

Twelfth Report of Session 2019-21

HM Revenue & Customs and HM Treasury

Management of tax reliefs

Introduction from the Committee

Tax reliefs reduce the tax an individual or business owes. Many tax reliefs, such as the income tax personal allowance, are integral parts of the tax system and define the scope and structure of tax. The UK also had 362 tax reliefs at October 2019 where government opts not to collect taxes due in order to support social or economic objectives. Some of these tax reliefs reflect policy decisions to support a particular group or sector, such as the housing market. Others are designed to incentivise the behaviour of individuals or businesses by making a choice less costly, such as tax reliefs on pension contributions, or reliefs on research and development expenditure.

HMRC is responsible for estimating and reporting the cost of tax reliefs. It has reported estimates for 158 reliefs with economic and social objectives. These estimates indicate that the aggregate cost of these reliefs could be £159 billion a year. The additional tax that would be collected if these reliefs were removed is likely to be less than £159 billion as some taxpayers would respond by changing their behaviour and there may be wider economic impacts. The cost of the remaining 204 reliefs with economic and social objectives is not known.

HM Treasury and HMRC (the exchequer departments) work in partnership and oversee tax reliefs. HM Treasury leads on the design of tax reliefs and monitors their value for money and relevance. HMRC implements tax reliefs, monitors their use and cost, and evaluates them.

Based on a report by the National Audit Office, the Committee took evidence, on 10 June 2020 from HM Treasury and HM Revenue and Customs. The Committee published its report on 13 July 2020. This is the Government response to the Committee's report.

Relevant reports

- NAO report: [The management of tax expenditures](#) – Session 2019-20 (HC 46)
- PAC report: [Management of tax reliefs](#) – Session 2019-21 (HC 379)

Government responses to the Committee

1: PAC conclusion: *The Committee are concerned that HMRC does not understand the impact of any of the largest tax reliefs, including reliefs on pensions which were forecast to cost £38 billion in 2018–19.*

1a: PAC recommendation: *HMRC should: within 3 months, establish and publish the criteria it will use to determine which reliefs to evaluate.*

1.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2020

1.2 Following the NAO's report on the management of tax expenditures, Her Majesty's Treasury (HMT) and Her Majesty's Revenue & Customs (HMRC) have been developing a set of criteria to determine which reliefs to evaluate. Once these criteria are finalised and subject to Ministerial approval, HMRC will publish them.

1b: PAC recommendation: *HMRC should within 12 months, have evaluated the impact of pension tax reliefs.*

1.3 The Government disagrees with the Committee's recommendation.

1.4 The Government has undertaken several consultations on aspects of pensions tax relief over the last few years, including:

- a. [Pensions tax relief administration: call for evidence](#) (July 2020)
- b. [Public service pension schemes consultation: changes to the transitional arrangements to the 2015 schemes](#) (July 2020)
- c. [Changes to income thresholds for calculating the tapered annual allowance from 6 April 2020](#) (March 2020)
- d. [Reducing the money purchase annual allowance: consultation](#) (response: March 2017)
- e. [Strengthening the incentive to save: consultation on pensions tax relief](#) (response: March 2016)

1.5 These investigations included gathering views and evidence from stakeholders to understand the regime's impacts and the impacts of possible changes. The evidence provided directly influenced policy development. For example, responses to the 2015 wide-ranging consultation on pensions tax relief indicated there was no clear consensus for reform at that time, and so at Budget 2016 the then government announced it would not make fundamental reform to pensions tax reliefs at that stage.

1.6 The government will continue to engage with stakeholders to understand the regime's impacts and gather evidence through consultations such as those listed above but does not think it is the right time now for a formal evaluation.

2: PAC conclusion: HMRC and HM Treasury are insufficiently curious about the impact of some key tax reliefs on different groups.

2a: PAC recommendation: HMRC should assess the groups and sectors benefiting from all significant reliefs and publicly report the results during 2021.

2.1 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021

2.2 HMRC recognises the importance of publishing more information to aid understanding of the use of tax reliefs. HMRC already publishes statistics about groups and sectors benefitting from some major tax reliefs, such as the sectors and regions of claimants of R&D tax credits, Patent Box and Employment Allowance. HMRC also publishes information on the number of claimants of Entrepreneurs' Relief (now Business Asset Relief) by claim size. The evidence from HMRC's statistics on Entrepreneurs' Relief and the evaluation of the relief published in 2017 helped inform the changes to the relief at Budget 2018 and Budget 2020.

2.3 By the end of 2021 HMRC will improve the accessibility of this information in its statistics and publicly report more information on the groups and sectors benefitting from the most significant non-structural reliefs where the data is available to do this. HMRC will not be able to assess the groups and sectors benefitting from all significant reliefs due to data limitations. For many reliefs, taxpayers do not need to indicate on their tax return that they are claiming them. This includes VAT relief for construction of new dwellings which taxpayers do not have to indicate on their returns that they are claiming. Where claims are required for reliefs, HMRC collects a limited amount of information about the characteristics of claimants. HMRC weighs the costs to taxpayers of providing data against the benefits of generating analysis. Where HMRC does not hold sufficient data on their use, the collection of data on these reliefs and claimants would increase the administrative burden on taxpayers.

2b: PAC recommendation: For pension reliefs, HMRC should publish data showing who is benefiting, split by: income; groups with protected characteristics such as gender, age, ethnicity; people working in the public and private sectors; and people in defined contribution and defined benefit schemes.

2.4 The Government agrees with the Committee's recommendation.

Target implementation date: December 2021

2.5 HMRC will publish data showing who is benefitting from pensions reliefs to the extent data is available. HMRC publishes [annual statistics](#) showing the total costs of pensions tax relief. Estimates are necessarily based on a combination of data sources, listed below and published in the document [Background and Methodology](#).

- a) contributions to occupational schemes from the ONS' Annual Survey of Hours and Earnings;
- b) contributions to personal pensions taken from data provided to HMRC by pension providers.
- c) pension scheme's investment income supplied by the ONS; and
- d) administrative data held by HMRC on Real Time Information payments made by pension schemes'

2.6 HMRC publishes information on contributions to personal pensions based on data reported by [pension schemes](#) for administrative purposes. There is no additional statistical burden placed on pension providers to report employer contributions so tables showing contributions are not split by gender, age, country and region.

2.7 There is insufficient data available to produce statistics on all protected characteristics. Any disaggregate of the cost of pension tax relief is reliant on data reported to HMRC, data collected by third parties, and organisations such as the ONS. The government is working towards improving the information that it publishes on pensions tax reliefs.

2.8 Equalities impacts are considered throughout policy development and are published as part of this process, either as part of consultations or in tax information and impact notes.

3: PAC conclusion: *The exchequer departments are not transparent with Parliament on which tax reliefs need to change taxpayer behaviour for government objectives to be achieved.*

3a: PAC recommendation: *HMRC should, within three months, publish a list of all new and existing reliefs with objectives that include changing behaviour and specify the objectives of each.*

3.1 The Government agrees with the recommendation.

Target implementation date: Autumn 2021

3.2 The government will explore the best way to collate and publish the objectives of non-structural tax reliefs, many of which have been in place for a long time. It will take time for the government to consider the best way to present this information in an accessible way. This work will take place through the course of 2021.

3b: PAC recommendation: *For any new or amended tax reliefs HM Treasury should identify in the Budget's supporting documents whether they are intended to change taxpayer behaviour and how the government will measure whether that objective has been met.*

3.3 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

3.4 The government is committed to continuing to improve transparency and will aim to ensure that the Tax Impact and Information Notes (TIINs) for new tax reliefs and changes to existing reliefs specify where they are intended to change behaviour. The information in TIINs is reviewed by Ministers ahead of publication.

3.5 The government will measure the impact of tax reliefs through monitoring and evaluation. The

government has committed in this response to establish and publish the criteria it will use to determine which reliefs to evaluate. HMRC also agrees that there is scope to publish more cost estimates and the results of a more structured programme of internal evaluation analysis performed from 2021, subject to Ministerial approval.

4: PAC conclusion: HMRC cannot explain why the cost of some tax reliefs is considerably greater than government forecasts presented to Parliament.

4: PAC recommendation: HMRC should, as part of its next annual statistical publication on tax reliefs due in October 2020, identify all significant cost variances within tax reliefs, and report the reasons for those variances, explaining whether variations in cost are proportionate to the impact of the relief.

4.1 The Government agrees with the Committee's recommendation.

Target implementation date: Autumn 2020

4.2 HMRC's annual official statistics on tax reliefs include graphs of the absolute costs of the most significant reliefs and their cost as a proportion of GDP, which allows for monitoring the cost trends over time and whether cost changes are proportionate to the size of the relief. In the 2020 statistics HMRC will expand commentary on the variance over time of the costs of these high priority non-structural tax reliefs.

