



National Audit Office

Report

by the Comptroller
and Auditor General

HM Revenue & Customs

Increasing the effectiveness of tax collection: a stocktake of progress since 2010

Overview of HMRC's response to recommendations

Figure 1

Status of recommendations made to HMRC from the Committee and NAO (June 2010 to December 2014)

We have categorised the recommendations by five themes

Recommendations	Accepted and implemented ²	Accepted and implementation in progress	Rejected	Total
Committee recommendations				
Total¹	66	14	18	98
Settling large tax disputes	7	0	2	9
Tackling marketed tax avoidance	9	5	3	17
Issues of international tax	4	3	6	13
Improving the administration of personal tax	12	0	2	14
Improving customer experience	8	0	1	9
Other areas	26	7	8	41
NAO recommendations				
Total¹	115	21	1	137
Settling large tax disputes	10	0	0	10
Tackling marketed tax avoidance	6	6	0	12
Issues of international tax	1	0	0	1
Improving the administration of personal tax	15	1	0	16
Improving customer experience	10	2	0	12
Other areas	74	12	1	87

Notes

- 1 Totals do not sum as some recommendations address more than one theme. The table includes cross-government recommendations that refer directly to HMRC. Status of recommendations is at December 2014.
- 2 Accepted and implemented recommendations include partially accepted recommendations. Accepted and implemented NAO recommendations include 1 recommendation that HMRC accepted and is no longer being implemented. The status of recommendations are as reported by HMRC to its Audit and Risk Committee, adjusted by the NAO where relevant.

Source: National Audit Office analysis of Treasury Minute responses and HM Revenue & Customs information

Summary

Purpose of this report

1 HM Revenue & Customs (HMRC) administers the tax system and is responsible for putting tax rules into practice. Since 2010, HMRC's primary focus has been to increase tax revenues, while at the same time reducing the costs of collecting tax and providing a better service to customers.

2 The National Audit Office (NAO) and the Committee of Public Accounts (the Committee) work together to provide the scrutiny and challenge to hold HMRC to account for its administration of the tax system. The Comptroller and Auditor General (C&AG), as the head of the NAO, is fully independent and has complete discretion to decide what areas of tax administration to examine. He reports to Parliament and in most cases his reports on tax administration are used as the basis of a hearing by the Committee, which may then publish its own report. Both the NAO and the Committee make recommendations for improvement. Government must decide whether to accept or reject these recommendations and, for every recommendation from the Committee, must publish its response. The NAO and the Committee between them have published 41 reports on the performance of HMRC during this parliament, and respectively have made 137 and 98 recommendations to HMRC.

3 The Committee has made taxation a key area of focus during this parliament. It has scrutinised HMRC's ability to collect taxes fairly and efficiently; has pushed for greater transparency and governance of important elements of the tax system; exposed concerns about the tax planning industry; and made an important contribution to the debate on how multinational organisations arrange their tax affairs.

4 In this report we consider what HMRC has done in response to key recommendations from the NAO and the Committee since 2010. We consider HMRC's progress in meeting the strategic objectives it agreed with HM Treasury in 2010 in Part One of this report. In Part Two of this report we discuss the wider strengths and weaknesses in HMRC's performance that the NAO and the Committee's work has identified, as well as some significant challenges that it now faces. We then examine how HMRC has responded to recommendations in 5 key areas of focus by the NAO and the Committee over this time. These are not the only areas covered by NAO and Committee scrutiny since 2010, but they are themes into which many of the recommendations naturally fall and where the impact of the NAO's and Committee's work has been significant:

- Part Three: Settling large tax disputes
- Part Four: Tackling marketed tax avoidance
- Part Five: The Committee's interest in issues of international tax
- Part Six: Improving the administration of personal tax
- Part Seven: Improving customer experience.

A more detailed examination of the issues in Parts Three to Seven is available in a second volume of this report.¹ The full list of the Committee's recommendations and HMRC's response to them are available on the NAO website.² Appendix One describes HMRC's approach to monitoring the implementation of recommendations.

Summary findings and concluding comments

5 The accountability process offers HMRC the opportunity both to raise its performance and to increase transparency and public confidence in the tax system, thereby making it easier for it to collect the tax that is due. Administering the tax system to maximise compliance is challenging as the tax laws are complex and not all taxpayers comply voluntarily with their obligations, while others dispute HMRC's interpretation of how the law should be applied. The C&AG has long-standing powers to examine and report to Parliament on the adequacy and effectiveness of the systems and procedures for the collection of tax. This is in addition to his powers to examine the value for money of how HMRC has used its resources, and reflects the particular importance to Parliament of the assurance it receives about the collection of tax revenue. By its nature, the work and recommendations of the NAO and the Committee identify opportunities for HMRC to improve administration and strengthen financial management.

1 Comptroller and Auditor General, *Annex – Increasing the effectiveness of tax collection: a stocktake of progress since 2010*, Session 2014-15, HC 1029-II, National Audit Office, February 2015.

2 Available at: www.nao.org.uk/report/increasing-the-effectiveness-of-tax-collection-a-stocktake-of-progress-since-2010/

6 Since 2010, HMRC has accepted and implemented two thirds of the Committee's recommendations. In addition, HMRC has accepted all but 1 of the NAO's 137 recommendations, and has completed the implementation of over 80% of them. **Figure 1** summarises the number of recommendations made, accepted and implemented, analysed by each of the five themes covered in this report.

7 Our work to identify HMRC's response to the recommendations made by the NAO and the Committee over this Parliament demonstrates that HMRC engages strongly with the accountability process. It shows that HMRC takes a robust approach to implementing those recommendations it has accepted, which is the vast majority of those made.

8 In the areas which have had the greatest focus from the Committee, HMRC has responded positively. In tackling marketed tax avoidance, HMRC has sought and obtained new powers and implemented new measures appropriately to tackle some of the root causes of abuse of the tax system. The Committee has expressed serious concerns about the exploitation of international tax rules by multinational companies. Government recognises there remains a great deal to do to counter this, but HMRC has played an active role by leading work to increase international cooperation and improve transparency. In the administration of personal tax, HMRC responded with commitment and rigour to the problems it experienced, and the concerns expressed by the Committee, when it introduced a new National Insurance and PAYE (Pay As You Earn) service, which resulted in a large backlog of PAYE cases building up, delaying both the repayment and collection of tax. Through its stabilisation programme, HMRC made sensible trade-offs between its need to stabilise the tax system and remove the backlog while providing a fair service to customers and seeking to minimise the loss of revenue.

9 HMRC has also made significant progress since the 2010 spending review in delivering its strategic objectives, successfully reducing the cost of tax collection while increasing the tax it raises from its compliance work. It has improved its performance against the customer service targets it has set, though acknowledges it has much more to do to improve its service to the standard customers should expect.

10 In terms of its wider performance, we consider HMRC manages the risks to its core functions robustly and balances this carefully with opportunities to harness new technology and data to enhance its business. Our work on HMRC's management of its Aspire contract, through which it has outsourced the majority of its technology projects and services since 2004, found that it has a strong track record in delivering new technology and in ensuring the continuity of the core systems which are essential to the collection of tax revenue. However, our work on how HMRC is managing the phasing out of Aspire revealed significant risks to its technology strategy if HMRC is unable to build sufficient commercial and technical capability in the short time left available. We consider this is a major challenge given HMRC's substantial reliance on the capability of its suppliers for the last 10 years and its intention to recruit and develop the skills to run the integration and procurement of existing services and new technology using in-house rather than hired-in expertise in the future.

11 There are also some areas with a significant impact on the public finances, such as the administration of tax reliefs, where we see a need for more structured and proactive management. HMRC agrees that it has responsibility for evaluating whether tax reliefs are achieving their aims and for assessing their costs and benefits, and we found examples of good practice in this regard but also inconsistency and fragmentation. We see signs that a more specific and focused approach is beginning to emerge in HMRC, exemplified by the specialist unit HMRC has established to monitor patent box relief. We encourage HMRC to move forward in this direction, developing a range of techniques that it applies to each tax relief in a way that is proportionate to its assessment of risk.

12 In conclusion, we consider HMRC to be among the strongest government departments as regards its managerial competence and its robustness in managing the risks to its essential function of tax collection, on which almost all public services depend. It now faces some significant challenges, however, if it is to harness technology effectively and thereby exploit the data it collects to continue to improve the efficiency and effectiveness of its tax collection activities. HMRC must continue to adapt and learn from experience, and should ensure that it remains receptive to ideas from external stakeholders, including the NAO and Parliament, about how it could improve its performance. We believe that the strength of HMRC's performance should assist it in responding more openly to external scrutiny and constructive criticism.

13 We hope this overview of the progress made since 2010 provides Parliament with a useful status report and benchmark from which to measure HMRC's progress in strengthening its administration of the tax system further in the years to come.