This is five times greater than HMRC estimated at the time.[15] We asked HMRC why this was, and it explained that the volume of online sales had increased but also that it had imperfect information at the time.[16] However, HMRC conceded that it had not sought to break down which of these factors contributed most to the difference.[17] HMRC also told us it thinks it has a good idea of how much non-compliance there is in the online retail sector.[18]

9. Companies House said that, prior to the introduction of the Economic Crime and Corporate Transparency Act (ECCTA), it estimated that 5% of UK registered companies were fraudulent. It explained that external commentators had estimated the figure could be as high as 20%, and that the true value likely lies somewhere in between.[19] HMRC told us that individuals getting on the company register who should not be there, or with the incorrect classification, creates a tax risk.[20] In its Strategic Intelligence Assessment, published October 2024, Companies House states that UK limited companies are used in VAT fraud.[21] Companies House said it did not know how fraud on the company register translates into tax losses, and HMRC said that its estimate of the tax gap does not tie back to registrations in Companies House.[22]

HMRC's strategic approach

10. HMRC does not have a specific strategy for addressing tax evasion.[23] In 2019 HMRC set its latest strategy to tackle tax non-compliance, which is built of three strands: promoting compliance through education and support; preventing non-compliance by improving policies and systems; and responding when non-compliance occurs.[24] HMRC's overall compliance strategy covers all forms of non-compliance, which include errors and carelessness as well as more deliberate non-compliance such as evasion, and is primarily tailored around types of taxpayers (such as small, medium-sized or large businesses).[25]

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15 C&AG's Report, para 1.15
16 Q 34
17 Q 35
18 Q 28
19 Q 53
20 Q 55
21 Companies House strategic intelligence assessment – GOV.UK
22 Q 54
23 C&AG's Report, para 1.20
24 C&AG's Report, para 1.21
25 C&AG's Report, para 1.21 and Figure 2

11. HMRC told us it has some separate and specific strategic approaches to particular types of non-compliance, such as serious fraud and illicit tobacco, but not for tax evasion.[26] It told us that evasion is just one element of the tax gap and it wants to tackle all elements of it, and that its general strategy applies equally to tax evasion and other parts of the tax gap.[27] We asked HMRC whether it thought having a strategy for evasion would be a good idea. It told us that it is looking at this issue, explaining that it might consider a specific strategy for a behaviour if that behaviour requires a particular type of response. HMRC told us it needs to deploy its resources across the whole of the tax gap and apply approaches which work for the organisation.[28]

12. Previously HMRC had an overall aim to stop the tax gap increasing.[29] HMRC told us that it now wants to reduce the tax gap.[30] At Autumn Budget 2024, the government increased HMRC's settlement for 2025–26 by 4.5% in real terms and announced it was investing £1.4 billion over five years for HMRC to recruit 5,000 additional compliance staff.[31] HMRC told us this investment will allow it to bear down on the tax gap, including tax evasion.[32]

13. HMRC does not have a specific focus on, or explicit objective for, its performance in tackling tax evasion.[33] HMRC explained that it is driven by an overall compliance yield target which is designed to close the overall tax gap, but did not tell us whether it has a specific target to reduce the evasion tax gap.[34] We asked HMRC how much tax evasion it is willing to tolerate. HMRC told us that it does not have a level of tolerance, and no tax evasion or non-compliance is acceptable to it. However, HMRC explained that it is inevitable that there will always be some level of non-compliance.[35]

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26 Q 15
27 Q 17
28 Q 18
29 C&AG's Report, para 9
30 Q 20
31 Autumn Budget 2024 – HC 295
32 Q 20
33 C&AG's Report, para 9
34 Q 16
35 Q 20

Joint working across government

14. Prior to the introduction of ECCTA in March 2024, Companies House had limited scope to share data or insight with other public bodies such as HMRC. The new measures under ECCTA include the ability to proactively share information with other government departments and law enforcement agencies[36]. Although Companies House and HMRC said they had been working closely for many years, the organisations told us they are now able to share intelligence with each other with no barriers.[37] Companies House told us that since the introduction of ECCTA, it has shared 420 intelligence assessments with law enforcement and other government departments, such as HMRC and the Insolvency Service.[38] HMRC told us it welcomes ECCTA and that it is working with Companies House to support its implementation. It also said that ECCTA will help it with tax compliance.[39]

15. At Autumn Budget 2024, the government announced that it was increasing collaboration between HMRC, Companies House and the Insolvency Service to tackle phoenixism.[40] The Insolvency Service told us that, since the publication of the National Audit Office's report, it had started an action group alongside Companies House and HMRC to look at phoenixism.[41] All three organisations said that they were committed to increasing collaboration between them to tackle phoenixism and HMRC told us the organisations would be developing a concrete plan over the remainder of the financial year. The organisations cited a range of benefits of increased collaboration including exploiting data sharing to aid early intervention and maximise opportunities to recover taxes due before insolvency.[42]

16. HMRC and Companies House have explored opportunities from Companies House's new powers, including a single streamlined system for registering and filing company, Corporation Tax and VAT documentation which would provide more assurance over the addresses of registered businesses. HMRC and Companies House estimated in early 2024 that closer integration of systems would take between five and 10 years to implement.[43] HMRC and Companies House told us they are regularly meeting about this programme, but it will require significant investment and there are issues which need to be resolved first, including different definitions in their regimes and differences in filing dates.[44] Both departments acknowledged that delivering

36 C&AG's Report, para 2.8
37 Qq 56, 72
38 Q 71
39 Q 43
40 Autumn Budget 2024 – HC 295
41 Q 81
42 Q 94
43 C&AG's Report, para 2.22
44 Q47

a joint service offers a significant prize.[45] Companies House also explained that its shopping list was full delivering the reforms that ECCTA has already made possible, and it would need to deliver these first before a joint registration service.[46] HMRC told us it was working with Companies House to bid for more investment at Spending Review to introduce a joint registration service.[47]

45 Qq 47–48
46 Q 47
47 Q 93

2 Preventing and responding to tax evasion

Reforms to the role of Companies House

17. Until April 2024, Companies House had limited powers to check the validity of information provided to it by registered companies. It also had limited enforcement and intelligence-gathering powers, and limited scope to share data with other public bodies. The lack of checks meant it was easy for fraudsters to set up legitimate UK companies for illegitimate means.[48] Written evidence we received from RAVAS said that flaws in the verification systems operated by Companies House and HMRC have enabled bad actors to obtain UK company registrations and VAT numbers which can be used to pursue fraudulent behaviour.[49] In its Strategic Intelligence Assessment, published October 2024, Companies House state that the number of company incorporations in the UK in 2021 and 2022 exceeded those around the world, with 758,751 UK incorporations in 2021 being 154% higher than the nearest country (Australia). Companies House's data shows that UK incorporations in 2021 were 441% higher than in France, and 863% higher than in Germany in the same year. Companies House also say that the scale of abuse of the UK company register continues to grow.[50]

18. In March 2024, the first measures of ECCTA came into force. ECCTA introduces significant changes to the role of Companies House which are intended to improve the reliability of the information on the company register and reduce the risk of false registrations. These measures included new powers to check information for company registrations, remove inaccurate information and share information with other government departments and law enforcement agencies.[51] Companies House told us it has taken action using its new powers, so far removing 50,000 office addresses from the register, referring 3,000 companies per week for strike-off, and removing other fraudulent information collectively affecting 63,700 companies.[52]

48 C&AG's Report, para 2.8
49 TERS0002
50 Companies House strategic intelligence assessment – GOV.UK
51 C&AG's Report, para 2.9
52 Q 53

19. Some measures introduced under ECCTA will not be fully operational until Companies House develops the necessary systems and capability, or until further secondary legislation is in place. This includes verifying directors' identities.[53] Companies House told us identity verification will be introduced on a voluntary basis from spring 2025 and become mandatory from autumn 2025. Companies House said it intends within a year to verify the identity of 7.5 million officers currently on the register.[54] We asked Companies House whether it had looked at accelerating the rollout of identity verification. It told us that it would like to go more quickly, but the programme is large and complex, will require close integration of its systems with the Government's One Login service, and that it needs to ensure that it has recruited and trained the necessary resources to implement the changes.[55] Companies House told us that it aims to have all measures required by ECCTA in place by March 2027.[56]

20. The identity checks that Companies House is now responsible for are not intended to verify the address or place of business.[57] Companies House told us that address verification, which it says would be an additional burden on businesses, is not part of ECCTA. It said there was a balance between preventing economic crime and creating an environment for economic growth by minimising burdens on businesses.[58] Companies House explained that it will still be possible for individuals to falsely register at addresses because it has no legal powers to check whether addresses exist or request any information on addresses.[59] Companies House acknowledged that the ability to check addresses would enable it to better tackle evasion and fraud.[60]

Controls for VAT registrations

21. The government introduced a legislative change in January 2021 to tackle tax non-compliance through online marketplaces. This removed responsibility for accounting for the VAT on sales from overseas retailers, and instead made the online marketplaces liable for the VAT.[61] Overseas sellers can evade VAT by falsely presenting themselves as UK established for VAT purposes.[62] Online marketplaces need to determine the correct

53 C&AG's Report, para 2.9
54 Q 41
55 Q 41
56 Q 59
57 C&AG's Report, para 2.18
58 Q 60
59 Qq 61–62
60 Q 65
61 C&AG's Report, para 2.6
62 C&AG's Report, para 2.14

liability or demonstrate they have taken reasonable steps to do so, including whether sellers are UK-established.[63] HMRC told us it is for the online marketplaces to do the majority of the work verifying the establishment of businesses selling through their platforms, but it does some enforcement work in this area. It also said it is actively supporting online marketplaces including by developing new guidance for them which will be available in early 2025.[64]

22. When businesses register for VAT, HMRC does not verify whether they are UK-established in most cases.[65] HMRC explained all VAT registrations are risk assessed and that just over 50% of VAT registrations require further checks which can, but do not routinely, include address validation.[66] HMRC told us that is has confidence that its VAT register, combined with due diligence rules for online marketplaces, are working well, although it acknowledged that overseas retailers selling through online marketplaces was a compliance risk which it must constantly monitor.[67]

23. Over a six-month period in September 2022, a large number of VAT-registered overseas businesses changed their registered address to one residential property in Cardiff. The resident received more than 11,000 letters from HMRC and debt collection agencies regarding unpaid VAT.[68] The previous Public Accounts Committee raised this issue on several occasions in the past but the taxpayer continued to receive letters, including demands for payments.[69] This Committee is aware of letters sent to the resident's address as recently as October 2024 with demands from HMRC for unpaid VAT and import duties. We raised this with HMRC, and it told us that it had previously put overrides in place to prevent automated correspondence going to the address, but the most recent letters involved manual processes within HMRC. HMRC told us that it will seek to educate its officials to not issue letters to the address, and it is investigating each time a letter is sent to the address.[70]

24. HMRC has not pursued some controls used in other countries, including 'transaction-based reporting' where businesses are required to regularly report all sales and purchases to the tax authority, giving up to date information on the VAT owed.[71] We asked HMRC why it had not pursued

63 C&AG's Report, para 2.15
64 Q 37
65 C&AG's Report, para 2.5
66 Q 43
67 Q 43
68 C&AG's Report, para 2.16
69 Oral evidence taken on 19 June 2023, Qq 11–14, Committee of Public Accounts, HMRC Performance in 2022–23, Sixteenth Report of Session 2023–24, HC 76, February 2024
70 Qq 1–3
71 C&AG's Report, para 2.20

this, and it told us that it keeps this under review. HMRC also explained that it could look to build on the record keeping requirements introduced under Making Tax Digital for VAT, and that the government is consulting on e-invoicing in the spring. HMRC acknowledged that transaction-based reporting would give it access to more data to manage compliance risks.[72] HMRC told us that it has not undertaken a formal assessment into the costs and benefits of introducing transaction-based reporting in the UK.[73]

Responding to tax evasion

25. In correspondence after our evidence session HMRC said that in 2023–24 it had launched 430 new criminal investigations and more than 10,200 civil investigations into suspected fraud, and had charged around 17,000 penalties for deliberate non-compliance.[74] However, the number of prosecutions resulting from HMRC's criminal investigations reduced from 749 in 2018–19 to 344 in 2023–24.[75] In May 2023, the previous Public Accounts Committee raised concerns that fewer prosecutions could weaken the deterrent effect of HMRC's compliance work.[76] HMRC told us it wants to increase the volume of prosecutions resulting from its work.[77] It said that it has increased the size of its fraud investigation service from 4,400 people in 2018–19 to 4,800 now, and wants to further increase it to 5,400 by 2029–30. HMRC told us it expects this to result in an increase in the volume of its criminal investigations and resulting prosecutions.[78] HMRC also told us that it has increased the number of positive charging decisions it has recommended to the Crown Prosecution Service.[79]

26. HMRC first identified the threat of certain types of electronic sales suppression (ESS) in 2016. In 2019 it estimated that net losses were around £450 million and identified a need for further powers to tackle the issue. The National Audit Office reported that it was not until 2022 that the government introduced new civil enforcement and data collection powers for HMRC in addition to its existing criminal enforcement powers, six years after it first identified the problem, and that it has not yet issued any civil penalties using these powers.[80] We asked HMRC why it had taken so long for it to address ESS. HMRC told us that ESS is a complex and technical

72 Q 66
73 Q 68
74 Letter from HMRC to Committee, 10 January 2025
75 C&AG's Report, para 3.19
76 Committee of Public Accounts, Managing tax compliance following the pandemic, Forty-Ninth Report of Session 2022–23, HC 739, May 2023.
77 Q 92
78 Q 92
79 Q 90
80 C&AG's Report, para 3.9

area but explained that it has made eight arrests in two cases in relation to suppliers of ESS technology. It said that it is looking at using its civil powers where criminal charges are not taken forward. We also asked HMRC when it expects to start using its civil powers more routinely. It told us in the near future it will look to use its civil powers where criminal prosecution does not prove to be the best route forward, but did not provide a definite date.[81] HMRC told us it plans to update its estimate of the tax lost due to ESS in spring 2025.[82]

27. The Insolvency Service disqualified 6,274 directors over the period 2018–19 to 2023–24, but only seven of these were for phoenixism.[83] HMRC estimates that phoenixism accounted for 15% of its tax debt losses in 2022–23, which equates to at least £500 million.[84] The Insolvency Service told us that it is not difficult for it to disqualify directors where it finds evidence of unfitness. It explained that there is no statutory offence for phoenixism, but it can be an aggregating factor in its determination of the seriousness of director misconduct.[85] The Service explained that the seven disqualifications are cases where there was no more serious offence for it to pursue other than phoenixism.[86] The Insolvency Service told us that the low number of disqualifications for purely phoenixism is not a good indication of the work it does in relation to protecting tax revenue, and said that it has increased the number of disqualifications last year by 30% from the previous year, as well as doubling the average length of disqualification to around 10 years.[87] The Insolvency Service could not tell us definitively how much of its casework involves phoenixism, but estimated around 10%.[88] It told us that it wants to increase its disqualification activity, and go further in publicising high-profile cases, but it could not put a figure on what a good response would look like.[89]

81 Qq 87 – 88
82 Q 89
83 C&AG's Report, para 21
84 C&AG's Report, para 1.12
85 Q 80
86 Q 84
87 Q 80
88 Q 81
89 Qq 82–83, Q86

Formal minutes

Thursday 30 January 2025

Members present

Sir Geoffrey Clifton-Brown, in the Chair

Mr Clive Betts

Mr Luke Charters

Anna Dixon

Rachel Gilmour

Sarah Hall

Declaration of interests

The following declarations of interest relating to the inquiry were made:

16 December 2025

Rebecca Paul declared the following interest: member of the Institute of Chartered Accountants in Scotland, and the Chartered Institute of Taxation.

Tax evasion in the retail sector

Draft Report (*Tax evasion in the retail sector*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 27 read and agreed to.

Summary agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Resolved, That the Report be the Ninth 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 3 February 3.00 p.m.

Witnesses

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

Monday 16 December 2024

Sir Jim Harra, First Permanent Secretary and Chief Executive, HMRC; **Penny Ciniewicz**, Director General Customer Compliance Group, HMRC; **Dean Beale**, Chief Executive, The Insolvency Service; **Louise Smyth**, Chief Executive and Registrar of Companies, Companies House Q1-94

Published written evidence

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

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

1	Hairdressing Council	TERS0003
2	Retailers against VAT Abuse Schemes	TERS0002

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.

Session 2024–25

Number	Title	Reference
8th	Carbon Capture, Usage and Storage	HC 351
7th	Asylum accommodation: Home Office acquisition of former HMP Northeye	HC 361
6th	DWP Customer Service and Accounts 2023-24	HC 354
5th	NHS financial sustainability	HC 350
4th	Tackling homelessness	HC 352
3rd	HMRC Customer Service and Accounts	HC 347
2nd	Condition and maintenance of Local Roads in England	HC 349
1st	Support for children and young people with special educational needs	HC 353