



The Association of Revenue and Customs (ARC) is both an independent trade union and the HMRC section of the FDA, the trade union for senior managers and professionals in public service.

- ARC represents around 2400 members in HMRC, at grade 7 and above, as well as trainees in grade 7 entry schemes.
- Our members are senior officials, lawyers and tax professionals, collectively taking responsibility for the collection of UK taxes, and tackling tax evasion and avoidance, at the highest and most complex level.
- We articulate the views of the professional staff working in HMRC to collect taxes from individuals and businesses operating in the UK.
- We are partners with HMRC in Consultation and Negotiation. HMRC also recognises ARC as a stakeholder on professional matters within HMRC.
- ARC is firmly committed to the principles of equality and diversity in both employment and the delivery of services.

ARC is pleased to submit its views on the APPG Inquiry into public confidence in HMRC's capability to collect tax fairly and effectively.

GENERAL

Q1: What levels of trust do the public have in the capability of HMRC to collect tax in an effective way.

a) preserves and encourages fairness and equity?

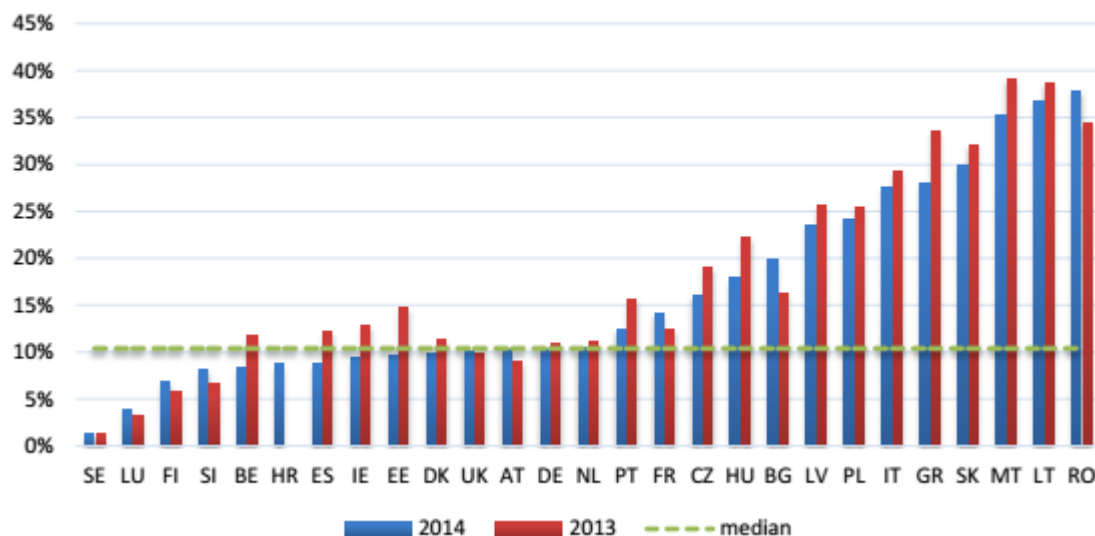
b) is an efficient use of resources?

c) provides a first rate customer service?

1. We think there is a perception set out in the preamble to the questions and some assumptions, for which the evidence is mixed. It is assumed that poor customer service impinges on public trust in HMRC's ability to collect tax fairly and effectively. Equally axiomatic is that HMRC's success or otherwise in publicising its work on combatting tax evasion and avoidance directly contributes to trust in HMRC.
2. Clearly, public trust is a vital part of the administration of the UK tax system. But there is a large amount of empirical evidence on how people behave and feel that offers a more complex picture of trust in HMRC and faith in its performance. So we will focus more on that evidence than on other areas as it seems to be under-reported.
3. We will say more under Q5 but the UK has one of, if not the lowest, reported Tax Gaps in the world (HMRC says the tax gap is 34% in Italy, 23% in Mexico and 16.3% in the USA.) Using EU data on hidden economy or VAT also gives some comparisons. This strongly suggests that people in the UK normally behave honestly and that HMRC collects the overwhelming amount of taxes due.

https://ec.europa.eu/taxation_customs/sites/taxation/files/2016-09_vat-gap-report_final.pdf

Figure 2.1. VAT Gap as a percent of the VTTL in EU-27 Member States, 2014 and 2013

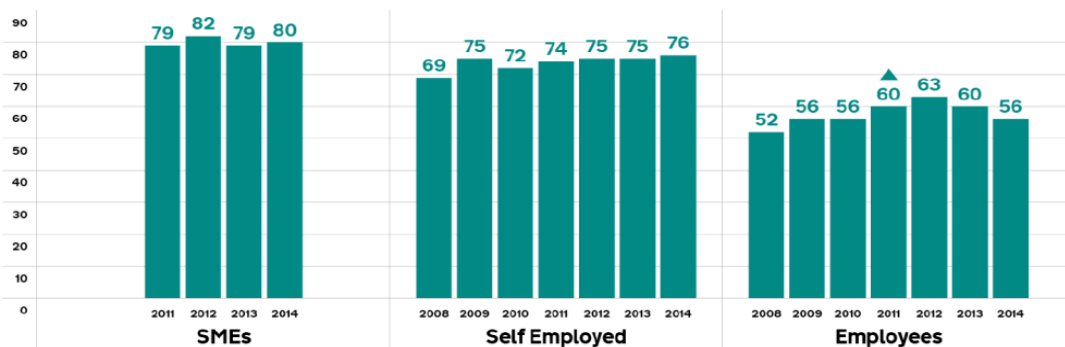


4. There are clear differences of view on the Tax Gap and its composition. HMRC told the PAC that “Our tax gap is a complete measure of non-compliance with current tax law. It does not include a measure of how much additional tax might be collected if you changed the policy.” (HC 666 of 2013-14 para 3 (fn 7), Ev25, Ev27)
And an Australian study points out:
“While perhaps the current benchmark approach for tax gap analysis, the HMRC’s tax gap has been heavily criticised by various interest groups (eg Murphy 2014) that hold other views as to what should be in the tax gap, such as tax avoidance which the tax administration considers legal (for example tax base erosion practices that legally exploit policy weaknesses, such as the definition of a permanent establishment giving a State a taxing right). This highlights important differences of views (value judgements) that exist in constructing an estimate of how much tax should (or could) be paid but isn’t. While views differ, with a degree of linguistic/definitional ambiguity or uncertainty about the tax gap, most comparator countries’ (US, UK, Denmark) tax gaps are calculated in a manner that excludes any estimate of ‘legal’ tax avoidance or tax minimisation.”
(<http://www.austlii.edu.au/au/journals/eJLTaxR/2015/22.pdf>)
5. The picture is as mixed when it comes to customer service. Certainly amongst key stakeholders the issues of customer service feature in their assessment of HMRC’s performance.
“Stakeholders are sympathetic to the climate in which HMRC is operating and a “good performance given limited resources” is the primary reason cited by stakeholders who say that HMRC performs well as the UK’s tax authority. However, while HMRC is seen to perform well on this overall measure, for all stakeholder groups revenue collection is just one requirement. For stakeholders, successful revenue collection without the provision of adequate customer service, support and advice does not equate to “success”, and many stakeholders see these elements as equally important to HMRC’s remit as revenue collection.
Poor customer service - including telephone response times - is the primary reason given by stakeholders who say that HMRC performs poorly as the UK’s tax authority. Overall, the quality of HMRC’s customer service is stakeholders’ primary concern and the issue most likely to arise unprompted in the qualitative interviews.”
(<https://www.gov.uk/government/publications/hmrc-stakeholder-engagement-research-2015>)
6. However, HMRC undertakes research into the views of a wide range of customers and stakeholders. Such surveys give a wider view of what taxpayers, agents and businesses think about a range of issues. These do not seem to be well publicised but they offer an alternative to the narrative of a beleaguered and unpopular HMRC, facing public anger on customer service and compliance issues. Some of the findings suggest a public that has doubts, or even deep rooted concerns about certain aspects of HMRC. But overall the views of wider taxpayers seem somewhat different from those of key stakeholders. We wonder if this is

in part down to the ‘John Peel fallacy’. He once asked why a certain album was not topping the charts as everyone he knew had a copy. The reply was that he knew everyone who owned a copy.

7. The sustained scrutiny HMRC has received may not be reflecting the views of a wider public. As one survey noted

Figure 1: Percentage of respondents who agreed with the statement “HMRC treats me fairly in my dealings with them.”



8. Clearly a public service should be able to offer high standards of customer service. But at the same time political decisions were made to reduce HMRC running costs which, to all intents and purposes, meant staff reductions. (We will say more on this under Q9.) ARC has warned of the dangers of cutting too fast and too much and the PCS was always very clear in its warnings about the impact on customer facing services, such as Contact Centres or Enquiry Offices. HMRC itself accepted it had gone too quickly and recruited extra staff to cover the service gap.
9. It is of course still not clear if the changes have produced a long term improvement, and there is the recent collapse in the part of the business dealing with some aspects of Tax Credit compliance. Jon Thompson told a Parliamentary Committee “Concentrix’s inability to handle the calls it was receiving in an appropriate timescale had been completely unacceptable and was the root of the decision not to renew the firm’s contract.”
<https://www.civilserviceworld.com/articles/news/hmrc%E2%80%99s-jon-thompson-concentrix-debacle-calls-private-sector-incentive-payments>
10. But, looked at across SR2010 and beyond, the reductions in overall numbers have been achieved without a decline in compliance yield (quite the opposite) and HMRC has been rebalanced in favour of compliance activity.
11. HMRC already claims it will be offering a world class customer service and has invested in new staff and telephony. (It is a sign of low engagement that one internal response to this was accuse HMRC of preparing to privatise customer services.) It has made similar claims before that have not come to fruition so we will suspend judgement on this. But it seems axiomatic that if the Government does not want to fund higher levels of investment in staffing then customers may receive a poorer service. The real issue here is the drive for austerity and failing to

protect HMRC from the cuts (despite reinvestment). ARC has consistently called for greater investment in order to maximise performance.

12. We should remember that HMRC does not set its own budget, but operates within ones set by the Government. (Lin Homer once wrote that lying down in front of the steamroller of a pay freeze would achieve nothing for staff.) And, as Jon Thomson said above, savings are what the Government wanted:

“while the venture had clearly not been successful from a customer service perspective, it had achieved the kind of results it was set up to provide.”

“They failed on the dimension of ‘did we put customers at the heart of this service in this period?’”

“If you were the Chancellor of the Exchequer and you put in £27m and saved £270m, on that dimension you might regard this as having been rather a successful investment of £27m.”

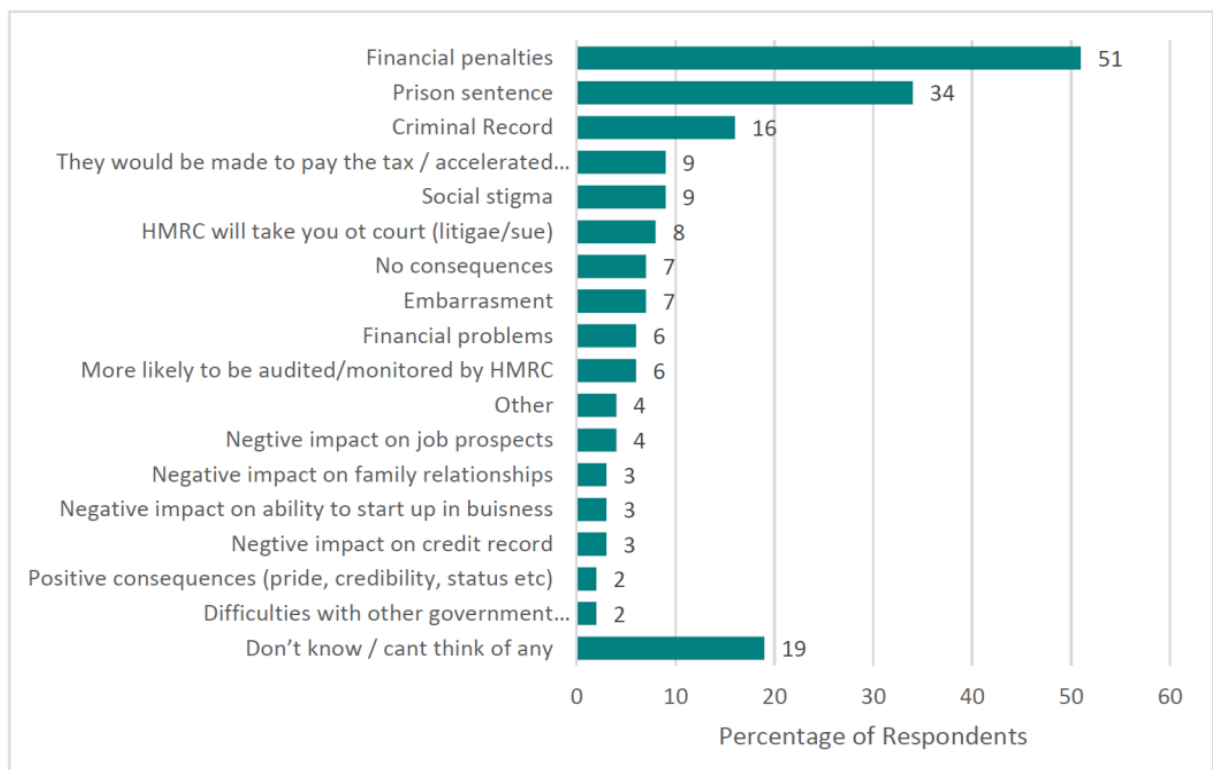
Thompson said lessons to be learned from the debacle had to include a consideration of how to incentivise the private sector to deliver results without damaging customer service.”

<https://www.civilserviceworld.com/articles/news/hmrc%E2%80%99s-jon-thompson-concentrix-debacle-calls-private-sector-incentive-payments>)

Q2. What can be done to improve the levels of public confidence in HMRC’s capability?

13. A starting point might be to not overstate the problems HMRC faces and present its work as inherently flawed. As noted above, voluntary compliance is a key to successful tax administration and erosion of that could increase the Tax Gap. As Catherine Mckinell warned at one of our Parliamentary events, if people feel they are the “only mug” in town paying their taxes it would be no surprise if they became less compliant.
14. This also needs to be set in the context that people have significantly different views on the consequences of avoidance or evasion than are the case. Indeed, as prospect theory notes, the more widespread a belief there is no downside to avoidance or evasion the more likely voluntary compliance decreases. Tax compliance probably owes a lot to public (mis)perceptions on the consequences of non-compliance. Hence, behavioural economics suggests it is better to not advertise the rates of detection, prosecution, etc as this could erode voluntary compliance!

Figure 7. Perceived consequences for people are found to be using a tax avoidance scheme



15. Perhaps unsurprisingly we do not think public confidence is increased by describing HMRC's senior staff (many of whom are our members) as disinterested or even hostile to effective compliance. Despite low engagement scores (often linked to policies imposed by Governments, such as the pay freeze or an outmoded performance management system) they remain engaged with their work. The last People Survey showed HMRC staff overall reporting high positive scores, e.g. 66% said their work gave them a sense of personal accomplishment and 56% had acceptable workloads (against a Civil Service benchmark of 59%).
(https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/477344/csps2015_allorganisations.xlsx)
16. The picture from surveys of taxpayers, as opposed to stakeholders, suggests that public confidence on HMRC is not nearly as negative as the John Peel fallacy might lead us to conclude. If stakeholders reflected more on what that sort of evidence said, there would be a more rounded picture in public life. By itself that would remove pressures that negatively impact on public confidence.
17. Another improvement would be if critics did not personalise issues and blame individual members of HMRC. Based on what ARC members tell us they are probably more personally committed to talking avoidance and evasion than many. But as serving civil servants they are prevented from

openly engaging with criticism, even when it is labelled against them personally.

18. Equally, it has become a bone of contention (or casus belli) that HMRC will not share taxpayer confidential information except when legally authorised or obliged to do so. This has been challenged many times as if HMRC had discretion to disclose. We, and our members, have always argued that (to coin a phrase) “Confidentiality means Confidentiality”. The reaction to that was often to blame the messenger. But the recent judgement in the case of Ingenious confirms our view. It shows that when HMRC incorrectly did make such a disclosure it was entirely wrong.

“If Parliament really intended to delegate to officials such a wide discretion, limited only by a rationality test, in place of the ordinary principles of confidentiality applicable to public bodies in respect of confidential or private information obtained under statutory powers or for a statutory purpose, it would have significantly emasculated the primary duty of confidentiality recognised in section 18(1).”

<https://www.supremecourt.uk/cases/docs/uksc-2015-0082-judgment.pdf>

19. If people want more HMRC information to be publicly available, and they may have good reasons to propose this, they need to stop blaming HMRC (“hiding behind the cloak of confidentiality”) and naming people for not disclosing. Instead, they should be looking to change the law and draft new legislation that Parliament can vote on.
20. Nevertheless, without breaching confidentiality, HMRC can probably do more to explain its decisions and methodologies. For instance, it could invite researchers to make more use of the HMRC Data Lab to test theories on things like tax distribution or regression. Academics and economists could be invited to provide commentary on the Tax Gap methodologies and debate their proposals. HMRC could host MPs to sessions with HMRC officials to hear in non-taxpayer specific terms how they did their jobs, techniques employed, etc.

CUSTOMER SERVICE

Q3. To what extent does HMRC consider the customer's experience in the allocation of its resources and the services it provides?

21. HMRC has a mixed record in terms of putting the customer first. It has recently reorganized into three groups, all of whom have Customer as their first word. All major policy proposals are meant to have Public Impact Assessments and be subject to formal consultation. These do deliver changes, e.g. the recent ones arising from Making Tax Digital. The much criticised decision to close Enquiry Centres prompted wider consultation, even if the outcome was not what many had wanted. The policy was effectively based on the premise that, even if customers wanted a walk in service it was not, based on experience, what they needed. At the heart of the matter was the need to cut costs, i.e. posts, which is ultimately a question of the kind of service the Government was willing to fund.
(<https://www.cchdaily.co.uk/replacement-hmrca-enquiry-centres-back-review>)
22. Clearly telephone standards have been at the forefront of public criticism and to a lesser extent postal delays. According to a poll (by Simply Business) 96% of small businesses said they have been forced to wait in a phone queue while trying to get through to HMRC. Some callers waited on hold for close to 25 minutes prior to being connected to an HMRC adviser. A separate report by the Public Accounts Committee revealed that HMRC helplines cost customers £1 for every £4 saved, with people waiting for their calls to be answered for 47 minutes on average. In addition, more than a quarter of people gave up on their calls due to the “unacceptable” waiting times.
(<http://www.publications.parliament.uk/pa/cm201617/cmselect/cmpublicacc/78/78.pdf>)
23. HMRC recruited 2,400 staff to the taxes helpline in the autumn of 2015. This seems to have paid off. According to an official PQ at the start of June “Over the past six months, HMRC has answered calls across all of its helplines in an average of 6 minutes.” But time will tell if this is sustained over the next set of peaks for Tax Credits and Self-Assessment.
(<http://www.davidgauke.com/content/written-answers-%E2%80%94-hm-treasury-revenue-and-customs-telephone-services-6-jun-2016>)
24. Less public attention has been given to the experiences of callers once they have been able to get through to HMRC staff. The surveys have a mixed message, but it is one of overall satisfaction with HMRC channels, albeit one where there is a good deal of room for improvement, as with post handling.

Chart 4.4 Rating of HMRC channels – Small Businesses

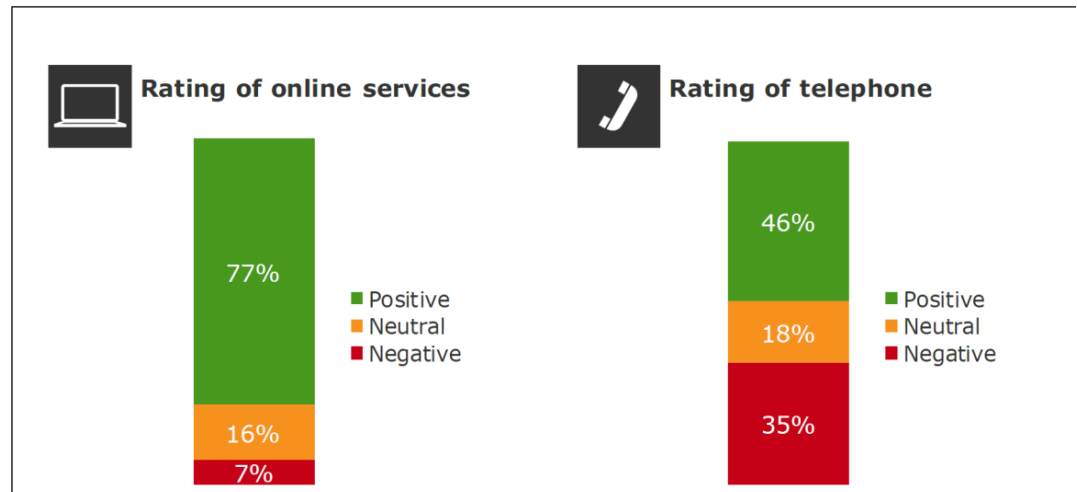


Chart 3.4 Rating of HMRC channels - Individuals

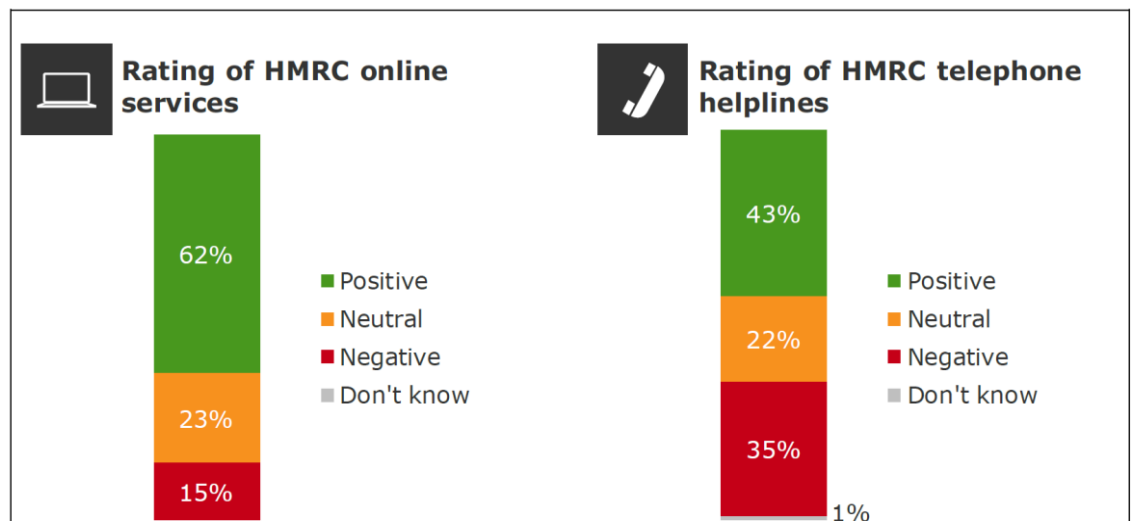
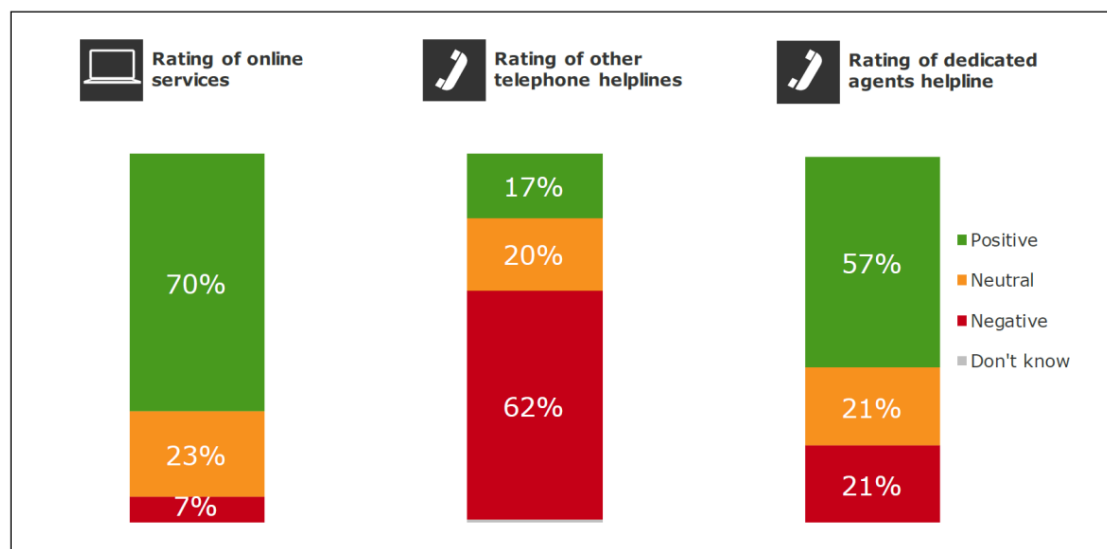


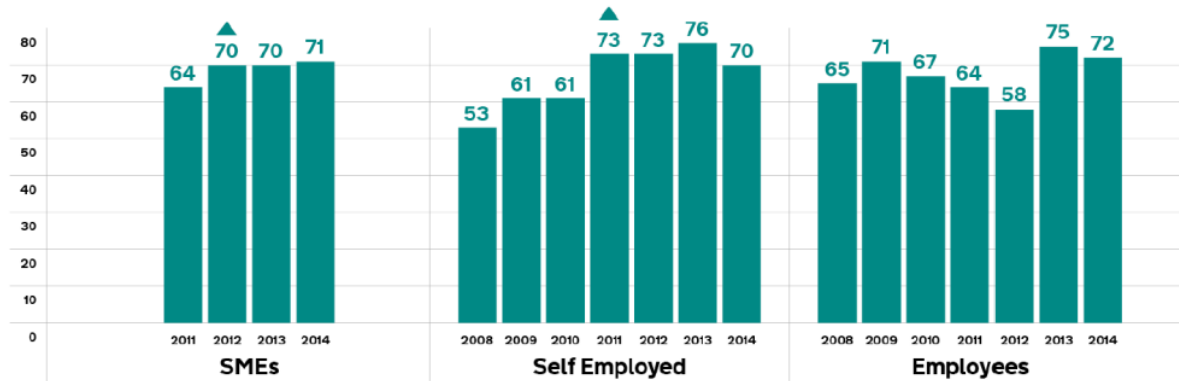
Chart 5.5 Rating of HMRC services - Agents



Base: All respondents that used HMRC services (excluding Not Applicable responses)

25. Self-Assessment taxpayers generally have a positive view of the demands HMRC makes on them.

Figure 2: Percentage of respondents who said the amount of time and effort personally spent completing their tax return was reasonable.



Q4. Is the HMRC strategy for improving the customer experience fit for purpose?

26. We are not able to comment on this as we think there are too many possible interpretations of 'fit for purpose' to make for informed comment. But we would be glad to review any more developed ideas on the possible ways this could be framed.

DEALING WITH TAX AVOIDANCE AND EVASION

Q5. How effective is HMRC in dealing with

a) aggressive tax avoidance?

b) tax evasion?

27. As is well known there is no judicial category defining aggressive avoidance, or any such definition from any other organisation, including HMRC. The public evidence suggests taxpayers themselves do not have an accurate figure on the levels of avoidance or evasion, although they think evasion is widespread.

(<https://www.gov.uk/government/publications/exploring-public-attitudes-to-tax-avoidance-in-2015>) HMRC reported that “Only 3 per cent of 932 heads of tax or finance directors from its large business group said they had a high appetite for risk in relation to tax planning, with the rest saying it was low or very low.”

(<https://www.ft.com/content/bca9bb20-6aca-11e6-ae5b-a7cc5dd5a28c>

This contrasts with an opinion poll last year that found “Just one third (34%) of individuals believe that most big businesses in the UK pay their fair share of tax, whereas four out of every five people (80%) think that small businesses do.”

(<http://sse.com/newsandviews/allarticles/2015/06/just-a-third-of-british-adults-believe-big-companies-pay-their-fair-share-of-tax-finds-yougov-research-from-sse-and-icas/>)

Nor do we think that it is ever realistic to believe the Tax Gap can be reduced to zero, so would not argue that “The persistence of the tax gap shows that HMRC is not maximising tax collection.”

(<https://www.scribd.com/document/323334007/Reforming-HMRC-Making-it-Fit-for-the-Twenty-First-Century>)

28. And as for international (BEPS) related avoidance matters, Helen Miller (IFS) recently noted there is a dichotomy between those who think things have started to get better and those who believe they are getting worse: “Under the happy view, the international tax system has largely been fixed. We will continue to see the fruits of the BEPS process feed through and, if anything, should now take seriously the concern that we will get back to the days of double taxation. In this camp, a real concern is the ongoing barrage of anti-avoidance legislation that creates uncertainty around a tax code that grows ever more complex. Under the pessimistic view, though, we should crack on with more anti-avoidance measures to combat avoidance as soon as possible, and possibly move to an entirely different system.”

(https://www.ifs.org.uk/uploads/publications/journals/TJ_2016_Issue1327_Miller-1.pdf

29. But working within the parameters of those matters where HMRC can make a difference by acting it seems clear that recent legislation and efforts to tackle “domestic” avoidance have been successful. The DOTAS regime has been introduced and widened.

<http://www.rossmartin.co.uk/penalties-a-compliance/63-penalties-a-compliance/403-disclosure-of-tax-avoidance-schemes-dotas>).

30. The numbers of schemes reported has been steadily declining:

HM REVENUE AND CUSTOMS DISCLOSURES STATISTICS

Data for the period from 1 August 2004 to 30 September 2014

1 DIRECT TAX DISCLOSURES

			Financial	Employment	Main Regime	(NI Hallmark)	IHT	SDLT	ATED
Financial Year									
1 August 2004	31 March 2005		340	163	0	(0)	0	0	0
1 April 2005	31 March 2006	a	94	28	0	(0)	0	485	0
1 April 2006	31 March 2007		29	7	125	(0)	0	185	0
1 April 2007	31 March 2008	**	2	0	205	(23 N)	0	70	0
1 April 2008	31 March 2009	***	0	0	102	(Fewer than 5 N)	0	28	0
1 April 2009	31 March 2010		0	0	116	(6 N)	0	61	0
1 April 2010	31 March 2011		0	0	97	(11 N)	0	21	0
1 April 2011	31 March 2012	***	0	0	116	(17 N)	Fewer than 5	13	0
1 April 2012	31 March 2013	***	0	0	59	(7 N)	Fewer than 5	18	0
1 April 2013	31 March 2014	***	0	0	28	(7 N)	Fewer than 5	10	Fewer than 5
1 April 2014	30 September 2014	*** p	0	0	Fewer than 5	0	0	Fewer than 5	0

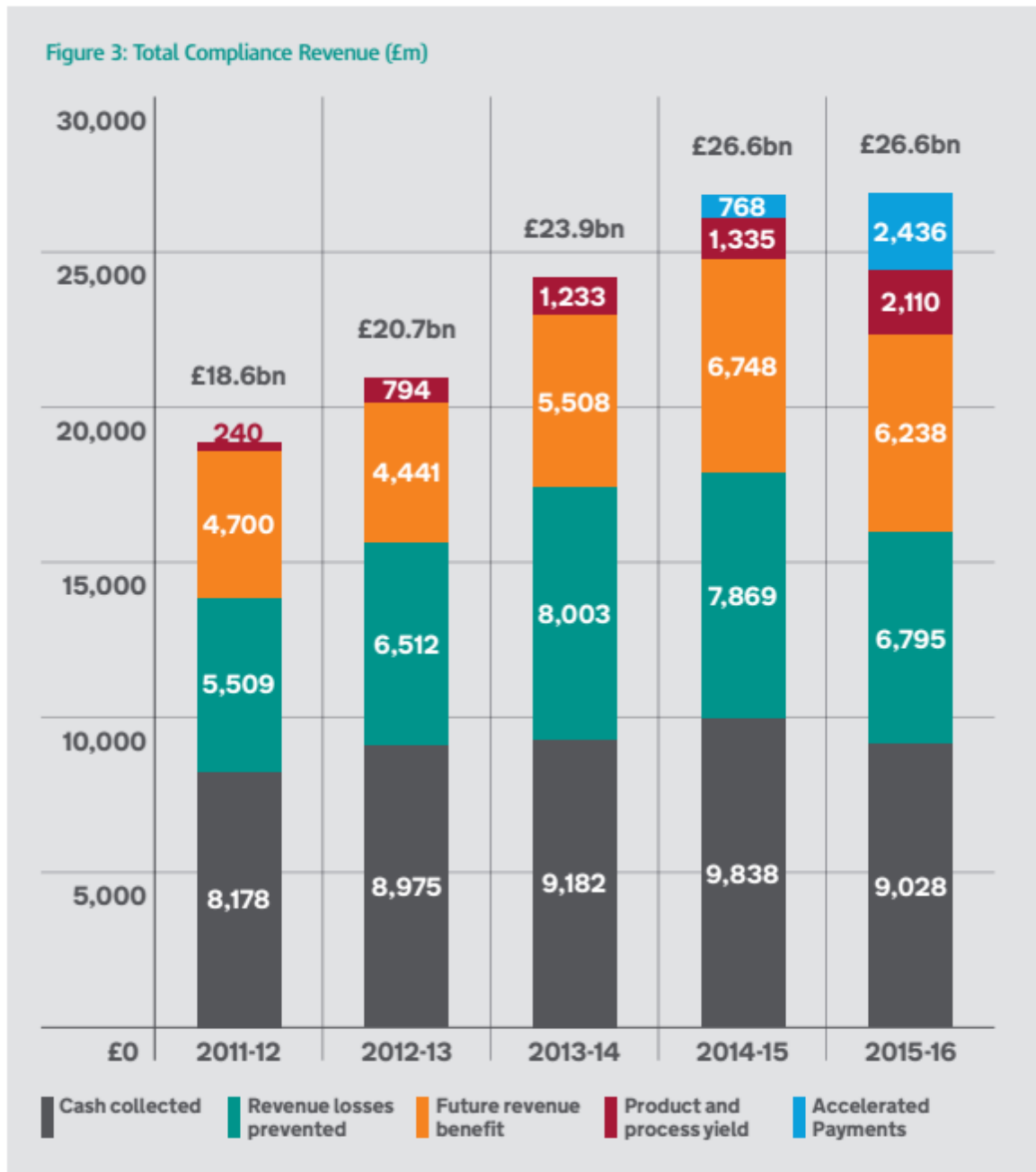
[https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/379821/HMRC_-](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/379821/HMRC_-_)

[Tax avoidance disclosure statistics 1 Aug 2004 to 30 Sept 2014.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/379821/HMRC_-_Tax_avoidance_disclosure_statistics_1_Aug_2004_to_30_Sept_2014.pdf)

31. The numerical results HMRC reports annually suggest that avoidance is increasingly tackled. Included in the following table is:

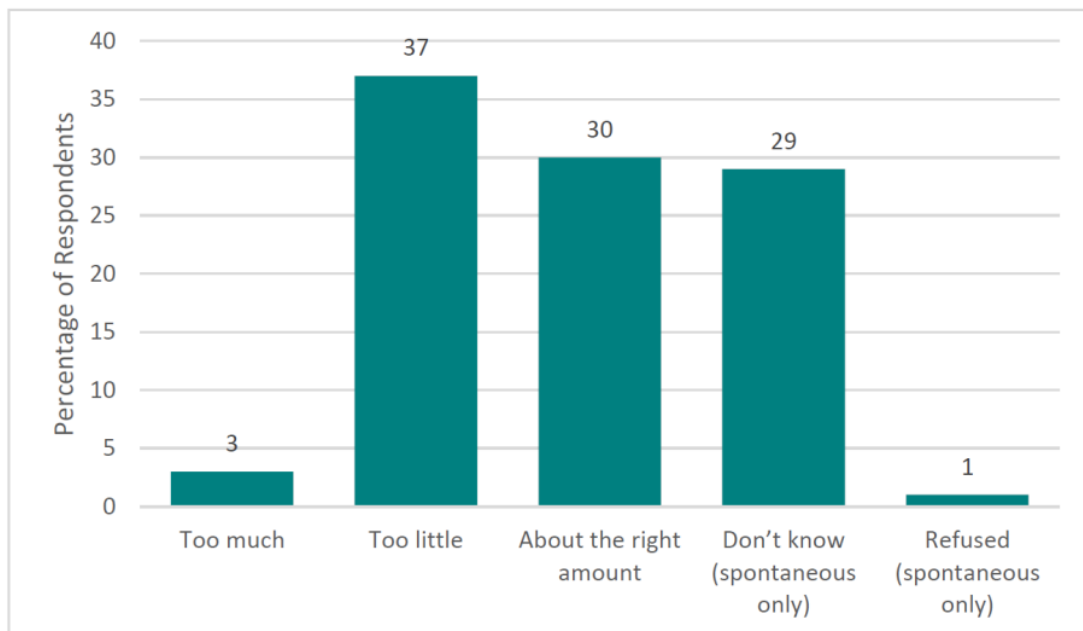
“working closely with the 2,100 largest and most complex businesses in the UK to understand and address the compliance risks they pose. At the start of the year half of these businesses were being reviewed by HMRC and during 2015-16 we secured £7.3 billion of compliance revenue from them, and securing additional compliance revenue of more than £415 million from the UK’s 6,000 wealthiest individuals, as a result of work carried out by our High Net Worth Unit*, which has more than 400 specialists dealing with customers who each have a net worth of £20 million or more.”

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/537876/HMRC_Annual_Report_and_Accounts_2015-16-_print_.pdf



32. Public attitudes to avoidance do not support a belief that HMRC is doing too little to tackle it. The survey results are more rounded: 37% think it is doing too little, 3% think too much and 30% think it is doing about the right amount.

Figure 3. Perceptions of how much effort HMRC is putting into reducing the use of tax avoidance schemes by individuals



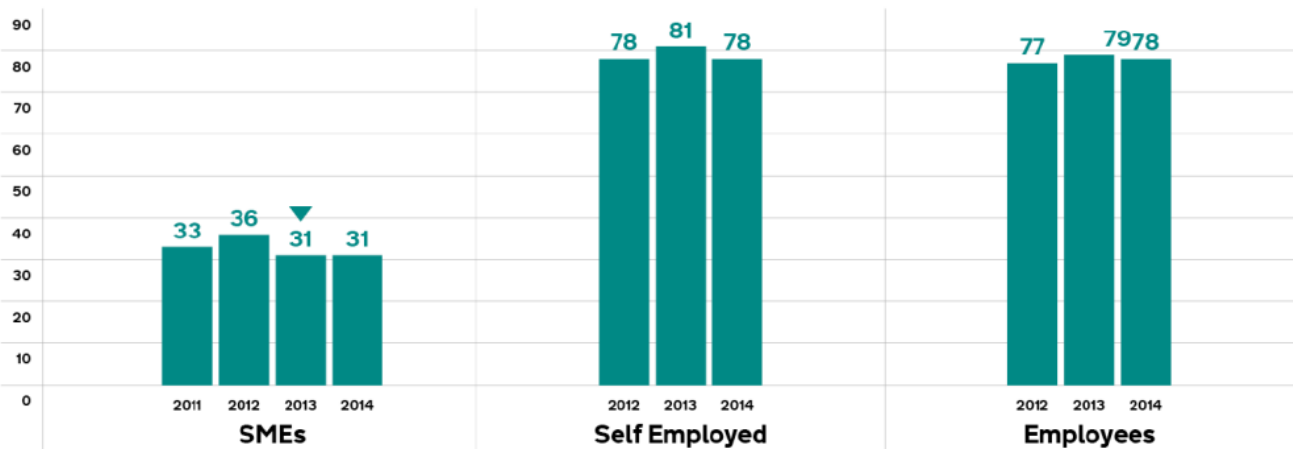
33. HMRC identifies evasion as far more costly than avoidance.
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/561312/HMRC-measuring-tax-gaps-2016.pdf

Value of the tax gap

By customer group	By type of tax	By behaviour
£18.3bn SMEs	£15.5bn IT, NICs and CGT	£6.2bn Hidden economy
£9.5bn Large businesses	£12.7bn Value Added Tax	£5.5bn Failure to take reasonable care
£4.8bn Criminals	£3.7bn Corporation Tax	£5.2bn Legal interpretation
£3.4bn Individuals	£2.8bn Excise duties	£5.2bn Evasion
	£1.3bn Other taxes	£4.8bn Criminal attacks
		£3.6bn Non-payment
		£3.2bn Error
		£2.2bn Avoidance

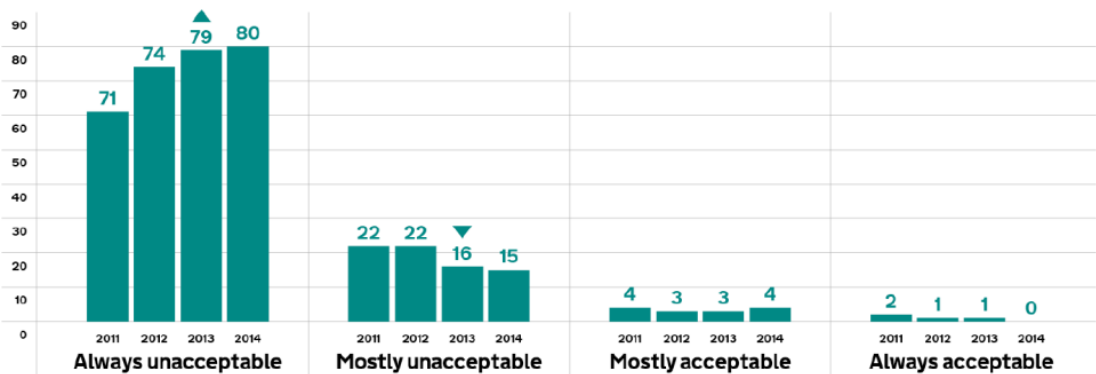
This may be why many of the public think evasion is widespread.

Figure 7: Percentage of respondents who believe tax evasion is widespread.



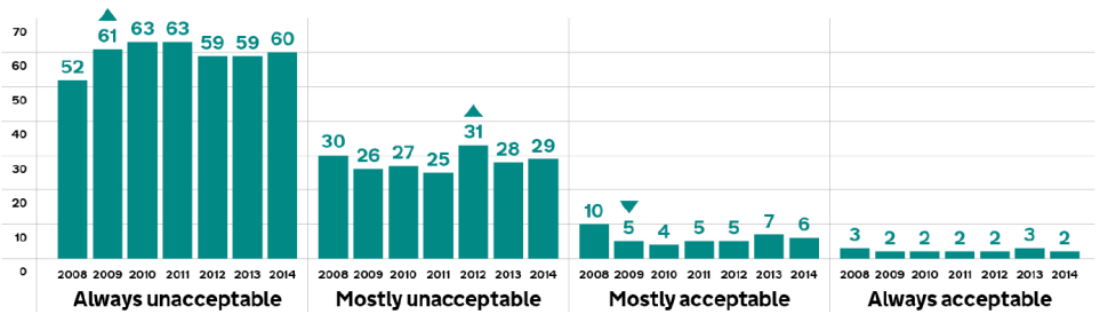
34. Nevertheless, the public also does not universally condemn evasion, in the way that key stakeholder and all commentators do.

Figure 4: SMEs view of the acceptability of tax evasion.



Base numbers: SMEs 2011-2014: 1005; 961; 1106; 1017

Figure 5: Self-employed view of the acceptability of tax evasion.



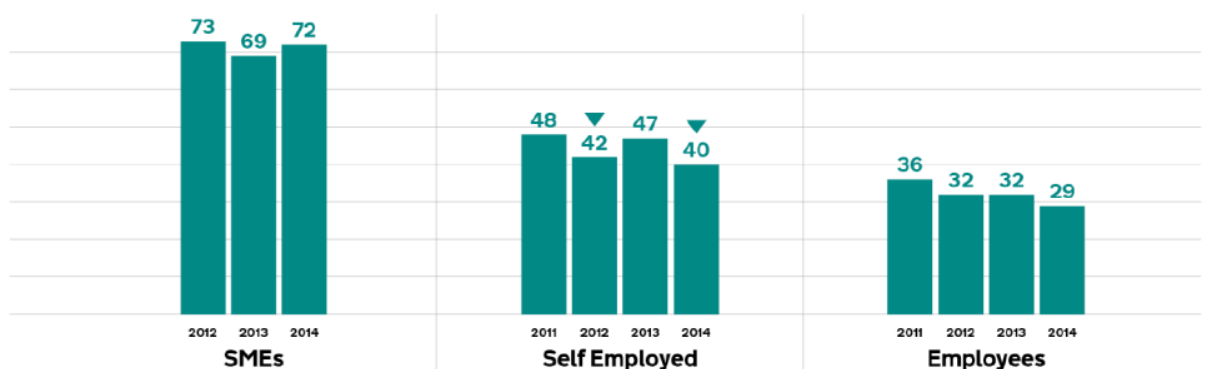
35. Many think HMRC could do more to tackle evasion. It is an interesting fact that it is employees, whom we might posit have fewer opportunities to evade whilst acting as employees, feel the most negative about HMRC.

Figure 9: Percentage of respondents who believe HMRC is putting in about the right amount of effort into preventing tax evasion.



36. Yet many, even employees, also feel evaders will be caught and prosecuted.

Figure 15: Percentage of respondents who believe the chances of prosecution are sufficient to deter people from regularly evading tax.



37. These views, taken together, do not suggest HMRC is significantly out of touch with public sentiment or that the public thinks HMRC is significantly under-performing.

Q6. What legislative, resourcing or other measures would help to narrow the tax gap?

38. Since 2010 HMRC has been supported by a very wide range of powers and legislation, some of which has been deeply controversial and resisted (such as Direct Recovery of Debt, or Accelerated Payments Notices with a long list of Judicial Reviews defeated). In 2015 Tax Journal assessed the Coalition's record on avoidance and evasion, commenting:

“Whether through opportunism or enthusiasm, the government certainly responded to the new mood by introducing a raft of unprecedented anti-avoidance and evasion measures in the UK’s domestic legislation”

They considered future measures to be enacted or implemented and concluded

“If these proposals are implemented by the next government, it seems to us that the administration of taxation is likely to become far more assertive than we have become used to. The ‘supply side’ of tax avoidance would be much more tightly regulated; and for taxpayers themselves, there would certainly be a significant incentive to be seen to be compliant. And those tempted to avoid tax, in ways which could not be described as unlawful, will find that the economics of avoidance are increasingly unattractive. As for tax evaders, who are after all acting dishonestly by any measure, they will face a greater chance of being discovered and penalised.”

(<https://www.taxjournal.com/articles/tackling-avoidance-coalition-s-end-term-report-30042015>)

39. At the moment it does not seem sensible to introduce further measures before existing and planned ones (e.g. attaching criminal penalties to promoters of avoidance) have bedded in and assessments made of changed behaviours.

40. But in the longer term it could be worth looking at what be called the structural causes of some types of avoidance which are incentivised by the rules and design of the tax system itself. For example, we know that withholding taxes are a very effective way of collecting tax at source and reducing the opportunities for both evasion and avoidance (e.g. PAYE v VAT). On the other hand this creates administrative burdens and Governments have been removing such requirements on taxpayers. So there is a tension to consider. Another area would be the different treatment of income and expenses for employees and self-employed, or the different rates for income tax, corporation tax and capital gains tax. As the IFS wrote:

“As the Mirrlees Review noted, ‘If activities were taxed similarly, there would be no (or, at least, much less) incentive for taxpayers to dress up one form of activity as another - and there would correspondingly be little or no revenue loss to the Exchequer if they did so.’ If tax evasion is a function of enforcement, avoidance is a function of the tax base. Preventing tax avoidance is not an administrative exercise to be layered on top, but inextricably intertwined with the design of tax policy. Design a coherent tax policy and the problem of avoidance will be much reduced.”

(cited p95 of [Commons Library GAAR SN06265.pdf](#))

41. There is a recurring (possibly nostalgic refrain) for the return of smaller local offices and the use of local staff with local knowledge. As far as we know there has been no empirical evidence to support this, although it certainly seems convincing. Checking car boot sales, examining local newsagents for adverts, noticing business premises - all are potentially good sources of intelligence. But in an increasingly digital world much of this sort of information is conveyed electronically (e.g. on Gumtree or

local websites), merchant acquirers report traders' transactions, mentions on social media, etc).

42. HMRC now has hugely improved electronic data matching capabilities:

"Even though HMRC have spent £80m on this system the proof is in the pudding, as the expression goes, and it does seem that Connect has been a shrewd investment. Since its inception, it has helped to secure an additional £3bn of tax revenues. A return of 37.5 to 1 is good by any standards.

The importance of Connect in HMRC's compliance programme is reflected by the fact that, in 2011/12, 62% of enquiry case selections were generated by Connect. This rose to 77% in 2012/13 and the target for 2013/14 was 83%.

It is easy to understand why this is when you consider that the hit rate has increased significantly from Connect selected cases compared with previous methods used, and that the yield from those cases has been much higher than previous case averages. For example, the hit rate on the non-declaration of interest increased from 20% to 53% and the yield increased by 75%."

<https://www.taxation.co.uk/Articles/2014/09/02/330221/well-connected>

43. But what is perhaps not so well remembered are the compliance decisions and outcomes that flowed from that sort of local knowledge. A large number of interventions yielded low or no yields, certain businesses were over investigated (tobacconists, newsagents, corner shops, pubs, small builders, certain types of restaurant). Often there was no liability, or additional liability, because there were no profits, were covered by personal allowances or below the VAT threshold.

44. There also sometimes suggestions that HMRC should simply prosecute a few more cases in order to "encourage the others" (a la Admiral Byng?), or test legislation. To do this requires HMRC to either work cases to a criminal standard (for evasion and criminal prosecution) or get the CPS to agree to civil litigation. Neither is an easy and cheap option and the CPS, correctly, will not usually take on cases simply on the basis HMRC wants cases, regardless of the chances of success. HMRC has no independent prosecution powers following the Butterfield Report and the need to have clear blue water between case investigation and a decision to take legal proceedings.

"A key recommendation is that the Prosecutions Group should become a separate prosecuting authority, accountable to the Attorney General. The Government strongly agrees that the independence of prosecutors must be protected. Independent prosecutorial decision-making is a key constitutional safeguard."

http://webarchive.nationalarchives.gov.uk/+http://www.hm-treasury.gov.uk/press_87_03.htm

45. There are some measures HMRC could take. It could look to place part of any new investment into proper support for compliance and assurance activities. It has done so with a welcome roll out of personal laptops to allow distance and remote working but could formally agree such working practices are fully acceptable. But it needs to properly fund travel and subsistence for officers who need to visit traders and taxpayers on their

own premises, especially under the concentration of the estate into 13 large regional offices.

46. Agents regularly report that they find it hard to obtain consistent and high quality advice from HMRC staff at the first point of contact, and it is suggested that HMRC's training has declined from a "gold standard" to one of only being able to do the immediate job. In addition, it can be hard to have any single ownership of an issue or request they have raised. Combined with staffing shortages this means poor replies or even no replies at all. It is exemplified by one of the submissions to the current APPG enquiry:

"HMRC regularly do not reply to our requests or letters.

HMRC regularly 'lose' or deny receipt of paperwork which we send to them.

HMRC take on average over 12 weeks to reply to requests.

HMRC often send us incomplete or paperwork not relating to our clients."

[\(http://www.appgresponsibletax.org.uk/category/submissions/\)](http://www.appgresponsibletax.org.uk/category/submissions/)

47. We recognise this is an important issue (a good deal of tax administration, especially complex tax, relies on the work of agents and intermediaries). We recommend HMRC accepts this needs to be examined and works with agent representative bodies to discover if this is anecdotal or more widespread.

Q7. Does HMRC make appropriate use of all the powers and opportunities in its toolkit?

48. We are not aware of any substantial or recurring failure to make use of any such powers and opportunities.

STAFFING AND RESOURCES

Q9: Are HMRC's resources adequate?

