

Written evidence submitted by Institute of Chartered Accountants in England and Wales

Introduction

ICAEW welcomes the opportunity to give evidence to the Public Accounts Committee on its inquiry: [HMRC Standard Report 2022-23 - Committees - UK Parliament](#) following the call for evidence published on 27 July 2023.

This representation of 20 October 2023 has been prepared by the ICAEW Tax Faculty and focuses primarily on HMRC customer service performance. Internationally recognised as a source of expertise, the ICAEW Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

ICAEW is a world-leading professional body established under a Royal Charter to serve the public interest. In pursuit of its vision of a world of strong economies, ICAEW works with governments, regulators and businesses and it leads, connects, supports and regulates more than 166,000 chartered accountant members in over 146 countries. ICAEW members work in all types of private and public organisations, including public practice firms, and are trained to provide clarity and rigour and apply the highest professional, technical and ethical standards.

Key points

- HMRC's service performance has continued to deteriorate;
- Poor HMRC service performance is having a significant impact on the efficiency of agents, taxpayers, and the economy;
- There is a risk of a reduced level of compliance and an increase in the tax gap;
- HMRC's digital services have been developed in a piecemeal fashion, are often disjointed and are not comprehensive. Good digital services require proper investment. Agents, in particular, often have to resort to using the phone or writing to HMRC only because they are unable to resolve their clients' issues digitally;
- ICAEW has provided HMRC with a list of possible improvements to digital services that would help reduce demand on phone and post services, but there seems to be a lack of urgency from HMRC to address these. Instead HMRC is allocating resources to longer term projects such as making tax digital for income tax self assessment. The benefits of these longer-term projects if they materialise, which we doubt, will not be realised for many years. We anticipate that these projects are also likely to increase demand for customer support in the interim.
- To restore confidence, we want to see a thorough review with a plan to improve services and develop digital capabilities for the future. At the moment there is no prospect of any improvement.

HMRC's response to reduced resources

To date, HMRC's main response to its reduced resources has been to cut services. Waiting times have increased significantly and more calls are simply getting cut off.

| HMRC performance | 2022/23 | 2021/22 |
|---|------------------------|----------------|
| Telephone: adviser attempts handled | 71% (target 85%) | 77% |
| Telephone: average speed of answer | 16 minutes (no target) | 12 minutes |
| Telephone: callers waiting for more than 10 minutes | 63% (no target) | 46% |

The self assessment helpline was closed completely from 12 June 2023 to 4 September 2023. This unhelpfully coincided with the 31 July due date for the second self assessment payment on account and HMRC's decision to issue notices to file rather than paper self assessment returns.

The agent dedicated line (ADL) was closed in January 2023 except for self assessment queries. The ADL was restricted again from April 2023 to early June 2023, accepting calls only on tax codes and late filing penalties – not the priorities that most agents would have chosen.

From 4 October 2023 the 10-minute waiting time target has been removed from the ADL and queries relating to individual's PAYE are to be re-routed to a small team. Waiting times are expected to increase. This decision is not supported by ICAEW. Some possible alternatives were presented to professional bodies, but they were even less attractive. It is particularly disappointing that the communication of this change referred to 'improvements' when the expectation is a deterioration in the service.

Prior to the pandemic the opening hours for HMRC's helplines included evening and weekend opening. This is no longer the case, and we are unaware of any HMRC plans to restore the service.

HMRC has made some progress in dealing with its backlog of post having allocated some additional resource in Summer 2023. HMRC's stock of post on hand peaked at 3.3m items in July 2021, during the pandemic. This reduced to 1.9m by March 2022. No more recent figure has been published. HMRC post handling performance improved from 46% being cleared within 15 working days in 2021/22 to 73% in 2022/23. The position on post seems to have stabilised overall but is very variable, with many outliers and a risk of the backlog increasing when additional HMRC resource in Summer 2023 is withdrawn. ICAEW members have reported extreme delays of more than one year. HMRC has established a task force to address these which we welcome but we need to see a sustained improvement in reducing the stock of post which is unanswered beyond HMRC's 45-day post standard.

Anticipated increase in demand

Demand for HMRC's services is expected to increase due to the freezing and reduction of bands and allowances. More taxpayers are moving into higher rate income tax bands and therefore have more complex tax affairs including, for example, the high-income child benefit tax charge. The reduction in the dividend nil rate band and the capital gains tax annual exempt amount is bringing more taxpayers into self assessment. Higher interest rates will mean that more taxpayers have interest income that exceeds their personal savings allowance (unless they are able to mitigate this by investing in ISAs).

Given the fact that HMRC is struggling to cope with existing demand, it needs to develop and share a plan to address it.

Lack of accountability

ICAEW members increasingly mention HMRC's lack of accountability. This was also highlighted in the report of the Charter Stakeholder Group. There is little or no recourse for costs incurred by taxpayers and agents as a result of HMRC delays and inefficiency. The concerns were summed up neatly by one comment made by an agent in the 2022-2023 Charter Report as follows:

“There are no consequences if HMRC gets things wrong. They hold taxpayers and agents to much higher standards than they hold themselves and there is little or no recourse for the extensive costs and time-wasting caused by HMRC incompetence and delays. They should be held to the same standards (deadlines) and pay compensation when they get things wrong - this might focus their minds and make them try to do things better. At the moment, there is no incentive for them to improve at all!”

We agree and the current imbalance needs to change so that HMRC is incentivised to be more efficient and effective.

Quality of responses on helplines

ICAEW members increasingly comment on the quality of the assistance available on the ADL. There is often huge variability between the assistance that is offered by experienced call centre staff who have the knowledge to resolve issues and less experienced staff who need to hand off queries to others. Call backs from back office technical staff are often not received. Possibly due to an increase in staff turnover, ICAEW members report an increasing number of cases where ADL staff are unable to resolve relatively straightforward queries (even though HMRC assures us that the staff have at least 12 months' experience). ICAEW recently reported such a case so that HMRC could listen to the call and address the training need. It is sometimes obvious that the call centre staff are simply following scripts. A recent example was telling the agent of a deceased taxpayer to contact HMRC if the taxpayer's circumstances change and they need to re-register for self assessment.

Research and development (R&D) claims enquiries

Since the latter part of 2022, HMRC has been taking what is often referred to as a 'volume-based' approach to handling claims for R&D tax relief. What this means in essence is that HMRC uses risk-based methods to identify claims that it wishes to enquire into. Rather than enquiring into these claims on a tailored basis, HMRC is applying a bulk approach, using the same methodologies to enquire into claims across a variety of industry sectors. Additional staff have been drafted in to deal with an increase in claims, but they have not been adequately trained to work in such a complex and specialist area.

As a result of this approach, our members experience the following on a regular basis:

- Receiving written correspondence from HMRC that asks for information already provided with the claim;
- A lack of understanding of the industries that claimants operate in;
- Inspectors investigating claims by carrying out basic google searches and then disallowing claims when they see something that looks similar in the public domain;

- Asking companies to re-explain complex concepts in layman's terms and then disallowing claims on the basis that the explanation sounds too simple;
- A reluctance by HMRC staff to agree to meetings that might resolve enquiries more quickly than extended correspondence;
- Initial allegations of fraudulent claims that are subsequently allowed;
- Lengthy enquiry letters that bear no correlation to the amount of tax at stake (making claims uneconomical in some cases).

Digital services

HMRC has said that the key to improvement is quicker and easier online services. HMRC wants to reduce the volume of contact through phone and post by 30% by 2025 compared with 2021/22. It is not clear how HMRC expects to achieve, in the short term, this level of channel shift.

HMRC regularly asserts that taxpayers and agents are not using the digital services that are available and that is causing 'unnecessary' demand on its helplines. HMRC has not demonstrated how it derives these statistics or provided a breakdown of the nature of the queries. Alongside the recorded messages played before joining a helpline queue, HMRC is now deflecting callers to online services using SMS messages. It seems unlikely that such a high proportion of callers would choose to wait in a long queue if they were able to self-serve online; it certainly won't be the case for agents.

HMRC has been promising plans to develop and improve the HMRC app and online accounts, but this work will take many years to deliver. It is not yet fully funded, may be derailed by other changes to the tax system and technological change; and it does not appear to offer a short-term solution. The constraints imposed by legacy systems and the huge task of moving taxpayer records on to new platforms are real, immediate, and extremely significant.

Meanwhile there are many gaps in basic online services, particularly for agents. HMRC does not offer secure email or document exchange – for a customer centric organisation it is extraordinary that HMRC has not developed and rolled out either of these services at the national level. Agents do not have access to online services to, for example, prompt changes to tax codes, to appeal penalties or to request the withdrawal of a self assessment tax return.

The most significant new digital service to be introduced in 2022/23 – the VAT registration service – was poorly implemented. It still does not offer the same functionality as the predecessor service. The service level for issuing new VAT numbers had to be extended to 40 working days. That is now mostly being met but for many months businesses experienced long delays and eight weeks is still too long. Without a VAT number, businesses wanting to start trading are put into a very difficult commercial position. Assuming that they do start to trade, the practical burdens of effectively going back and reworking the VAT and invoices are extremely challenging.

The experience of poorly implemented digital services – seen in previous years with the trust registration service and capital gains tax on UK residential property reporting service – has been repeated. This undermines trust in HMRC's ability to deliver improved service via digital channels.

HMRC has indicated its intention to reduce paper outputs in an attempt to achieve channel shift. HMRC consulted on an initial list in its [Discussion document: Simplifying and modernising HMRC's Income Tax services through the tax administration framework -](#)

[GOV.UK \(www.gov.uk\)](http://www.gov.uk). As indicated in ICAEW's response, [ICAEW rep 53/2023](#), there are significant risks associated with these changes that must be addressed before they are made.

The implementation and communication of the one change that has already been made – the decision to issue notices to file rather than paper self assessment returns – was very poor. HMRC intended not to publish the self assessment return forms on gov.uk until it was pointed out to HMRC that the forms effectively comprise part of the guidance. The decision to not publish the forms was then reversed.

The initial communications did not address many questions such as the impact on online filing exclusion cases that have to be filed on paper and whether HMRC would accept returns printed from commercial software. The separate self assessment forms orderline (0300 200 3610) was not even mentioned. HMRC intended to send paper forms to those aged 70 and over but made errors in its selection of cases.

Selection of feedback from ICAEW members

The following is a selection of the feedback received from ICAEW members in the few days following the announcement that the 10-minute waiting time target is being removed from the ADL.

- This is not acceptable. Before Covid we almost always got through in less than a minute and the HMRC staff were actually good enough to resolve matters that I couldn't resolve online. Now I have given up phoning and gone back to writing letters in the post. The current waiting times for those being answered is 3 to 6 months (example is a letter sent on the 22 March 2023, received a first reply about the 10 September). I'm not going to wait on hold for 10 minutes for some untrained assistant to tell me "I'll send that to the XYZ team and they will get it sorted" when I know that half the time it doesn't get sorted and a month later I've got the client on the phone complaining why it hasn't been sorted. I will carry on writing letters in the post, then I have an exact record to refer to, and evidence of the disgraceful level of service from HMRC.
- From my perspective – and I suspect many others – the ADL needs sufficient staff to provide what has been a good service. The proposed call waiting time information is merely a sticking plaster. Long waits add costs to clients, and this should be the primary focus. HMRC needs to understand that agent frustration with delays, and not knowing when an item of correspondence will be answered, leads to complaints which then require handling; an HMRC own goal.
- If only we had been receiving a "10-minute service level". That hasn't existed for a long, long time. My experience of average wait times on the ADL are 20-45 minutes. To be honest, I find this email insulting to our intelligence. It implies that HMRC have been operating to a 10-minute response time, when nothing could be further from the truth. So, HMRC claim "...we remain committed to providing the right level of support for agents...", and their method of doing so is to (a) give no commitment regarding how long they will take to answer calls (b) consider offering a webchat service. Oh dear! At 72 years of age, this is all making me think – if we are working in an environment where the bar is being set so low, do I want to continue? I thought it would be age that caught up with me, not a desperate service from HMRC.
- Is it time to throw in the towel? 10 minutes wait time target? Really? I would like to know how many times that was achieved. How does that equate to my 49 minutes? So I can expect to wait even longer, think I'll stop ringing and just write.

- The below made me chuckle. What 10-minute waiting time and how does removing something that doesn't exist make HMRC more efficient? The average waiting time currently is 30 minutes certainly for SA.

Conclusion

Taxpayers' and agents' trust and confidence in HMRC's customer services has reached a new low. To restore confidence, we want to see a thorough review with a plan to improve services and develop digital capabilities for the future. At the moment there appears to be no prospect of any improvement. Improvements are needed now: this is HMRC's and government's problem to solve. Communications should be honest about HMRC's reduced resources and its attempts to manage them rather than suggesting that improvements are being made. HMRC must avoid the current tone of apparently blaming taxpayers and agents for not using digital services which, in many cases, are not fit for purpose. Our members are at the forefront of the change to digital and are ready and willing to use systems that meet taxpayers' and agents' needs.

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