# Thirty-Sixth Report of Session 2019-21

## HM Revenue & Customs

### HMRC performance 2019-20

#### Introduction from the Committee

HMRC is responsible for administering the UK's tax system. HMRC's objectives are to: collect revenues due and bear down on avoidance and evasion; transform tax and payments for its customers; and design and deliver a professional, efficient and engaged organisation. In 2019–20, HMRC raised £636.7 billion of tax revenues, an increase of £8.8 billion (1.4%) since 2018–19. It estimates the yield from its tax compliance activities in 2019–20 was £36.9 billion, 7.0% above its target (£34.5 billion). As well as its traditional objectives, the Department is playing a significant role in implementing the Government's response to the COVID-19 pandemic. The primary support measures for individuals and businesses administered by HMRC include: grant-paying measures, such as the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS); measures to defer payment of tax liabilities, such as deferring VAT payments; and other tax measures, such as a VAT cut from 20% to 5% on food, accommodation and attractions. HMRC is also responsible for administering Personal Tax Credits to support families with children and to help ensure that work pays more than welfare. In 2019–20, HMRC spent £18.3 billion on tax credits. Tax credits supported around 2.3 million families and around 4.4 million children. The Government, as part of its COVID-19 support measures, increased the working tax credits from 6 April 2020 until 5 April 2021; which could mean up to an extra £20 each week for claimants or households.

Based on a report by the National Audit Office, the Committee took evidence on Monday 16 November from HMRC. The Committee published its report on 20 January 2021. This is the government's response to the Committee's report.

#### Relevant reports

- NAO report: *HM Revenue and Customs Annual Report and Accounts 2019-20* – (HC 891)
- PAC report: *HMRC performance 2019-20* – Session 2019-21 (HC 690)

#### Government responses to the Committee

**1: PAC conclusion: *Quirks in the tax system have left some groups of taxpayers excluded from financial support that other taxpayers received throughout the COVID-19 pandemic.***

**1a: PAC recommendation: *HMRC should, within six weeks of this report: publish an explanation for the reasons why it cannot help those freelancers and other groups that have been excluded from receiving any support and what would be required to determine eligibility for financial support for that group of taxpayers; and***

1.1 The Government agrees with the Committee's recommendation.

**Recommendation implemented**

1.2 Following the Committee's COVID-19: Support for Jobs report, HM Revenue & Customs and HM Treasury *wrote to the Committee* on 2 February 2021 responding to recommendation number 3 (that HM Treasury and HMRC should investigate whether more data within and outside the tax system could be used to determine eligibility for currently excluded groups), setting out reasons why certain groups have not been eligible for support.

**1b: PAC recommendation: *and HMRC should, within six weeks of this report consider the support it can provide for those taxpayers that have, due to the IR35 rules, moved onto payrolls and missed out on support from the COVID schemes, for example, by reviewing whether it can use an average of wages in the past three years to determine grants.***

1.3 The government agrees with the Committee's recommendation.

**Recommendation implemented**

1.4 The off-payroll working (IR35) rules can apply if an individual provides their services through their own limited company. These rules do not prevent anyone from continuing to work through a limited company or require individuals to move onto payroll. They simply ensure that those working like an employee through a limited company pay broadly the same tax and National Insurance contributions (NICs) as if they were employed directly. However, the government is aware that some client organisations have chosen to offer contractors employee positions on payroll.

1.5 To ensure an acceptable level of fraud risk and to mitigate vulnerability to criminal attack, without compromising the speed at which the department need to pay out, the Coronavirus Job Retention Scheme (CJRS) is based around the principle that data submitted by claimants must be able to be matched against verifiable data already held on HMRC's systems. This is assessed using employer PAYE Real Time Information (RTI) submissions to HMRC, which allows HMRC to verify claims in the most efficient and timely way, ensuring payments can be made quickly while reducing the risk of fraud.

1.6 For the first six months of the CJRS, employees were eligible if they were on-payroll the day before the scheme commenced on 20 March 2020. In October 2020, the CJRS cut-off date was moved to 30 October 2020, meaning that many more individuals are now eligible for support, including contractors moved onto payroll earlier in the year in anticipation of the off-payroll reform.

1.7 The rules on calculating entitlement to CJRS were set to be consistent for all employees, and to move away from this would complicate the scheme and increase the burden on employers.

**2: PAC conclusion:** ***A lack of certainty about the COVID-19 support schemes has undermined businesses' ability to plan effectively.***

**2: PAC recommendation:** ***HMRC should, within six weeks of publication of this report, write to us to set out what lessons have been learned from the timing and content of its communications, such as about the future of the Job Retention Bonus scheme, and how those lessons might have improved the outcomes of the support schemes.***

2.1 The government agrees with the Committee's recommendation.

**Target implementation date:** March 2021

2.2 The government has had to balance providing longer-term certainty on the schemes with the need to be responsive to the evolving impact of COVID-19 and ensure economic support is tailored to the latest circumstances. The government's principle has always been that financial support will follow the path of the virus. This will sometimes mean reviewing policy at short notice where the nature of the pandemic has changed significantly, such as when the CJRS was extended in October 2020.

2.3 The government is committed to providing as much clarity and forewarning as possible on support arrangements. For example, in December 2020, details were announced of the extension of CJRS to the end of April 2021, on its current terms. At the Budget 2021, the Chancellor gave further certainty to businesses, allowing them to plan ahead with confirmation that the CJRS and the Self-Employment Income Support Scheme (SEISS) would continue until September 2021

2.4 The department's approach to operational communications to support successful implementation of the schemes has been based on four stages - announce, prepare, launch and support - with proactive communications across channels including stakeholder engagement and roundtables, emails to millions of customers, MPs, stakeholders and agents, social media awareness and calls to action, published guidance and webinars. This has ensured awareness of the schemes, that customers know how to check if they are eligible, what action they need to take and by when, and where they can find further support. This includes helping customers to prepare in advance for making claims under the schemes.

2.5 The department continues to adapt their approach based on customer and stakeholder feedback and will write to the Committee in more detail in March 2021, setting out this approach and lessons learnt.

**3: PAC conclusion:** ***HMRC's estate strategy risks becoming woefully out of date.***

**3: PAC recommendation*: In its Treasury Minute response, we expect HMRC to set out its future plans on how it will review its estate strategy in light of the impact of COVID-19 on the demand for commercial properties, to ensure it can demonstrate value for money from its considerable investment should demand remain suppressed.***

3.1 The government agrees with the Committee's recommendation.

**Target implementation date:** July 2021

3.2 The department is satisfied that its estates strategy continues to offer value for money in the light of the likely short- and long-term impacts of the COVID-19 pandemic on the department's requirement for office space and on office rents.

3.3 Before making contractual commitments for its regional centres, the department obtained independent qualified professional advice which confirmed that the flexible lease terms they negotiated offer the best balance of value when building modern offices in locations with a large long-term government presence. It also built in terms enabling the department to sublet space if needed and build in future flexibility.

3.4 While the experience of working during the COVID-19 pandemic is likely to have longer term implications for ways of working, the department expects to continue to be an office-based organisation, requiring high-quality workspaces where people can work together and develop their careers. The department will review what this means in terms of space requirements and work with the Government Property Agency to ensure space freed up by HMRC is made available to other departments who wish to secure long-term space, to support the government's Places for Growth Programme. The high quality of the department's regional centre office accommodation, and their prime location in Government Hubs, mean that they are eminently suitable for use by other government departments and there has already been demand from other departments for space in HMRC's regional centres.

3.5 The lease terms negotiated by the department ensure optimum rental costs in the light of the expected long-term occupation of the offices by HMRC and other government departments.

**4: PAC conclusion:** ***The pandemic has significantly increased HMRC's workload and made the organisation more complex.***

**4: PAC recommendation*: HMRC should review its priorities and work with HM Treasury to ensure it has sufficient capacity and resources to effectively manage its workload. HMRC should, following the November 2020 Spending Review, write to us, setting out the findings of its review and explaining what it might need to deprioritise if it has not secured sufficient additional resources.***

4.1 The government agrees with the Committee's recommendation.

**Target implementation date:** April 2021

4.2 The department was allocated £5.4 billion through the 2020 Spending Review. This included funding of:

- £1 billion to reform and enhance UK's customs system;
- £146 million to extend the rollout of Making Tax Digital; and
- £321 million to improve the agility and resilience of HMRC's IT estate (including the modernisation of Valuation Office Agency's IT systems and support for the 2023 Business Rates revaluation). The overall settlement was broadly similar to forecast spend in 2020-21.

4.3 The department is reviewing its 2021-22 priorities to ensure it successfully delivers its priorities and strategic objectives, and continues to be a trusted, modern tax and customs department.

4.4 The department is currently working through its plans for the next year, in line with its normal business planning process. This incorporates all aspects of HMRC's delivery, from core tax and payments work through to activity to support government actions in response to the pandemic. In line with other Government departments, HMRC will be publishing their Outcome Delivery Plan (ODP) following the start of the 2021-22 financial year.

**5: PAC conclusion: *HMRC has spent too much of its IT budget on patching up legacy systems rather than modernising them.***

**5: PAC recommendation*: HMRC should write to us, by the end of March 2021, setting out what it is doing, and has planned, to refocus IT investment on modernisation for the future, while retaining resilience, so it can move on from the need to simply keep patching up legacy systems.***

5.1 The government agrees with the Committee's recommendation.

**Recommendation implemented**

5.2 The department has been addressing its legacy technical debt since 2019 and received funding of £268 million at the 2020 Spending Review to continue the work to improve the agility, resilience and security of its IT estate. The estate comprises over 6,000 servers and over 550 associated IT systems so is an extremely complex and inter-dependent one. The plan to tackle legacy technical debt has focused on a number of areas:

- **Rationalise/Streamline**: Rationalising the department's IT estate – to date 20% of the department's total services have been de-commissioned or retired;
- **Remediate**: Addressing high priority technical debt to replace out of support and old components, so that the core system security is enhanced, together with strengthening perimeter controls protecting the department's IT systems. The department has spent £36.3 million on this activity in Financial Year 20-21;
- **Migrate**: The next step in this programme of work is to migrate these systems to the Cloud. Hosting savings will be delivered, thus reducing baseline IT spend. These systems can then be further transformed as part of full service transformation (multiple IT systems grouped together form a service such as Personal Tax or VAT), which is agreed industry-standard practice; and
- **Transform:** Focusing on defining and consolidating system delivery centred around strategic components, reducing operating cost and concentrating management activities around a reduced set of components which support HMRC operations. This both reduces the operating cost and the security attack surface area, which helps HMRC defend its systems.

5.3 The ODP details the plans on how the department is remediating technical debt and the work HMRC have done to develop core foundational structure elements for HMRC.

**6: PAC conclusion: *HMRC too often struggles to provide reliable and timely financial estimates upon which good financial and operational planning depends.***

**6a: PAC recommendation*: HMRC should, in its Treasury Minute response, set out: The steps it is taking to ensure its financial estimates are sufficiently timely and rigorous; and…***

6.1 The government agrees with the Committee's recommendation.

**Recommendation implemented**

6.2 The government does not accept that HMRC "too often struggles to provide reliable and timely financial estimates upon which good financial and operational planning depends".

6.3 There is a robust process in place for ensuring all financial estimates are accurate and reliable. These are audited every year by National Audit Office (NAO).

6.4 The 2019-20 Resource Account was qualified for breaching the Net Cash Requirement (NCR). This was due to an error in preparing the 2019-20 Supplementary Estimate. The department has introduced additional validation exercises and strengthened the department's sign off process.

6.5 The department also breached its HM Treasury Income Control Total by £5.98 million during the 2019-20 financial year. At the year-end and as the audit process concluded, there were several unforeseen changes in the income outturn which resulted in the breach. The department subsequently requested to make a non-budgetary adjustment at the 2020-21 Supplementary Estimate to correct this. The department should have flagged this breach earlier and sought retrospective permission to retain the additional income or surrendered this amount back to the Consolidated Fund and the department did not. Since then, the department has moved quickly to improve its controls and increase the robustness of its forecasts and will be reporting its forecasts to the Treasury on a monthly basis.

**6b: PAC recommendation*: … when will the department have an estimate of the actual amount of error and fraud in the COVID-19 grant schemes it administers, rather than a planning estimate, and its plans for recovering those losses.***

6.6 The government agrees with the Committee's recommendation.

**Recommendation implemented**

6.7 The department will not have a complete assessment of the total fraud and error for the CJRS until the end of 2021 at the earliest. This is because the department requires most of the cases selected for CJRS random enquiry to be closed before a final assessment can be made.

6.8 For the SEISS, the department requires the 2020-21 Self-Assessment returns to be filed in order to produce a firmed-up estimate for the current phases of the scheme.

6.9 The department's plans to recover funds from those who have abused CJRS and SEISS are set out in its post-payment compliance approach – identifying cases via risk profiling, contacting many via one to many approaches and following up on those who do not respond, or whose response needs further investigation. This approach will be kept under review and adapted as necessary to effectively address fraud whilst not over burdening compliant claimants.