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Management of tax reliefs: Parliamentary Committee Inquiry

30 July 2020

The CIOT submitted comments in relation to the Public Accounts Committee's inquiry into the management of tax reliefs.

On 27 May 2020, the Public Accounts Committee (PAC) opened an inquiry into the UK's management of 'tax expenditures': tax reliefs which are granted on certain activities or goods.

There are two broad categories of tax reliefs:

- structural tax reliefs that are integral parts of the tax system (like the basic rate of income tax relief); and
- non-structural tax reliefs or 'tax expenditures', where the government opts not to collect a portion of tax for social or economic objectives (such as tax credits for companies' research and development costs, or income tax relief on pension contributions).

The UK tax system has over 300 of this kind of tax relief, which cost the government an estimated £155 billion of foregone tax revenues in 2018/19. Our largest tax expenditures are the reliefs on pension contributions, not charging VAT on food and new dwellings, and not charging capital gains tax on people's main home.

However, National Audit Office (NAO) evaluations have shown that the impact of applying different tax reliefs is not guaranteed, and many require careful monitoring to ensure the tax expenditure – that is, the tax revenue given up – is 'money well spent'. In a report published in February this year, the NAO repeated previous concerns about the effectiveness of HMT's and HMRC's management of tax expenditures (see https://tinyurl.com/qspxerm).

It found that there is no formal framework governing the administration or oversight of tax expenditures, and that while HMT and HMRC have begun welcome steps to increase their oversight of tax expenditures and more actively consider their value for money, these will not be sufficient on their own to address value-for-money concerns. As noted in the report, the CIOT held a day-long informational workshop with the NAO, in which we discussed issues related to each of their case study tax expenditures.

Our comments

The CIOT was one of only six respondents that provided written evidence, and our evidence was relatively brief.

In our submission, we endorsed the NAO's conclusion that more needs to be done to monitor the use and impact of tax reliefs. There is no formal framework governing the administration or oversight of tax expenditures. The closest framework which requires such monitoring is the Tax Consultation Framework, to which the government has re-committed. However, the final stage of the framework, reviewing and evaluating the change, seems to be rarely undertaken.

We agreed that whilst HMT and HMRC have begun steps to increase their oversight of tax expenditures and more actively consider their value for money, these will not be sufficient on their own to address value for money concerns.

Governance of tax reliefs in the UK is not systematic or proportionate to their value or the risks they carry. There is a mismatch between the significant effort in government (and to an extent Parliament) that rightly goes into new tax measures – albeit that the first three stages of the tax consultation framework (which relate to that stage of the process) are themselves rarely fully and satisfactorily respected – and the almost total lack of attention, at least so far as is visible to the outside world, as to how effective those measures prove over time. This is particularly pertinent to tax expenditures. More systematic post-implementation reviews should be undertaken, either by HMRC or independently of government, and then form the basis of scrutiny in Parliament.

Where a detailed review is likely to be hindered by a lack of availability of accurate data, consideration should be given (either in relation to existing reliefs, or in the development of new reliefs) as to how reliable data can be captured in the most effective manner.

Other activity

On 10 June, the PAC held an oral evidence session with representatives from HMRC and HMT.

During debate of the Finance Bill, Financial Secretary to the Treasury Jesse Norman MP stated: 'HMRC will continue to monitor and evaluate reliefs and will bring forward a pipeline of further evaluations in due course. It will also consider a proposal … [for] a more systematic evaluation programme for reliefs.'

The PAC is now in the process of drafting the report for the inquiry.

The CIOT's submission can be found at www.tax.org.uk/ ref684 and details of the PAC inquiry at https://tinyurl.com/ ybcld3lf.
