



HM Revenue
& Customs

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19 March 2025

Dear Sir Geoffrey,

The cost of the tax system

I am writing to provide further information I committed to sharing during the oral evidence session of 6th March 2025 on *The cost of the tax system*.

Targets for use of powers

HMRC's [published criminal investigation policy](#) outlines how we maximise the effectiveness of criminal investigations, including the circumstances in which we will generally consider starting a criminal, rather than civil, investigation.

Additional funding announced at Autumn Budget 2024 will increase HMRC's counter-fraud capability and enable the department to expand our work to address fraud. We will publish an updated Issue Brief in due course articulating our ambitions to better address fraud, including areas of likely focus where we can increase our effectiveness through the use of our civil and criminal investigatory powers.

HMRC is currently considering the scale of the associated uplift in positive charging decisions associated with this increased investment and will publish a target in due course.

Threshold freezes and Tax Impact and Information Notes

Inflation and income growth have been greater than was anticipated when these measures were announced. This has resulted in upward revisions in the numbers affected by the threshold freezes and the revenue raised. The Office for Budget Responsibility have set out revised estimates of the numbers brought into tax from threshold freezes in their October

Information is available in large print, audio and Braille formats.
Text Relay service number – 18001



2024 [Economic and Fiscal Outlook publication](#) (Detailed forecast tables: Receipts, Table 3.18).

Software for Making Tax Digital (MTD)

Under MTD, affected businesses are required to keep their business records using software that works with HMRC's systems. This is already mandatory for VAT and will extend to Self Assessment, starting in 2026. Software that is compatible with MTD now provides the standard way for over 2 million VAT-registered businesses to file their VAT returns. Current plans for MTD for Income Tax will require around 3 million business customers within Income Tax Self Assessment to operate MTD and use compatible software; around 4 million with income below £20,000 will remain non-mandated.

All data sent to HMRC systems is monitored for fraud prevention, and to ensure that customer data is safe.

HMRC take security very seriously. We are working closely with software developers as they bring new MTD-compatible products to market, setting out strict specifications for their software products in terms of cyber-security and the security, storage, management and processing of customer data.

The Application Programming Interfaces (APIs), which connect this third-party software with HMRC systems are securely encrypted to ensure the integrity and confidentiality of user data. These APIs facilitate seamless and efficient data exchange between systems, reducing the risk of data breaches and unauthorized access.

We addressed a similar point around how software is assured in our [Treasury Minute response](#) to recommendation 6b of the eightieth report of Session 2022-23 on Making Tax Digital in February 2024.

VAT Solutions written evidence

Compliance Checks

The length of a compliance check will depend on factors such as complexity of the supply and provision of relevant documentation. HMRC compliance caseworkers should be prepared to discuss this with customers and their advisors and keep them informed. If VAT Solutions are content to provide specific details of the cases they have referred to, we can look into them to check what has happened, whether correct processes have been followed and ensure any lessons are learned.

We operate a set of Compliance Professional Standards as the way we apply the HMRC Charter in our compliance checks. These Standards are designed around the relationship we want to have with our customers and the experience that we want them to have when engaging with us. The Compliance Professional [Standards](#) are published on gov.uk, and explicit within them is the requirement for us avoid delay and to respond to customers' questions and concerns as quickly as possible.

Customers and advisors, including VAT Solutions and their clients, can make a complaint under HMRC's [complaints procedure](#) if they're unhappy with the service provided. This includes if there have been any unreasonable delays or lack of communication. We handle complaints fairly, investigating issues thoroughly and refunding any reasonable costs directly caused by our mistakes or delays. Customers can ask the Adjudicator's Office to review

their complaint after it has been investigated by HMRC, if they are dissatisfied with how it has been handled by the Department. This service is free and independent of HMRC.

Our case management procedures mean that all previously supplied information is stored. Caseworkers should ensure that requests are necessary and reasonable, avoiding duplicate requests. It's possible that caseworkers may repeat requests for information if they didn't receive enough detail in the original response; however, they should explain this when they make the follow-up request.

Visits to business premises are not our default approach, as they are often unnecessary and the time involved in them can be a costly use of both customers' and our caseworkers' time. Caseworkers are encouraged to make a judgement on the need for a visit, based on a number of factors, including cost-effectiveness, the nature of the compliance risks identified in the case and the impact on the customer. Depending on the nature of the case, a visit can sometimes help to expedite case progression, or it can help the caseworker to understand the nature of the business.

At Autumn Budget 2024 the Government invested in recruiting 5,000 new compliance staff over 5 years as part of its commitment to ensuring HMRC has the resources it needs to crack down on tax non-compliance. The recruitment of additional compliance caseworkers will be completed in a manageable way to prevent any undue impact on customers. Both training and support for these new caseworkers will build skills and, across the period, increase the Department's compliance capacity.

In 2023-24, HMRC received 2.8 million claims for repayment within VAT, totalling £96.8 billion. The vast majority of these claims were automatically repaid but it is right that risky claims are checked before payment to prevent the loss of tax through error and fraud.

Our strategy is to fix more problems before they result in a loss of tax, removing opportunities for error and fraud, and educating and prompt customers towards better compliance. This will free up our compliance caseworkers to focus on more egregious non-compliance.

Policy on tax due to the taxpayer

In order to respond to VAT Solution's concerns raised under this heading, we would require additional information and would welcome VAT Solutions to contact us directly to discuss the specific cases in question.

Litigation

HMRC administers the tax system on the basis of helping customers to pay the right amount of tax at the right time. If tax is not due, then we do not seek to collect it.

VAT is a transaction-based tax where precise legal analysis, in respect of its liability, is dependent on the particular facts, which sometimes may not be apparent until evidence is exchanged. Consequently, this may result in refinement of our legal analysis and arguments during litigation.

Clearance Requests

We are aware that some VAT clearance cases are taking longer than 12 weeks to respond to. We appreciate the impact on our customers and have allocated additional resource to improve our service. If customers have specific questions in relation to their case we would ask that they contact us.

System errors

HMRC identified a system issue in December 2024 that resulted in some VAT returns and payments becoming stuck in an unprocessed state. This resulted in some customers receiving system-generated charges for late payment interest and late payment/late submission penalties. We quickly worked with our IT supplier to resolve the issue, identify impacted cases and remove any interest or penalties charges.

We are sorry for the impact this issue had on VAT Solution's clients. Staff in HMRC's helpline were aware of the system issue and briefed to support impacted customers.

Each month, following the normal due date for VAT return payment, we identify payments that our systems have not been able to allocate to a customer record. These usually amount to several hundred each week. Most are due to missing or inaccurate payment references. Once the correct record is identified, the payment is allocated to that account and any interest or penalties that are not due are corrected. Due to the volume of misallocated payments that we receive, it can take time to resolve these unallocated payments.

To ensure payments are correctly allocated, customers and their advisors should ensure that the correct payment reference is included with all payments.

Yours sincerely,



Jim Harra

CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY