HMRC Annual Report and Accounts 2021-22

General Features **Large Corporate** **Management of taxes**

21 September 2022

The CIOT has responded to the Public Accounts Committee's call for evidence on HMRC's work.

Each year, the House of Commons Public Accounts Committee (PAC) holds a short inquiry into HMRC's Annual Report and Accounts (tinyurl.com/HMRC22), consisting of a call for evidence from interested bodies, followed by a single hearing with senior HMRC officials and resulting in a short report containing recommendations to which HMRC must respond.

The PAC works closely with the National Audit Office and the starting point for the inquiry is the Report by the Comptroller and Auditor General (C&AG) on HMRC's accounts (published as part of the HMRC annual report). This year the C&AG qualified his audit opinion on HMRC's accounts because of 'material levels of error and fraud in the Covid-19 support schemes, personal tax credits expenditure and corporation tax research and development reliefs', so these are the focus of the PAC's inquiry. However, evidence can also cover other issues relating to how HMRC is managing tax reliefs and revenue collection. CIOT took a broad approach in its response, covering HMRC's customer service performance among other issues, in a wide-ranging 16 page submission.

On Covid support schemes, CIOT focused on Coronavirus Job Retention Scheme (CJRS) errors. Given the complexity of the CJRS, the speed of its introduction and frequent changes to its rules, the level of errors is not a surprise, we said, adding that it was particularly hard for smaller employers to obtain reassurance from HMRC that they were claiming correctly. We regretted that the Treasury Directions given to HMRC provided no discretion for the tax authority to exercise its care and management powers, particularly for cases where employers were acting in good

faith and in pursuance of the stated objectives of the CJRS.

On personal tax credits error and fraud, we drew attention to LITRG's long-running concerns about the accuracy of statistics in this area. We also expressed concern about the process for transferring tax credit debt from HMRC to DWP. As managed migration starts in earnest, it is important that HMRC and DWP work together to ensure their guidance and communications are robust to help people understand what is happening and their options.

CIOT told the committee that we share the National Audit Office's concern over abuse in R&D credit reliefs and are supportive of government efforts to crack down on it. However, we are concerned that some of the measures being proposed will prevent genuine claimants from accessing the relief to which they are entitled, while not necessarily leading to a significant reduction in abuse. We suggested other ways forward which could be more effective in tackling abuse. We expressed concern that HMRC is interpreting some rules around eligibility for R&D credits in an arbitrary way which is creating uncertainty and may be harming the relief's effectiveness.

More broadly on the management of tax reliefs, we praised improvements in how HMRC reports on tax reliefs, but said that the way information is presented makes it difficult to analyse. Additionally, too many reliefs remain uncosted. When a relief is introduced, there should be a mechanism to obtain sufficient data to monitor its cost. The government should take a more systematic approach to the evaluation of reliefs.

On revenue collection and tax debt, we focused on time to pay arrangements (TTPAs), noting that their use still seems low. We told the PAC that our members have told us that it seems quite difficult to get a TTPA now unless you apply via the online route. We also expressed concern about a lack of consistency in decision-making following a TTPA request.

The C&AG's report pays close attention to the tax gap and CIOT provided our own analysis and recommendations in our submission. We noted that more than £9 billion of the tax gap relates to taxpayers not getting things right through error or carelessness and suggested that this is indicative of the complexity of the tax system. We argued for a stronger focus from ministers on tax simplification. On the question of whether HMRC's expectation that Making Tax Digital would reduce the

amount of tax lost to avoidable errors has been realised, although we are two years in we feel that the data remains inconclusive.

Noting that progress on tackling evasion and criminal attacks on the tax system seems to have stalled, we suggested that HMRC should focus on data analytics to make best use of the large amount of data they now have access to. We concluded that we will probably have to wait a number of years for the full impact of the pandemic to become clear, as we find out how much of the tax deferred in 2020-21 will ultimately go unpaid due to business failure. We welcomed HMRC's intention to publish a new standalone offshore tax gap estimate.

We are taking every opportunity to make our concerns about HMRC's customer service performance clear (see, for example, tinyurl.com/yvzy8m5c). In our submission, we explained the difficulties that both advisers and taxpayers face in getting timely responses and action from HMRC. We expressed concern that staff numbers within HMRC are being cut in anticipation of securing savings from digitalisation when these savings have not yet been realised. We told the MPs that HMRC's performance standards need to be improved if the tax authority is to play its essential role in supporting taxpayers and businesses.

Finally, on repayments to taxpayers, we welcomed HMRC's acknowledgement that there is a serious problem around unacceptable practices by some repayment agents, and the holding of a consultation over the summer. However, we expressed concern that any action could take time to materialise. We urged HMRC to consider what more they can do to protect people in the short-term.

The PAC's hearing with HMRC took place on 12 September and a report can be read on the CIOT website blog. The CIOT submission is not expected to be published until the committee publishes its report later this autumn.

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