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

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National Audit Office

HM Revenue & Customs

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

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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In this report we consider what HMRC has done in response to key recommendations from NAO and the Committee since 2010.



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# 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** | | | | |
| **Total[1]** | **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** | | | | |
| **Total[1]** | **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.

# Part One

## HMRC's progress against its strategic objectives since 2010

**1.1** HM Revenue & Customs (HMRC) is the principal revenue collecting department of the UK. Its purpose is to make sure that the money is available to fund the UK's public services and to provide targeted financial support to families and individuals. In doing so, it serves almost every person and every business in the UK.

### The objectives set for HMRC in the 2010 spending review

**1.2** HMRC's primary objectives since 2010 have been to maximise revenue, make sustainable cost savings and improve customer service. These are shown in **Figure 2** overleaf. Over the 4 years covered by the 2010 spending review (2011-12 to 2014-15), HMRC committed to:

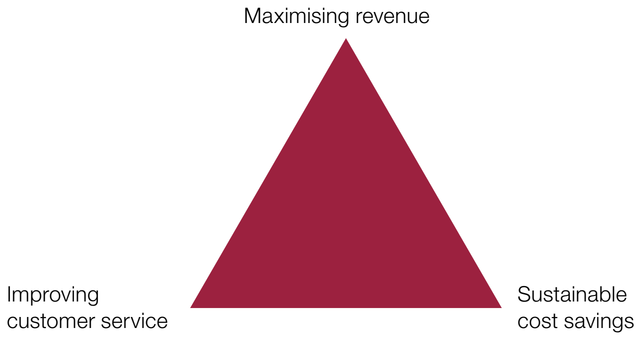
- **reduce the administration budget** by 33%;
- **reduce spending** by 25%; and
- **generate additional revenue of £7 billion per year by 2014-15**. HMRC reinvested £917 million from the required cost savings over the 4 years to combat tax avoidance, evasion and fraud. This meant creating 2,500 jobs in compliance roles by 2015 to widen coverage and combat the most serious evasion.

### Progress against the strategic objectives

**1.3** HMRC has made good progress since 2010 towards delivering its primary objectives, although it accepts that it has much more to do to improve its customer service. In December 2013, HMRC launched a plan to accelerate the digitisation of its business by providing modern, personalised online services for customers, which it updated in November 2014. HMRC is working on the detail of how it will be implemented, but successful delivery of this plan would place HMRC in the vanguard of government departments as regards its use of technology, data and processes to transform public services.

**Figure 2**
HMRC's strategic objectives since 2010

**HMRC has had three main objectives**




Source: HM Revenue & Customs spending review 2010 summary

## Maximising revenue

**1.4** HMRC estimates that it secured compliance revenue of £23.9 billion in 2013-14, over £7 billion more than the baseline set at the beginning of the spending review period. Despite an error in the baseline that HMRC originally set, it met the additional compliance yield targets agreed in the 2010 spending review. In 2013-14, it generated an increase of £7.3 billion against the target of £5.3 billion. HMRC believes it is on track to meet its 2014-15 target. **Figure 3** shows HMRC's reported compliance yield since 2011-12.

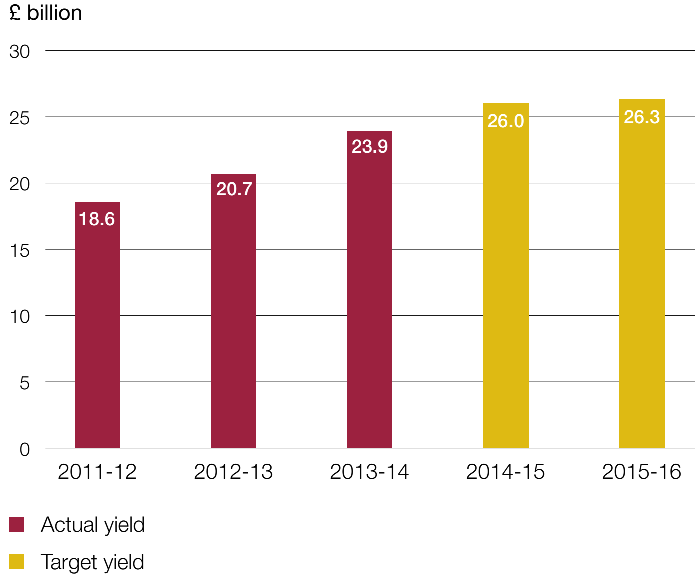
## Improving customer service

**1.5** Since 2010, HMRC has made some improvements to customer service while making efficiency savings. Customer service standards are not yet where HMRC wants them to be. However, HMRC has improved its performance for answering the phone and processing post from the low point these services reached in 2010-11. It has also begun initiatives to improve how it deals with peak times in mail and telephone contact. However, HMRC does not expect to achieve its 2014-15 customer service targets. We discuss customer service performance further in Part Seven.

## Figure 3

Compliance yield reported by HMRC since 2011-12 (excluding exceptional items)

**HMRC's reported compliance yield has increased since 2011-12**




**Note**

1 The baseline for the period is £16.6 billion.

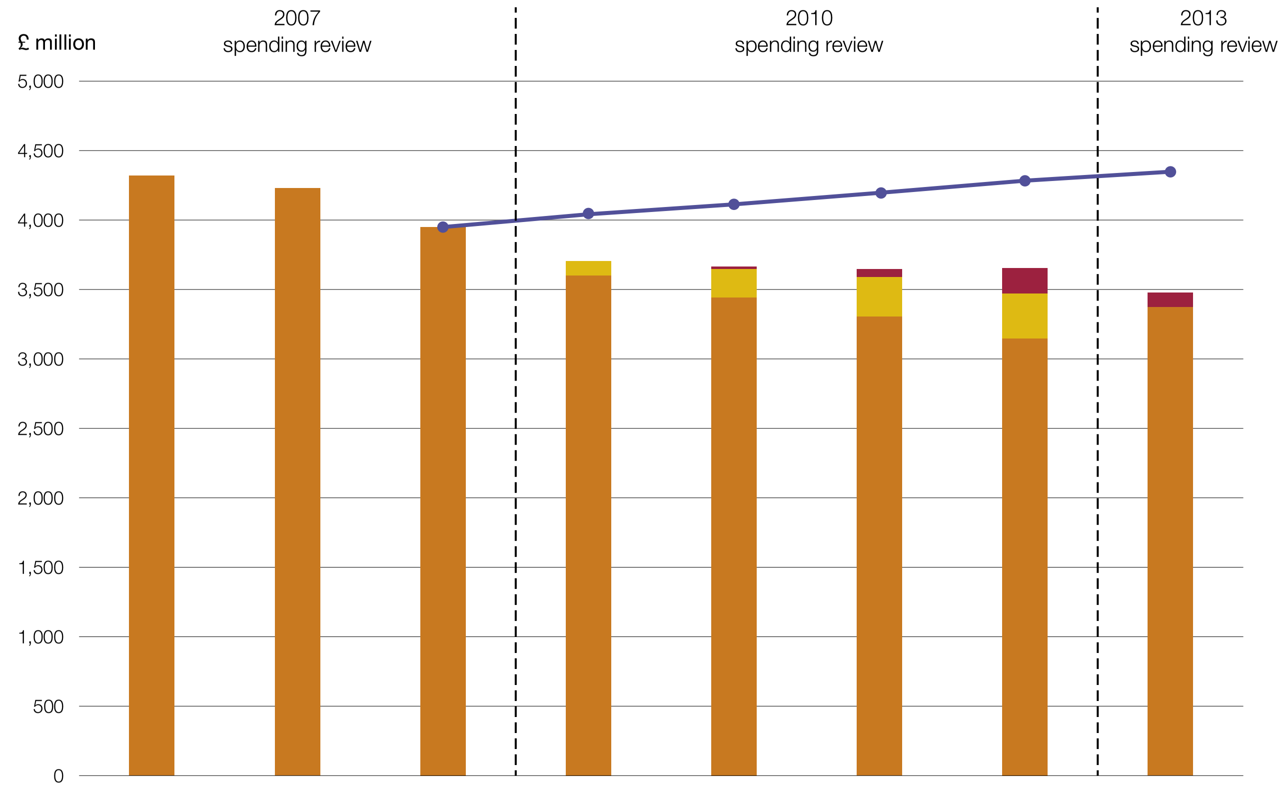
Source: HM Revenue & Customs, *Annual Report and Accounts 2013-14*, July 2014

## Sustainable cost savings

**1.6** Between 2010-11 and 2013-14 HMRC estimates that it has achieved £775 million of sustainable efficiency savings, £52 million more than target. It expects to deliver its target of £966 million in sustainable savings by:

- improving productivity and performance, enabling staff reductions of 10,000 by 2015 (from approximately 67,000 full-time equivalent employees in 2010);
- reducing the size of HMRC's estate by 300,000m² by the end of 2013-14; and
- reducing IT costs by more than £87 million a year by the end of 2014-15.

## Figure 4
HMRC's expenditure 2008-09 to 2015-16




| | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|---|---|---|
| Other additional funding | | | | | 20 | 50 | 180 | 100 |
| Reinvestment | | | | 100 | 210 | 280 | 330 | |
| Baseline funding | 4,320 | 4,230 | 3,950 | 3,600 | 3,440 | 3,310 | 3,150 | 3,370 |
| 2010-11 Budget inflated | | | 3,950 | 4,040 | 4,110 | 4,200 | 4,280 | 4,350 |

**Notes**

1 Baseline funding is Resource Account: total resource departmental expenditure limit. 2014-15 and 2015-16 are planned expenditure.

2 Additional funding relates to announcements in 2012 and 2013 autumn statements, 2014 budget and Universal Credit. Excludes 2014 autumn statement announcements as yet no formal agreement.

Source: HM Revenue & Customs

# Part Two

## Wider performance issues identified by the work of the NAO and the Committee of Public Accounts

**2.1** While acknowledging the positive progress HMRC has made since 2010, the NAO and the Committee of Public Accounts (the Committee) have voiced concerns about some major challenges and risks that HMRC now faces, as well as weaknesses in its management of tax rules that continue to expose the Exchequer to risk. The Committee has also expressed concern about whether the organisational culture is quick enough to respond to signals that its internal governance arrangements and management information systems may not be working effectively. This part considers some of the most significant challenges we consider HMRC now faces.

### Delivering HMRC's digital strategy

**2.2** HMRC's plan to modernise and transform its business depends on its ability to transform its business model to exploit new and more effective ways of working, for example by giving customers the tools they need to pay the right amount of tax. To do this, HMRC will need to harness data and exploit new technology and processes. Successful implementation of HMRC's digital strategy is therefore crucial.

**2.3** Our work on HMRC's management of its Aspire contract,[3] 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 on which the collection of tax revenue depends. We found that Aspire had provided service continuity, enabling HMRC to collect around £500 billion of tax each year with few significant service failures. Working with its prime supplier, Capgemini, HMRC has implemented 95% of major technology projects since April 2008 without a major incident. The contract had helped HMRC to automate more of its processes, enabling it to reduce its operating costs by 30% over seven years while significantly increasing the tax yield from its compliance work. We consider HMRC is one of the highest performing government departments in the way it manages the risks to its core functions while harnessing new technology and data to enhance its business. Its introduction and development of Connect technology to better detect tax risks (**Figure 5** overleaf) is a good illustration of this capability.

3 Comptroller and Auditor General, *Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014.

## Figure 5
Case study: HMRC's investment in Connect

**Connect has enabled HMRC to collect compliance revenue more efficiently**

Since 2008, HMRC has invested around £80 million in Connect, new technology to enable it to bring in an additional £3 billion in tax revenue. Connect allows compliance teams to search more than a billion pieces of data at the touch of a button, taking seconds to find evidence of potential evasion and fraud that would otherwise have taken skilled teams weeks to sift, sort and track down. This has enabled HMRC to reduce the number of people they have working in their Risk and Intelligence function by 40% while still increasing the compliance revenue they collect or protect.

Source: HM Revenue & Customs, *Annual Report and Accounts 2013-14*, July 2014

**2.4** On the other hand, our work on HMRC's preparations to replace its outsourced IT contract in 2017 with a different model 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 with in-house rather than hired-in expertise. In taking evidence on our report, the Committee was concerned about HMRC's slow progress in producing a credible business case for this transition. It also warned that moving too fast without having built sufficient capability could put at risk the systems that are essential to the effective collection of tax.

### Effective management of tax reliefs

**2.5** The NAO and the Committee have expressed concern about HMRC's management of tax reliefs. We consider that certain categories of tax relief, in particular those which seek to deliver specific policy objectives, require proactive management as they share many common features and carry similar risks. HMRC agrees that it has responsibility for evaluating whether tax reliefs are achieving their aims and for assessing their costs and benefits. We found examples of good practice in this regard, but also inconsistency and fragmentation in the way HMRC administers reliefs and insufficient sharing of information about their risks, costs and benefits.

**2.6** We have therefore recommended that HMRC should develop a methodology for identifying groups of similar reliefs and should identify what level of administration is appropriate for each type, taking into account factors such as objective, complexity and risk. We see signs that a more specific and focused approach is beginning to emerge in HMRC. For example, it has set up a specialist unit to monitor patent box relief and is developing new techniques to monitor risk and respond quickly to deviations in its use. We hope that more examples of this type will emerge and 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.

## HMRC's receptiveness to external perspectives on how it could improve

**2.7** The Committee has also voiced concern about how HMRC has handled whistleblowers and responded to procedural failings and flawed management information, including published data. For example, the Committee was concerned that HMRC had acted slowly on the concerns raised by a whistleblower about its governance of major tax settlements, particularly when our subsequent work revealed weaknesses in documentation about key decisions and cases where HMRC had not followed its governance processes. The Committee was also concerned that HMRC had missed an error of £1.9 billion in the baseline for measuring the effectiveness of its compliance work, which meant that HMRC had significantly overstated the extent of the improvement in its performance. The Committee recommended that HMRC review its internal governance for the production of such key data. HMRC's response was that the error was a one-off and that its current procedures are adequate.

**2.8** To meet its challenges successfully, we consider HMRC should be more receptive to learning from experience and from wider perspectives on its work, showing greater confidence to respond openly to external scrutiny and constructive criticism. As an organisation charged with, among other things, the enforcement of compliance with the tax code, we find HMRC's orientation is to respond robustly to external challenge, such that it can be slow to engage with ideas on how it could improve its business.

**2.9** We find this resistance to challenge contrasts with the robustness and energy with which HMRC has shown that it implements the NAO's and Committee's recommendations once they are accepted. For example, when we first examined HMRC's approach to tackling marketed tax avoidance schemes in 2012, we found an approach that relied on retrospective investigations and litigation of individual cases, which were time-consuming and not always effective.[4] When the NAO proposed that a more rounded, coordinated and pre-emptive approach was needed to change the economics of tax avoidance, HMRC was initially sceptical, arguing that it did not have the powers to tackle such schemes differently. Two years on, we find HMRC has accepted and is implementing all our recommendations and gone further, seeking and obtaining new powers. It has formed a substantial counter avoidance directorate that is developing and testing new ways to tackle aggressive tax avoiders proactively.

4 Comptroller and Auditor General, *Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012.

# Part Three

## Settling large tax disputes

### Why this is important

**3.1** HMRC is responsible for identifying and collecting the correct amount of tax to maximise revenue for the Exchequer. In doing so, HMRC becomes involved in tax disputes with businesses and individuals, concerning, for example, the amount of tax owed to HMRC or when it should be paid.

**3.2** Disputes between a tax authority and taxpayers are a normal feature of tax administration that arise in cases of all sizes. They occur partly because tax law is complex and HMRC and taxpayers can disagree on the way it should be applied. In large disputes, there can be significant amounts of tax at stake. For example in 2013-14, the total tax under consideration in the decisions referred to HMRC's commissioners amounted to £3.9 billion

### What the NAO and Committee of Public Accounts found

**3.3** Between 2010 and 2012, the Committee of Public Accounts (the Committee) took evidence three times from HMRC based on our analysis of how it resolved tax disputes. The Committee had serious concerns about how HMRC had handled some cases involving very large settlements where it had bypassed or overlooked governance arrangements. The Committee accepted that senior tax officials had to be accessible to major stakeholders. However, it believed that when meeting with these stakeholders, HMRC did not pay sufficient attention to whether a conflict of interest could be perceived. It called for HMRC to address these weaknesses urgently and be, and be seen to be, transparent in its dealings with companies with which it is in dispute.

**3.4** In 2010, the Committee said that HMRC should consider increasing transparency in large and complex tax cases to assure Parliament and the public that it is following due process.[5] In 2011, the Committee concluded HMRC had not applied due diligence in some of its tax disputes.[6] It recommended that HMRC must ensure that it has applied all relevant governance checks to cases before settling them.

5 HC Committee of Public Accounts, *HM Revenue and Customs' 2009-10 Accounts*, Eighteenth Report of Session 2010-11, HC 502, February 2011.

