A review of HMRC's strategy: a time for reflection

General Features



21 June 2022

What can we do to strengthen our tax system? Perhaps the answer is to do less, but to do it better. We consider the role that improvements in training, customer services and technology could bring to HMRC strategy.

In 1786, Robert Burns wrote about the need ‘to see ourselves as others see us’. If only we could all do the same, we might not act hastily and instead might make better decisions!

Leadership coaching typically places considerable emphasis upon gaining or developing greater self-awareness. This surely applies at corporate and institutional levels. We have seen numerous examples of individuals and businesses falling foul of criticism from customers, clients, government and the general public – including, in recent months, P&O and the power supply companies. In tax, criticism is no longer confined to Amazon and Google. The Chancellor and Health Secretary have both recently found themselves falling foul of the public’s dislike of tax

planning, in both cases over the rules applying to domicile. Arguably, it should have been anticipated that these issues would become matters of public concern.

Burns plainly did not have HMRC in mind in 1786, although he was at one point in his short life a ‘taxman’ so who knows? Had he been around today he might have had a lot to say about HMRC. Criticism of HMRC (constructive or otherwise) can seem more extensive than ever. Much of this appears on social media, so inevitably some filtering is required. Meanwhile, in the tax community we must temper what we say to HMRC to avoid relationships breaking down – which would not help anyone. So what would a leadership coach suggest to HMRC? And would it listen?

Focusing resources

Customer service and HMRC’s compliance initiatives are the most common cause of complaints – in recent years, most obviously due to the loan charge and the high-income child benefit tax charge.

It is important, though, to ensure that any criticism is directed at the right place. I have no doubt that some of the tensions result from government policy decisions, which HMRC has then been left to implement. I am sure that HMRC could live without the high-income child benefit charge, which has dragged more and more individuals into the self-assessment system. In January 2022, HMRC put that number at 150,000.

Some of the lobby groups are also very vocal. The Tax Justice Network and others regularly call for HMRC to conduct more prosecutions, and for promoters of tax schemes to be subject to much more stringent sanctions. HMRC decisions on specific cases can also attract attention – most recently, the settlement recently agreed with General Electric. The Tax Justice Network’s attempt to judicially review HMRC’s decision was refused. For what it’s worth, I think HMRC was right to settle and most likely it should not have pursued the matter in the first place.

Ministers have previously challenged HMRC to make better use of its existing resources. It has over 70,000 staff but only a relatively small number are deployed on front line duties. If more resources were given to HMRC, what would be the expected outcome?

In my experience, where HMRC’s resources are limited, this results in less being done – not necessarily different things being done or the same things done in a more

efficient way (which brings into question the government's current goal of streamlining the civil service). Assuming that there is no change in HMRC's strategy, the inevitable outcome would be more of the same.

But it is not obvious to me that any increased resources would be deployed where they are most needed to ensure that 'ordinary taxpayers' get the service they are entitled to. And without a change in strategy, the 100,000 open enquiries could as much as double, bringing the tribunal system – already feeling the strain with tens of thousands of appeals on its hands – under even greater pressure.

However, when judging HMRC's customer service levels, it is essential to remain in the real world. There was obviously a time in the past when customer service was better but it would be unfair to HMRC to suggest that there was a Golden Age once enjoyed by a typical taxpayer.

For example, the office I started in during the 1970s was subject to repeated criticism by the Scottish Press for error and delay. Back then, it weighed the mail, rather than counting it. And when a physical count was required, its various questionable practices resulted in low 'taxpayer post on hand' numbers being reported – despite the vast quantities of unanswered post everywhere to be seen!

In the 1980s, things got so bad that the Inland Revenue introduced a national scheme, 'Dealing with Post', which resulted in inspectors sometimes spending more time counting post than dealing with it, while a ludicrous traffic light system prioritised tasks by age rather than importance.

Since 2005, no doubt partly in response to public pressure, HMRC seems to have moved so many staff into anti-avoidance that, far from delays in answering the phone, it's a wonder anyone is available to answer the phone at all! Some of the wait times that tax advisers report are dreadful. I gave up on HMRC helplines years ago and, in truth, they are effective for only the most routine of queries, which we should really be able to resolve without HMRC intervention.

So, if giving HMRC extra resources would not improve customer service and compliance, what would?

A solution!

I have come up with a solution. Do less, but do what you do much better. It is a revolutionary thought!

When David Varney was appointed as HMRC's first Chief Executive, he started out determined to improve performance across the board. Strict targets were mooted but, very quickly, after some tetchy exchanges with the Public Accounts Committee, tackling tax avoidance became the main priority. It has since taken on even greater importance to HMRC.

In my view, it is convenient for HMRC to assume that avoidance activity levels remain very high but are they really anywhere near the levels seen 20 or even 10 years ago? More importantly, does tax avoidance justify the huge resource commitment (and new legislation) that HMRC currently gives to tackling that which remains, much of which is historic?

Look at almost any tribunal or court decision in recent years and you will find an issue that dates back years. As I see it, there are some key areas where HMRC could bring about significant improvement: better training of staff at all levels; better and greater use of technology; and a wholescale rethink of HMRC strategy, in particular the litigation strategy.

Training: learning to challenge

Take training. Tax is hard. HMRC says that 'tax does not need to be taxing' but the fact is that for millions it is. Too often, it's hard because HMRC makes it hard. I fully accept that I am no longer expert in the training that HMRC staff receive but I am very familiar with how HMRC officers operate. With few exceptions, the HMRC officers I have had contact with over the past several years have been determined, bright and at times pragmatic. Too many, however, appear constrained by a 'central bunker' approach from which they dare not deviate.

I would argue that you learn more from your mistakes and it is that determination to do better which develops highly effective practice and future leaders. I could list almost every major mistake I have ever made, and it would be a very long list. But too often, I have faced HMRC officers pursuing impossible points or pointless issues, where the law and sometimes their own guidance is against them, or any additional tax to be gained is low. And yet they can issue long lists of demands, over periods stretching for months or even years, with at times no regard for the expense to the

taxpayer. The easy decision for HMRC is to keep a case open, rather than accept that it should be closed.

The litigation strategy pops up everywhere and it is clearly influencing HMRC's approach, so that needs to be reformed. There is nothing wrong with the strategy, but everything wrong with how widely it applies. HMRC must take a different approach to lower value issues. HMRC persisted with *Charlton*, *Tooth* and *Smith & Williamson* despite it being clear that failure was inevitable. And most of these cannot be justified on the grounds that they somehow bring clarity or improvement to the tax system.

Better training is not just about attending courses. It is even more important that a collegiate environment exists, where HMRC officers can challenge and be challenged by peers about their case selection and case strategy. You cannot do that when how you pursue an issue is wholly dictated to you from above. I would bet that easing the litigation and settlement strategy would result in thousands of open cases being closed, as well as a substantial amount of additional revenue. I would also bet that it would not have the slightest detrimental impact on the integrity of the tax system.

Customer services: better communication

On customer service, HMRC must evaluate the customer channels that are effective and discontinue those that are not. It seems clear that telephoning HMRC is just a cause of heartburn for many. If HMRC cannot provide an effective and efficient call system, it should discontinue general telephone contact completely and instead explore the expansion of online communication channels.

HMRC should do more to identify the issues that cause problems for its customers. With enquiries, it should provide clear contact information (both telephone and email) at the outset so that communication difficulties do not get in the way of progressing an enquiry. More importantly, unless necessary (and rarely will it be), HMRC should be upfront as to why an enquiry is being made. I have never understood this lack of transparency, when greater openness often leads to better compliance outcomes.

Technology: the extent of change

Then there is technology. The pace of change when it comes to tax seems glacial. Recently, I received a letter from a company that had carried out some maintenance on my house. It apologised for having to ask me for email and so on but said that ‘HMRC was forcing it to go digital’. But this business should have gone digital years ago, and HMRC should have been in better shape to have ensured that it did.

Technology holds such promise to completely transform every aspect of our tax system. Given the rate of technological advance, the full extent of that change is not yet evident. But we seem to have been talking about making tax digital for ever, while many self-employed individuals and landlords are still not yet ready for the transition.

And yet…

And yet, recently I had to contact HMRC about an old client matter I thought had been settled years ago, which had involved many of the failings I have touched on here. Despite numerous appeals, an alternative dispute resolution process and a contract settlement, it seems that it had not been settled and HMRC once again started demanding penalties.

The HMRC officer (Mark) who took responsibility for it acted in a way that was frankly amazing. He listened, clarified the issues, discharged the incorrect penalties, issued a refund, and kept me informed of what he was doing throughout. Perhaps HMRC has, post-pandemic, turned a corner, and this approach may be seen more often. Indeed, perhaps HMRC has been reading Robert Burns!