4.3 HMRC also plans to publish more information on initial forecast estimates in the tax relief statistics, starting in October 2020. In the first instance, this will focus on high priority non-structural tax reliefs which have been announced since the introduction of the Office for Budget Responsibility (OBR). The NAO noted in their recent report on tax reliefs, that it is more difficult to compare the costs of established tax reliefs with published government forecasts because projections cover a maximum of five years. There may be cases where it is not feasible to make credible comparisons, due to differences in time periods covered by the original forecasts and difficulties factoring in other complexities such as economic changes and wider policy changes. In cases where it is not feasible to develop an approach to compare costs with forecasts for high priority non-structural tax reliefs, HMRC will explain why.

5: PAC conclusion: HMRC and HM Treasury do not publish sufficient information on the value for money of tax reliefs to enable Parliament to hold government to account.

5a: PAC recommendation: HMRC should ensure that the results of internal, as well as external, evaluations are published, and are easily accessible to Parliament and the public.

5.1 The Government agrees with the recommendation.

Target implementation date: December 2021

5.2 The government recognises the importance of transparency in providing information to inform the understanding of tax reliefs. HMRC includes links to external evaluations and research reports about tax reliefs in the annual statistics publications. HMRC will continue to publish externally commissioned evaluations and to include relevant internal evaluation findings in consultation documents.

5.3 HMRC's internal analysis takes a wide range of forms from comprehensive impact assessments to analysis to feed into policy advice to Ministers on specific options, proposals and decisions, which is necessarily confidential. In 2021 HMRC will put in place a more structured programme of internal evaluation work including plans to start publishing this analysis from 2021, subject to Ministerial approval. It will however remain the case that unpublished information included in policy advice for Ministers will be subject to the normal confidentiality arrangements for such advice.

5b: PAC recommendation: HM Treasury should in 2021, prepare its first annual report setting out the results of its value for money assessments of tax reliefs

5.4 The Government disagrees with the recommendation.

5.5 The current value for money assessments made by HM Treasury are part of the policy making process and part of advice to Ministers, which is necessarily confidential.

5.6 The government continues to increase the amount of information publicly available on costs of tax reliefs. For instance, HMRC is providing more information on costs. In order to accelerate provision of additional material on costs of reliefs, HMRC has prioritised analytical resource to undertake a project to publicly provide more information on the costs for reliefs where none are currently published.

5.7 The Government commits to consider the recommendation made by the NAO to “develop a robust methodology for assessing the value for money of different types of tax expenditures” and what indicators could be used to increase understanding around the value of tax reliefs.

6: PAC conclusion: HMRC and HM Treasury are far too slow in identifying and responding to some of the most serious problems identified with reliefs, including cases of abuse.

6: PAC recommendation: HMRC and HM Treasury should, within 3 months, write to the Committee to explain how they will accelerate their response when reliefs are costing much more than expected, are subject to abuse, or are not achieving their objectives.

6.1 The Government agrees with this recommendation.

Target implementation date: Autumn 2020

6.2 The government agrees that it is important to quickly identify when and why reliefs deviate from their expected impact. The government already keeps tax reliefs under review and takes action where appropriate – for instance in the recent changes to Entrepreneurs’ Relief, now Business Asset Disposal Relief – and there are changes to reliefs in most Finance Bills.

6.3 Tax changes are considered at fiscal events where Ministers take decisions on priority actions required in the tax system and bring these forward to Parliament to consider. As part of this process, officials already provide Ministers with an overview of cost and effectiveness across reliefs and identify areas where there is a case for action. Going forward, HM Treasury and HMRC will provide more detailed advice to Ministers on cost trends of tax reliefs, alongside the annual tax relief cost publication.

6.4 The departments take a range of steps in response to abuse, HMRC uses ‘[spotlights](#)’ on Gov.UK to warn of concerns about avoidance with regards to individual reliefs. On R&D specifically, HMRC has used funding provided by the November 2017 Budget to increase the number of compliance staff in its R&D team by 100 full time equivalent (FTE). From 1 April 2019 returns which make or amend a claim for R&D relief must be made in a CT600 accompanied by a tax computation. HMRC meets with its Research and Development Consultative Committee approximately twice a year, which provides opportunities to communicate with stakeholders, and also to work together with them on problematic issues.

6.5 HM Treasury and HMRC are committed to providing timely, high quality advice to Ministers on the tax system, in line with the objectives of Ministers and the Department. HM Treasury and HMRC have committed to set and publish criteria for evaluating tax reliefs and consider indicators for increasing understanding of the value of tax reliefs, both of which will support future Ministerial advice.