6 HC Committee of Public Accounts, *HM Revenue and Customs 2010-11 Accounts: tax disputes*, Sixty-first Report of Session 2010–12, HC 1531, December 2011.

**3.5** In 2012, a further report by the NAO examined in detail how HMRC resolved 5 major tax settlements with multinational companies.[7] While we concluded that all 5 settlements were reasonable, we found weaknesses in the way key decisions had been documented and reiterated the concerns that HMRC had not always followed its own governance processes. We also recommended that HMRC should update its litigation and settlement strategy to set out more clearly the balance between settling individual issues and reaching a wider settlement.

## What has changed?

**3.6** Since 2010, HMRC has responded positively to our and the Committee's criticism of its governance of large tax disputes. HMRC has made important changes that have substantially improved transparency and accountability.

**3.7** To improve the governance of tax disputes, HMRC has:

- mandated a clear separation of powers between those working on a settlement case and those responsible for approving it;
- appointed a tax assurance commissioner, who is also the second permanent secretary for HMRC, to oversee large tax settlements. The tax assurance commissioner is responsible for scrutinising the governance arrangements and providing assurance over the resolution of major disputes;
- introduced risk-based arrangements to scrutinise and approve tax settlements, in each part of its business. HMRC refers major disputed points or issues affecting multiple cases to cross-HMRC panels to promote consistency; and
- established independent scrutiny by internal audit of completed settlements.

**3.8** To improve transparency and accountability:

- The tax assurance commissioner has published annual reports in 2013 and 2014 describing HMRC's work, its progress in resolving major disputes, and how its new governance arrangements are working.
- HMRC has published and revised its code of governance. It has also updated and clarified its litigation and settlement strategy and published a detailed commentary to support it.

7 Comptroller and Auditor General, *Settling large tax disputes*, Session 2012-13, HC 188, National Audit Office, June 2012.

## What remains to be done?

**3.9** We consider that HMRC has responded effectively to our and the Committee's criticism about the way it governs large tax disputes. The appointment of a tax assurance commissioner and the publication of his annual reports are welcome changes that have significantly improved public confidence in how HMRC deals with large companies.

**3.10** In its 2011 report, the Committee further recommended that HMRC should make details of individual tax disputes available to the Committee to allow for more effective parliamentary scrutiny. The government disagreed: HMRC stated that such disclosure would breach its statutory duty to keep taxpayer details confidential and would hinder, rather than help, how it collects tax. In the new Parliament, the Committee might wish to consider if it has the information and analysis it needs to scrutinise HMRC's governance and assurance of its largest and most sensitive tax disputes.

# Part Four

## Tackling marketed tax avoidance

### Why this is important

**4.1** A fair and efficient tax system is fundamental to securing the revenue to support public services. HMRC aims to close the tax gap, which is the difference between the tax that is collected and the tax that should be collected. HMRC estimated the tax gap in 2012-13 to be £34 billion. Of this, HMRC estimates that £3.1 billion is lost to tax avoidance.

**4.2** Marketed tax avoidance is a significant risk to tax revenues. Marketed schemes are those that promoters sell to people or companies. Those buying the scheme will hope to benefit from the tax advantage the scheme offers. Tax evasion is illegal, involving fraud or deliberate concealment. Tax avoidance can involve contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage; the legality of such activity is often determined through litigation. HMRC estimates that there is around £14 billion of tax at risk from the avoidance schemes it is investigating.

### What the NAO and Committee of Public Accounts found

**4.3** We reported on how HMRC tackles marketed tax avoidance schemes in 2012.[8] The Committee of Public Accounts (the Committee), held a hearing to take evidence on our findings in December 2012. We found an approach that relied on retrospective investigations and litigation of individual cases. These were time-consuming and not always effective. HMRC did not know the cost of its anti-avoidance work, and that it had identified a stock of over 40,000 unresolved avoidance cases it was investigating but with no clear view or plan of how to manage or reduce this stock. The Committee concluded that the promoters of avoidance schemes had "run rings around HMRC".[9]

**4.4** We and the Committee proposed that HMRC needed to change the economics of tax avoidance. We reported in 2012 that there was "little evidence that HMRC is making progress in addressing this problem and it must now be vigorous in seeking more effective counter-measures, proposing legislative change where necessary." We recommended that HMRC increase its efforts to understand and influence the market of promoters of avoidance schemes. The Committee found that "promoters are currently winning what appears to be a game of cat and mouse with HMRC and deliberately taking advantage of the time lag between the launch of a scheme and the closure of a scheme by HMRC".[10]

8 Comptroller and Auditor General, *Tax avoidance: tackling marketed avoidance schemes*, Session 2012-13, HC 730, National Audit Office, November 2012.

9 HC Committee of Public Accounts, *Tax avoidance: tackling marketed avoidance schemes*, Twenty-ninth Report of Session 2012-13, HC 788, February 2013.

10 See footnote 7.

## What has changed?

**4.5** In responding to recommendations, HMRC has improved how it tackles marketed tax avoidance over the last two years. Rather than dealing with marketed avoidance once it is in the system, HMRC has refocused its activities on promoting compliance and deterring avoidance, supplemented by new powers to tackle those who subscribe to avoidance schemes (**Figure 6**). It has substantially revised its approach in two main ways:

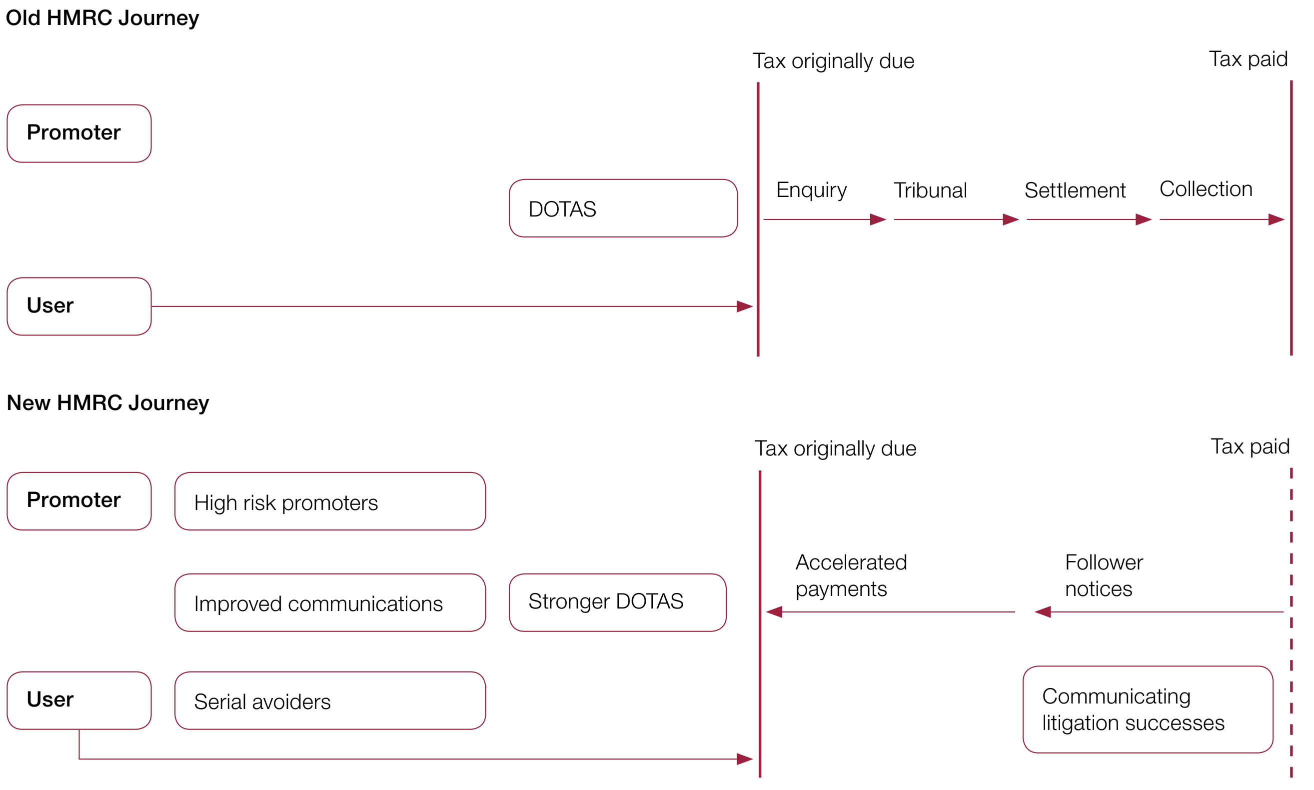
**a** Improving the coordination of its work to counter marketed tax avoidance schemes.

**b** