

# Members' Briefing

## REVENUE & CUSTOMS GROUP

To: **All Members**

cc: **Branch Secretaries, Group Executive Committee, Equality Chairs, VOAC** (for info)

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Website: **YES**

Action to be taken: **For the attention of all members**

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### **HMRC SAVAGED IN PARLIAMENT**

- ***Influential Public Accounts Committee Reports Failings in HMRC***
  - ***£Billions of Tax Not Collected***
  - ***Major Concerns Over Customer Service Levels***
- ***PCS Recognises Criticism Down to Lack of Investment and Staffing***

On 11 January the Westminster Public Accounts Committee published its report on HMRC Performance in 2021-22. The conclusions were scathing and support PCS arguments that our work is chronically underfunded and understaffed.

There were seven main conclusions and recommendations:

- 1. HMRC has not yet returned to setting a formal compliance yield target, against which it can be meaningfully held accountable.**

HMRC has not set a formal target since 2020–21 because of the uncertainty caused by the pandemic, and instead has published expectations for its compliance yield that it uses to manage its performance rather than as an accountability mechanism. For 2022–23, HMRC is aiming to achieve a compliance yield of £36 billion. This yield may include compliance cases opened several years ago. High inflation provides a further challenge to HMRC being able to effectively measure and understand underlying changes in its performance. Increased revenues and yields due to inflation will make it easier for HMRC to achieve historic rates of compliance yield. HMRC will therefore need to establish what is a genuine change in performance from a change in underlying revenues.

*Recommendation: HMRC should return to a formal compliance yield target with HM Treasury from April 2023 and report the target publicly. In doing so, targets should take account of inflation and economic factors, for example by setting the target relative to tax revenue.*

**PCS says: Compliance targets require proper investment in staff in all roles across the department, Compliance yield and customer service is intrinsically linked and we cannot target the former without investing in the latter.**

## **2. Resourcing HMRC's compliance work to maintain rather than reduce the tax gap means the government is missing out on billions in lost revenue.**

HMRC estimates that the tax gap—the difference between the amount of tax that should, in theory be paid to HMRC, and what was actually paid—was £32 billion in 2020–21, or 5.1% of all tax liabilities, the same proportion as in 2019–20. This masks changes in the tax gap for each category of tax, with the tax gap for VAT decreasing while the tax gap for Corporation Tax, excise duties and income tax Self-Assessment increasing in 2020–21. HMRC bases its compliance performance and resourcing on maintaining the tax gap and stopping it from growing. However, there remains scope for reducing it; for every £1 that HMRC spends on compliance activities, it recovers £18 in additional tax revenue.

*Recommendations:* • HMRC should set out what level of investment in its compliance teams would be needed to reduce the size of the tax gap, and confirm what, if any, intention it has to pursue this. • HMRC should also calculate and report an uncertainty range for its headline tax gap estimate to provide more transparency to users of the estimate.

**PCS Says:** The report and HMRC massively underestimate the tax gap by using top-down calculation methods. Our work with the TUC since 2008 has consistently highlighted a real annual tax gap of over £100 billion. Only properly recruiting to replace the tens of thousands of staff we have lost since 2004 can close this gap.

## **3. HMRC's plan to only recover a quarter of losses due to fraud and error on its COVID-support schemes does not go far enough.**

HMRC estimates that total error and fraud across the lifetime of the COVID-support schemes is £4.5 billion, representing 4.6% of the £96.9 billion total support provided. This is lower than HMRC's previous estimate, though the actual level of fraud and error remains very uncertain. HMRC has drawn together a wider set of data to improve its estimate, but HMRC performance in 2021–22 this is limited by the shortage of data that HMRC collected on taxpayers' working patterns at the time the schemes were running. HMRC has been given £100 million to fund a temporary taskforce to investigate fraud and error on the schemes and has opened about 40,000 investigations so far. However, of the £4.5 billion in fraud and error losses, HMRC forecasts by the time the taskforce closes it will have recovered only around £1.1 billion, with the rate of return for the funding expected to be less than if invested in tax compliance.

*Recommendation:* In determining what further recovery action to take on fraud and error on the COVID-19 support schemes, HMRC should: • keep under review the return on investment of spending more resources on recovery; and • set out how it will ensure it maintains a level playing field for individuals and businesses that did not abuse the schemes, rather than being seen to reward those that were dishonest.

**PCS Says:** Our members worked tirelessly to support the public through the height of the pandemic, delivering hastily-conceived schemes to support furloughed workers, their employers and the self-employed. Tackling the fraud and error resulting from the schemes requires those in power to direct and increase resources with the same commitment and urgency as our members showed in delivering the urgent payments.

## **4. We are concerned that HMRC may be lagging behind other established tax authorities in preventing fraudulent VAT registrations.**

HMRC is constantly changing its processes to prevent criminals from exploiting the tax system. VAT is particularly susceptible to fraud and criminality as it can involve HMRC repaying large amounts to taxpayers. We raised concerns about a case where a criminal used a legitimate

company's details to apply for a VAT registration number and make fraudulent VAT repayment claims. We understand that the criminal was successful in the UK, but that safeguards adopted by the German tax authorities appeared more effective at identifying similar fraudulent activities at an earlier stage.

*Recommendation: HMRC should engage with its international counterparts to understand what lessons it can learn in preventing fraudulent VAT registrations and minimising the impact on honest taxpayers.*

**PCS Says: HMRC should aspire to being world-leaders in eliminating VAT and all other types of tax fraud. This requires meaningful and sustained investment in increased staffing levels – and a commitment to increased levels of pay to make HMRC an attractive, long-term employer.**

## **5. Taxpayers and their agents are still not receiving an acceptable level of customer service.**

In the last five years, HMRC has reduced its customer service staff numbers from 25,500 to 19,500. During the pandemic, HMRC's performance in replying to post or handling calls fell significantly, partly because it did not have sufficient customer service staff to manage the pressures that the pandemic brought. We were surprised to learn that at times in the past, HMRC has simply closed its telephone line when it could not cope with demand. It is not acceptable not to answer calls from people who are trying to pay the government money. HMRC's plan for improving customer service is to continue digitalising the tax system, moving people away from phone and post onto online systems.

*Recommendation: HMRC should write to the Committee setting out its plan to improve customer service to adequate levels as quickly as possible, and within three months, including: • the metrics HMRC will use to monitor its customer service performance, including metrics it needs to demonstrate it can answer calls and deal with post in a timely manner; • the level of customer service taxpayers and their agents can expect to receive over the next three years against each of these performance metrics; • how it will support customers who are unable to engage digitally or have a preference for post or telephone contact; and • its contingency arrangements if its plans to reduce demand for traditional channels are unsuccessful or take longer to implement.*

**PCS says: The Government should provide immediate funding to not only replace the 6000 Customer Service staff lost in the last 5 years, but the tens of thousands lost since 2004 when HMRC was formed. The two predecessor departments, Customs and Excise and Inland Revenue, employed over 100 000 staff between them – approximately over 40 000 more than the current HMRC.**

## **6. HMRC has further to go until it can differentiate between taxpayers who are genuinely struggling, and those who can afford to meet their liabilities but are choosing not to.**

Total tax debt in August 2022 was £46 billion, less than at the height of the pandemic in March 2021, but significantly higher than before the pandemic. HMRC's data suggest that the tax debt has started to increase again as the economy slows down and taxpayers feel the effects of the cost-of-living crisis. HMRC has previously taken a standardised approach to debtors, but is now trying to vary its approach depending on whether a debtor is in genuine financial distress. This segmentation requires good data on the behaviour of its debtors, as well as sufficient capacity to take a tailored approach. HMRC's ability to understand debtors' circumstances will be limited until

*Recommendation: HMRC should set out how it will strike the right balance between providing support to taxpayers who need it, whilst ensuring that those able to meet their liabilities are doing so. HMRC should also set out when its single customer account will be ready and consider how it can bring the implementation of it forward.*

**PCS Says:** Our members have a proud history of not only helping taxpayers pay what they owe but also help them receive what they are due, in tax repayments, tax credits, child benefit etc. We welcome attempts to join up not only taxpayers' records but HMRC as a department. Successive governments have overseen the creation of multiple quasi-autonomous business stream silos inside HMRC, to the detriment of the department as a whole.

7. Research and development tax reliefs are costly, prone to abuse and provide questionable benefit to the UK economy.

The government has a target of 2.4% of GDP to be invested in research and development. In 2021–22, HMRC spent £9.5 billion on research and development reliefs, with expenditure having continued to grow year-on-year. Based on HMRC's latest estimates, abuse of the reliefs cost the taxpayer £469 million in 2021–22, though work to establish the true scale of the problem remains ongoing.

*Recommendation: HMRC should develop its analysis of the additional research and development expenditure its relief schemes result in, to consider what impact that expenditure has on the UK economy. HMRC should report to the Committee on its findings within 12 months.*

**PCS Says:** R&D tax 'relief' is but only one small part of tapestry of tax loopholes that the UK has created over many decades to enable the rich and the powerful to minimise their tax. If the Government is serious about closing the tax gap it should close all of these loopholes and properly invest in additional staff in HMRC.

## **PCS Demands**

PCS has been arguing for many years that the issue of tax avoidance and evasion needs serious attention by Government. The PAC report again highlights the scale of the problem.

With a tax gap – that PCS estimates at over £100 billion - made up of avoided, evaded and uncollected tax demonstrating the tax justice crisis the government faces, it is staggering that HMRC staff numbers have been cut by 40, 000 since 2004 resulting in the loss of thousands of experienced tax inspectors across the country.

One practical step the government could take is to immediately reverse the HMRC job cuts.

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