

Dame Meg Hillier  
Chair of the Treasury Committee  
House of Commons  
Palace of Westminster  
Westminster  
LONDON  
SW1A 0AA

24 June 2025

Dear Dame Meg,

### **The Work of HMRC**

Thank you for your letter of 10 June following the oral evidence session of 4 June on The Work of HMRC. The PAYE fraud referred to was a series of serious incidents, highlighting the real and persistent threat to the UK tax system from criminal gangs. In this instance, there was a loss to the Exchequer and customer data was accessed, both of which are unacceptable. We take these responsibilities very seriously.

As I said at the Committee of Public Accounts (PAC) during the 12 June hearing, I regret any frustration caused to either Committee by our approach to sharing information with Parliament. As I confirmed in my letter of 10 June, I remain available to meet the Committee in a private session, together with the Head of the Fraud Investigation Service and my Chief Security Officer, to discuss the PAYE fraud incidents and wider security resilience. In the meantime, alongside this letter, and as discussed with the Clerk of the Committee, I have provided an in-confidence annex for the Committee to consider, which is not suitable for publication, **Annex A**.

On reporting losses, and as explained by David Fairbrother, Treasury Officer of Accounts at the PAC hearing on 12 June, Managing Public Money (MPM) establishes that serious losses should be notified to Parliament. For HMRC, which collects more than £840 billion annually, the judgement on materiality understandably differs from others given the nature and scale of our operations.

The normal route for notifying losses to Parliament is through our Annual Report and Accounts, where we include individual incidents exceeding £10 million in the Trust Statement and those exceeding £300,000 in the Resource Accounts, in line with MPM. I can confirm that the issue will be covered in HMRC's Annual Report, due to be published next

month. As I set out in my letter of 10 June, at this stage we estimate the loss to the Exchequer to be £49 million. We will continue to keep that figure under review, as of course the security threat to our systems is persistent and ever-evolving.

These have been a series of serious security incidents and Departmental Ministers were notified appropriately. Within HMRC, we engaged with our Audit and Risk Committee on the issue multiple times. In May 2025, HMRC's non-Executive Board members were updated at the Performance Committee, and the full Board also considered the matter when they met earlier this month.

You sought further information about our response to these incidents, including a timeline which is included within **Annex A** for the Committee to consider. In more general terms, our priorities were to: stop the losses and prevent future losses as quickly as possible; identify and correct any legitimate customer accounts affected; protect customer data and secure compromised accounts, ensuring there was no financial detriment to customers; and contacting and reassuring impacted customers.

The unauthorised access to Personal Tax Accounts (PTAs) was a consequence of criminals harvesting personal data from external sources, including through exploiting phishing campaigns, third-party data breaches, and material obtained from the dark web. In the letters we sent to impacted customers, we explained that when customers' tax accounts were accessed, additional information that appears in a PTA would have been visible. In line with our statutory obligations, when we identified that personal data had been accessed, we alerted the Information Commissioner's Office (ICO) within the 72-hour notification period and continue to engage with them as appropriate.

Customer notification letters began arriving on 4 June and the dedicated GOV.UK guidance page<sup>1</sup> was published simultaneously as part of an integrated communications approach, designed to ensure affected customers received clear, accurate and reassuring information. We chose not to issue a press notice about these incidents as no formal public announcement was made; our intent was to avoid causing alarm to the wider taxpaying population, as the vast majority were unaffected.

We routinely engage with agent representative bodies on a range of issues – including fraud issues impacting both them and their clients – and we very much welcome their support in helping to protect and support our customers.

We regularly raise data security and the risks of scamming and phishing via our regular Agent Update. We held a specific discussion about security-related process changes resulting from this fraud at the 25 April 2025 meeting of the Representative Bodies Steering Group. However, I acknowledge that, in dealing with these security incidents, our engagement was general in nature, and we will learn the lessons from this to inform our future approach, including whether we could have provided more detail and further context.