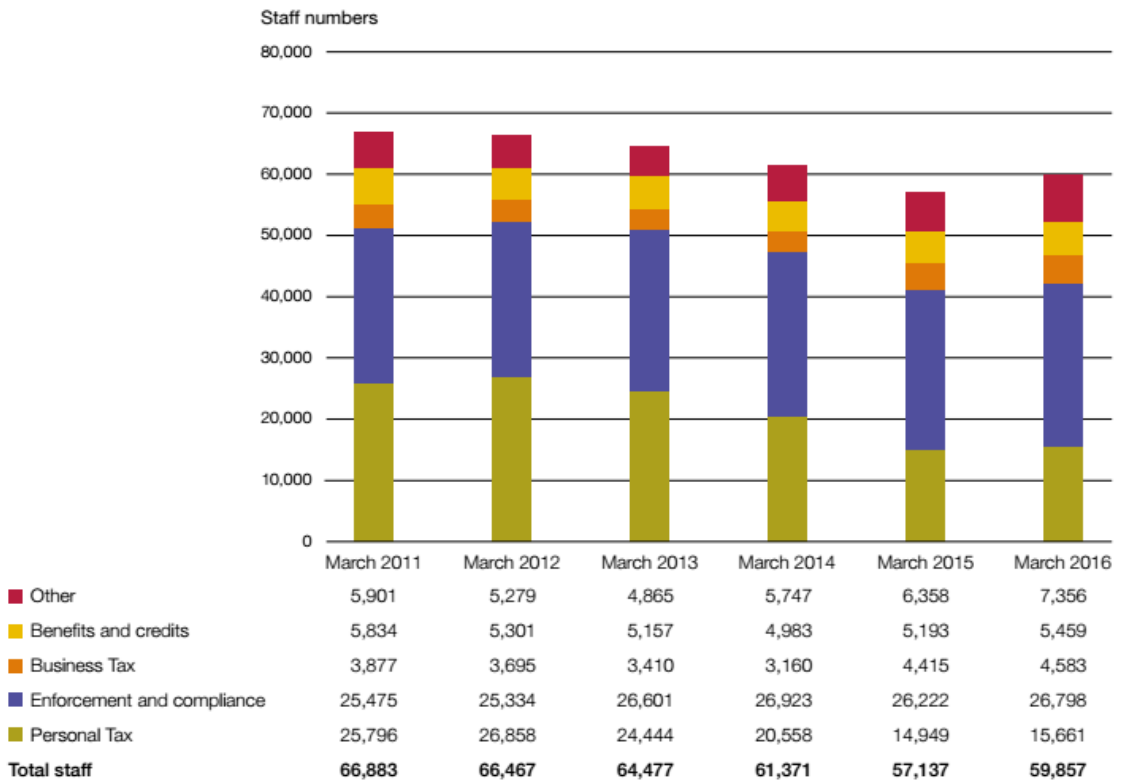
49. The real question here is surely adequate for what? HMRC resources to risk but clearly if resources decline then lower levels of risks addressed will also decline, unless new ways are found of tackling those risks. Absolute staff numbers have gone down since the creation of HMRC and yet ordinary revenues and compliance yields have increased. Some part of this is down to inflation or economic growth but it seems clear that compliance yields have grown by much more than either explanation would predict.
50. Much of this must be down to new ways of addressing risks. For example, the use of techniques like task forces leverage a one to many approach. HMRC 2016 Report noted:
“During 2015-16 we launched a further 48 taskforces and secured £248 million from existing taskforces, nearly double the previous year, and bringing the total recovered since taskforces were launched in 2011 to more than £500 million.”

51. As overall numbers have fallen there has also been a rebalancing in favour of compliance activity. The NAO shows (in the 2106 Annual Report

Figure 5

Staff numbers (full-time equivalent)

Staff numbers (full-time equivalent) have increased slightly in 2015-16 having declined over the previous four years



Source: HM Revenue & Customs Resource Accounts 2010-11 to 2015-16

52. This is also shown by overall resource allocation

Figure 12

HMRC's funding across the 2010 and 2013 spending review periods

	2010-11 Actual (£m)	2011-12 Actual (£m)	2012-13 Actual (£m)	2013-14 Actual (£m)	2014-15 Forecast (£m)	2015-16 Forecast (£m)
Total Departmental Administration Expenditure	3,394	3,323	3,290	3,292	3,278	3,097
Resources devoted to compliance work	1,119	1,126	1,134	1,143	1,194	1,157
Compliance resources as a proportion of total resources	33%	34%	34%	35%	36%	37%

Notes

- 1 Total Departmental Administration Expenditure shows actual or forecast administration expenditure within Resource Accounts subhead: A HMRC administration (DEL).
- 2 Figures for 'resources devoted to compliance work', cover parts of the business tackling non-compliance: Enforcement and Compliance, Large Business and Specialist Personal Tax.

Source: HM Revenue & Customs annual reports and accounts; HM Revenue & Customs management accounts

53. The picture here is further mixed if we look at grades. At the grades where ARC has members there has actually been an increase over the last six years. As at the end of June 2010 Grades 6 and 7 totalled 3483; at the end of March 2016 it was 4445.

Q10. Is HMRC able to recruit and retain people with appropriate skills, qualifications and experience?

54. At the grades where ARC has members there is absolutely no difficulty in recruiting graduates to train as tax professionals. Demand substantially exceeds the number of places (over 10,000 applicants for 200 places in 2016) and there are currently around 600 people in the graduate training programmes. HMRC has a much respected graduate training programme and ARC has warned that recent moves to truncate that programme risks HMRC losing that status and losing the expertise of their trained tax professionals.

55. The recruitment picture is mixed at more senior levels where deep professional experience is needed. We believe there is a gap at G7 and HMRC are seeking to address this by recruiting in G7 Tax Specialists from outside. There are almost certainly more acute problems in some areas, like lawyers, or sector specialists.

56. Even using techniques like labour market supplements, or starting new recruits onto the grade maximum (which ARC disputes is a fair way to treat existing staff) HMRC has struggled to fill vacancies. In our view this is the inevitable result of a sustained period of nominal wage freeze and 1% pay caps that have eroded real wages, with additional pension related costs. Our analysis from a members' survey suggests that take home pay for ARC members in 2016 is around 25% less than in 2010. In the current recruitment exercise 85% of external candidates who declined the opportunity to apply for a tax professional job in HMRC did so on pay grounds.

57. Pay data from Hay in 2012 is shown below. We have no reason to believe the gaps have narrowed since then and in fact have probably widened. To address that pay gap requires the Government to alter its approach to the pay remit and allow HMRC to pay more than 1% increases. It is illustrative of this problem that HMRC has recently had to advertise 11 SCS1 posts with salaries of up to £90,000 - which no internal candidate could ever hope to achieve on promotion to SCS1.

	Hay Zone 3 (Central London)	HMRC London	Difference (HMRC London to Zone 3)	Hay Zone 2 (Outer London)	Hay Zone 1 (Rest of UK)	HMRC National	Difference (HMRC to Zone 1)

Grade 7	£89,383	£54,453	(£34,930)	£83,300	£74,967	£48,572	(£26,395)
Grade 6	£109,304	£70,784	(£38,520)	£95,841	£86,462	£63,716	(£22,746)

Q11. Within constrained budgets, what could HMRC do to achieve better and more sustainable services?

58. The costs of services (including any administrative burdens) has been reduced through a variety of means: redrafting and simplifying laws, streamlining internal and customer facing processes, passing more responsibility to customers (e.g. Personal Tax Accounts), fewer customer facing staff (such as in Enquiry Centres), more telephone and much more online. This is a pattern that has been repeated across many G20 countries. However, it is hard to see how much more in the way of cost savings this approach can deliver. It will be increasingly hard to roll out digital to parts of the public that will not or cannot engage (elderly, rural communities, vulnerable groups such as the low paid). HMRC has also begun to reduce the size of the estate and number of offices, moving to 13 Regional offices by 2020.
59. This is still in its early days but it, along with Making Tax Digital, is high risk. We echo the NAO who warned:
- “Optimism bias in main assumptions: HMRC’s past experience demonstrates that there are serious risks should main assumptions underpinning its strategy not prove realistic. For example, the delivery of HMRC’s vision relies on the critical assumption that taxpayers will move over to online services and reduce the demand for telephone and postal services. Our report on the Quality of Service for Personal Taxpayers described how in the last parliament HMRC misjudged the cumulative impact of the changes it was making and released customer service staff before it had reduced the demand from personal taxpayers for its telephone helpline. This impaired the quality of its service to personal taxpayers in 2014-15 and the first half of 2015-16, which then recovered following a range of interventions, including the recruitment of additional staff.”

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