Tax credit compliance processes: Work and Pensions Committee backs LITRG's calls for independent review

General Features **Management of taxes**

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An update on HMRC's contract with Concentrix, a private company used to carry out tax credit compliance investigations.

In November's Technical Newsdesk (*Tax credit compliance checks*) we provided an update on tax credits compliance work following HMRC's announcement that they would not be renewing their contract with Concentrix when it expired in 2017. HMRC used Concentrix, a private third party company, to carry out tax credit compliance checks on their behalf. Many of these checks were done during the renewals period (between April and July 2016) and towards the end of the Summer there was a significant drop in service standards such that tax credit claimants faced significant delays and other difficulties getting through to Concentrix.

In mid-November, HMRC announced that they were terminating the Concentrix contract with immediate effect and following that announcement the Work and Pensions Committee, Treasury Committee, Public Accounts Committee and National Audit Office all said they would be investigating the Concentrix contract.

LITRG submitted a briefing to the Works and Pensions Committee and Treasury Committee which repeated our recommendation that HMRC commission an independent review of the end to end tax credit compliance processes before any further large scale exercises were carried out.

Many of the problems were faced by claimants subject to 'undisclosed partner' checks where a single claim had been made but HMRC believed the claimant was in a relationship with a suspected third party and therefore should have made a couple claim. Although Concentrix carried out many of these checks, they followed the

same processes as HMRC staff who were carrying out similar checks. In our experience the data that is used to identify single claimants suspected of living with a third party is not always robust; the evidence that HMRC ask for in many cases would neither prove nor disprove whether the claimant is part of a couple and we have seen many examples of poor quality decision making where weight is placed on evidence obtained by HMRC (such as credit reference data or real time earnings data) in preference to information from the claimant and with a seeming disregard for other factors that the law says form part of the ‘couple’ test.

The problems with the tax credit compliance processes are compounded by the lack of education and guidance for claimants to help them understand what the term ‘couple’ means for tax credit purposes. Whereas the old HMRC website had some useful examples of when to claim as part of a couple, the current GOV.UK website contains only basic information.
In late November, Andrew Tyrie MP (Chairman of the Treasury Committee) wrote to HMRC’s Chief Executive urging him to conduct a wide-ranging internal inquiry into what went wrong. At the same time he noted that HMRC will remain responsible for the administration of tax credits for at least another five years and therefore will need to find other ways of reducing both fraud and error which do not involve the tactics used by Concentrix.

In December, the Work and Pensions Committee published a report which was highly critical of the customer service failings by HMRC and Concentrix and the poor handling of the contract by HMRC, but also highlighted a number of other flaws in the compliance processes that left claimants facing a ‘decision making system stacked against them’. The report heavily quoted LITRG’s briefing and supported our recent recommendation for an independent review of tax credit compliance processes. The Committee concluded that a ‘cut first, think later’ attitude caused claimants to fall into hardship and debt and a ‘guilty until proven innocent’ approach left 90% of initial appeals upheld. The Committee also urged HMRC to review all summer 2016 Concentrix decisions not already appealed and LITRG have since recommended that be extended to include all HMRC compliance decisions over the same period.

Although Concentrix will no longer be carrying out investigations on behalf of HMRC, many of the flaws in the system were caused by the design and operational issues of HMRC’s own processes and unless these are addressed then any further compliance activity on a large scale is likely to be fraught with the same problems.

The briefing on tax credit compliance processes can be found on the LITRG website.

The full report of the Work and Pensions Committee on the Concentrix contract can be found on the Parliamentary website.