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<sup>1</sup> <https://www.gov.uk/guidance/unauthorised-access-of-hmrc-online-accounts>

HMRC has powers and responsibility for conducting investigations into attacks on the tax system, liaising with law enforcement partners as appropriate through well-established protocols. In dealing with this incident, we worked with the Government Cyber Coordination Centre and other partners as necessary. HMRC has a number of live investigations into the criminal gangs behind these incidents, working with other law enforcement agencies both in the UK and overseas. Suspects have been detained and evidence seized. We are committed to pursuing these criminals to the full extent of the law and we will use all available powers as we seek to recover funds.

Other incidents have been reported to Parliament through the Annual Report and Accounts. During 2023-24, we notified the ICO of 29 data incidents, potentially affecting 35,645 people, as published in our Annual Report and Accounts 2023-24<sup>2</sup> (page 105). In the same period, our security measures prevented £1.9 billion in revenue loss across all tax and duty regimes by stopping fraudulent registrations and repayment claims.

Fraud is an inherent risk within any financial system, and HMRC, given the scale and nature of its operations, is a target for criminal activity. The threat to HMRC and our customers is constantly evolving and we are responding accordingly to this persistent challenge, which varies in scale and sophistication.

HMRC takes its responsibilities very seriously and has identified lessons which will shape future responses. At the recent Spending Review, the Government announced further investment in the modernisation of HMRC's IT estate totaling an additional £1.6 billion TDEL from 2026-27 to 2028-29. Making Tax Digital services are built on a modern technology platform, providing enhanced protection compared to legacy systems.

## **Customer service**

The Committee also sought further information on the issue which caused customer helplines to be closed during the hearing – an entirely unrelated technical failure. The disruption was caused by a supplier issue with the Adviser User Interface (AUI) system - the platform our customer service staff use to handle incoming calls.

We have experienced four phone line outages in the year since 10 June 2024. Two outages affected the Odigo telephony platform: on 17 July, lines were closed for 1.5 hours and on 10 September 2024, lines were closed for 7 hours. Two outages impacted the Pega Adviser User Interface (AUI): on 9 December, lines were closed for 2.5 hours, and on 4 June 2025, lines were closed for almost 3 hours. The helpline for those affected by the PAYE fraud remained operational on 4 June as we switched to a limited contingency user interface system. We are in the process of procuring a modern Contact Centre as a Service (CCaaS) system to improve the availability and reliability of our telephony services.

We acknowledge that customer service performance has been below service standards, and I appreciate the frustration that this causes for customers and their representatives from a range of professional bodies. The Exchequer Secretary to the Treasury has made clear that

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<sup>2</sup> <https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2023-to-2024>

improving day-to-day performance remains one of his top priorities for the Department. We have made good progress towards meeting our service standards at the start of this year, achieving provisional results of 83.6% adviser attempts handled (AAH) in April and 84.6% in May. Included in this data is the Agent Dedicated Line (ADL) where AAH has significantly improved from 58% in April 2024 to 86% in April 2025.

We want to provide tax advisers with the digital services and guidance they need to support their clients effectively. The Government announced a significant step towards that ambition at Autumn Budget 24, with a £36 million investment in modernising HMRC's tax adviser registration services. This will reduce delays in registration, simplify and secure the process for accessing services, and set the foundation for future improvements.

We continue to evolve our legacy IT systems and processes to increase our security resilience. We are establishing a Fraud Prevention Centre to detect, identify and respond to such incidents in future. Furthermore, HMRC's ambitious Transformation Roadmap – underpinned by the investment announced as part of the Department's Spending Review settlement – will be published next month. It will include further details of how we intend to modernise our systems in the years ahead. I would be very happy to discuss this with the Committee in more detail.

Our response to other issues raised during the hearing are set out in **Annex B**, and I have provided clarifications and corrections to oral evidence in **Annex C**.

I am copying this letter to the Chair of the Committee of Public Accounts.

Best wishes,



**John-Paul Marks**

**CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY**

## Annex B

### Other issues raised during the hearing

Please find below additional information that we committed to provide during the oral evidence session.

#### **HMRC's Board Effectiveness Review (Q 325)**

As per the Cabinet Office and HM Treasury's *Corporate Governance in Central Government departments: code of good practice*, the HMRC Board undertakes an annual review of its effectiveness. These evaluations are intended to assess whether boards are operating effectively, to enable continuous improvement and to allow the Board to take stock of the overarching approach to their work.

Each year the Cabinet Office provides guidance to departments to support this process and a questionnaire to be completed by Board members. Please find the results from that survey, completed by eleven members of the Board, attached as **Annex D**. These results were also provided to the Cabinet Office in April.

A summary statement about actions arising in response to the evaluation will be published in our Annual Report this year and the next Board evaluation will take place in early 2026.

#### **HMRC's underlying analysis used to estimate the return to the exchequer of investing in debt and compliance resources, including details of the methodology used to calculate staff productivity (Q 366)**

Costing models for additional resource in compliance and debt are underpinned by current and historical performance of staff derived from management information. For compliance and debt spend-to-raise measures, we have a long-standing methodology agreed with the Office for Budget Responsibility (OBR) to calculate rates of return for additional staff.

The starting point is historical management information on the performance per staff member for each operational directorate in HMRC's Customer Compliance Group (CCG) and each function within Debt Management. For new members of staff, we make evidenced-based assumptions about productivity lags, reflecting the amount of training time required for caseworkers to become fully productive.

For the compliance staff, because of the scale of the investment, we also apply disruption impacts to existing performance from redeploying some experienced managers to manage and mentor the new recruits. The total impact of all adjustments provides an average yield per year estimate applied to each additional compliance or debt officer, providing an estimate of the return to the Exchequer.

The published Spring Statement 2025 Policy Costings document provides more detail on the measures announced at Spring Statement 2025 with the same overarching methodologies applied for Autumn Statement 2024. Information on compliance and debt specific measures can be found on pages 16-21 of the linked document: [SS25 Published Costing Document](#).

## **HMRC's definition of Wealthy and High Net Worth individuals, including whether thresholds refer to gross or net income and assets (Q 403)**

We define individuals as 'wealthy' if they have incomes of £200,000 or more, or assets equal to or above £2 million in any of the last 3 years. These thresholds refer to gross income and assets.

Further information can be found at [How HMRC collects the right tax from wealthy individuals - GOV.UK](https://www.gov.uk/government/news/how-hmrc-collects-the-right-tax-from-wealthy-individuals).

## **Annex C**

### **Oral evidence clarifications and corrections**

In response to question 346, Angela MacDonald referred to the Board with respect to the setting of performance targets. HMRC's targets are set by the Minister as part of the annual business plan development process, based on officials' advice on performance and other information. The HMRC Board acts in an advisory capacity.

In response to question 358, I referred to 2,400 debt management staff provided for by Spring Statement. Funding was received across both Autumn Budget 2024 (AB24) and Spring Statement 2025 (SS25). The AB24 funding provided for 1,800 staff – 1,200 of which are retained staff, with 600 additional staff to be recruited. The SS25 funding allows us to recruit a further 600 staff.

In response to question 359, I mentioned that the additional £45 million would be a function of us retaining some capacity that we previously were not going to retain. I should clarify that £45 million is the additional amount that we calculated would be collected in 2024-25 in relation to the additional investment at SS25 in HMRC's existing partnerships with private sector debt collection agencies. This is a separate measure to the investment at SS25 in 600 additional debt management staff.

In response to question 365, Penny Ciniewicz correctly said our foundation learning programme lasts around 18 months, however she then said: "The first 18 months is focused learning. The second 18 months is working in the business with mentoring and coaching support." The correct numbers are 9 months for each stage; therefore the corrected text should read: "The first 9 months is focused learning. The second 9 months is working in the business with mentoring and coaching support".

As per my letter of 10 June, in Angela MacDonald's response to questions 391-393, £47 million should be corrected to £49 million.

In response to 406, Jonathan Athrow stated that "Last year, before the changes were announced that we have data for, 12,900 non-doms moved into the UK and around 8,900 moved out." The correct figure, obtainable from the published HMRC statistics, is 8,400 rather than 8,900, and should be corrected.