

Written evidence submitted by Unchecked UK

1. Unchecked UK makes the case for common sense regulations in the UK and for the necessary agencies and bodies to be properly resourced to enforce the rules and regulations.
2. Unchecked UK welcomes the Public Accounts Committee continued work on the work of HMRC and the tax gap in the UK.
3. Unchecked UK notes that while the Tax Gap did start to decline between 2015 and 2019, it grew slightly in 2020/2021 and currently stands at 5.3%
4. Unchecked would **highly recommend** that the Government should adopt, as policy, a tax gap target of no more than 2% and ensure that HMRC is resourced appropriately to undertake the relevant compliance and enforcement work to meet this objective.
5. HMRC's own estimates are that, in 2021, the tax gap in the UK stands at £35bn¹ but if HMRC were to take into consideration the complex multi-year tax planning arrangements adopted by multinational firms, this figure could be considerably larger.
6. The NAO, as part of their report on the UK Tax Gap, recommended that 'HMRC should invest more in their compliance activities' in order to maximise the amount of tax collected in the UK².
7. The NAO further reported that HMRC has lost 40% of their staff over the last 15 years and that the number of staff who undertake basic compliance work has fallen by one quarter since 2015³.
8. In May 2021, *The Times*, reported that HMRC services were struggling to cope with day-to-day activities with 'basic requests are taking six months to process' and that 'call waiting times [in February] were three times longer than a year ago.'⁴
9. According to HMRC's own accounts and annual reports, the estimated yield to the treasury from compliance work is likely to have fallen further in 2021⁵.
10. The NAO's own report highlights that on a per pound invested basis, HMRC is one of the most efficient parts of government, recovering on average £15 for every £1 invested⁶.

¹ <https://www.gov.uk/government/statistics/measuring-tax-gaps/measuring-tax-gaps-2021-edition-tax-gap-estimates-for-2019-to-2020>

² Ibid

³ Ibid

⁴ <https://www.thetimes.co.uk/article/hmrc-tax-office-in-turmoil-as-waiting-times-treble-qlqkfs5n>

⁵ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/932874/HMRC_

11. When applied to large businesses only, the return on the £1 investment returns £44⁷.
12. Of the £35bn of uncollected tax, around £6.1bn is from large businesses, which could be collected for an investment of £133m.
13. The NAO's previous report also stated, 'more staff could increase the rate of return'⁸ in unpaid tax but instead there has been a reduction in activity and staff resource in order for HMRC to 'live within the funding constraints'⁹.
14. Unchecked UK believe this is an entirely false economy in which short term departmental and organisational savings are being pursued at the expense of longer term and higher value rewards. By cutting HMRC and by HMRC reducing its work and activity in the areas of compliance and enforcement, the UK is forgoing tax and perpetuating further cuts to enforcement agencies and wider public spending.
15. Between 2016 and 2019 the number of audits and investigations conducted by HMRC fell by a third (from around 580,000 to 390,000).¹⁰
16. Better targeting and digitisation has meant that each action brings in, on average, more money than it did previously. However, the overall decline in the amount of compliance work taking place means that the cash coming in has 'not kept pace with general increases in tax revenue', according to the NAO.¹¹
17. Additionally, HMRC now has around 62,000 members of staff, down from a peak of 100,000 in 2006. In recent years, HMRC has continued to lose both experienced staff and younger staff with strong potential.
18. According to the Public and Commercial Services Union, the organisation lost staff with 17,000 years of collective experience in 2018 alone.
19. Between 2015-16 and 2019-20 HMRC reduced the number of staff doing routine compliance work by around 25%. Studies also show that visible compliance plays a key role in ensuring that tax payers play by the rules. Further contraction of HMRC's capacity could tip the UK into a situation where these incentives become less common therefore reducing overall deterrence.
20. The NAO has regularly warned HMRC and the Government that money is being lost due to limited resources, and has cautioned that continued reductions in staff risk damaging the current yield from compliance work.
21. HMRC has prioritised maintaining coverage of all taxpayer groups rather than focusing resources on groups offering the highest returns. This has reduced tax revenues. Further

⁶ <https://www.nao.org.uk/wp-content/uploads/2020/07/Tackling-the-tax-gap.pdf>

⁷ *ibid*

⁸ <https://www.nao.org.uk/wp-content/uploads/2020/07/Tackling-the-tax-gap.pdf>

⁹ *ibid*

¹⁰ *ibid*

¹¹ *ibid*

reductions in capacity are likely to result in less coverage of some high-risk taxpayer groups and areas of growing risk.

22. With a series of tax and wage rises on the horizon including National Insurance and Corporation Tax, the potential loss to the treasury increases as the overall amount of tax to be collected grows, so does the value of the tax gap if the rate of uncollected tax remains the same.
23. HMRC is also responsible for enforcing the National Minimum Wage under the guidance of the Department of Business, Energy and Industrial Strategy. This is, again, an area where enforcement activity by HMRC has reduced as a result of budget reductions.
24. HMRC's own report suggests that employers in the Administrative and Support Service Activities sector – which includes cleaning and low-paid auxiliary services – can expect to be inspected by the HMRC's National Minimum Wage enforcement team just once every 389 years¹².
25. In the hospitality sector, the rate of enforcement by HMRC means an inspection is likely every 200 years and in Construction, it once every 1,194¹³ years – rendering enforcement essentially void.
26. The Low Pay Commission's most recent report on non-compliance with the national minimum wage found that over 420,000 workers were reported as receiving less than the minimum wage, of which 360,000 were not receiving the higher national living wage.
27. In the last ten years, minimum wage investigations completed by HMRC have dropped by 9% with HMRC only successfully prosecuting 15 cases since 2017.¹⁴
28. Overall, despite an increase in the HMRC's budget for minimum wage enforcement, inspection rates remain small and the likelihood of an unannounced visit or inspection is practically nil.
29. Unchecked UK would request that the Public Accounts Committee consider these recommendations in their final report:
 - a. That the Government adopt a fixed 2% target for the UK's tax gap
 - b. That future investment into HMRC be ringfenced for the enforcement of both minimum wage payments and targeted audits of large businesses to maximise tax receipts to the UK.

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¹² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/705503/labour-market-enforcement-strategy-2018-2019-full-report.pdf

¹³ *ibid*

¹⁴ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/964238/nmw-e-c-report-tables-2019-2020.xlsx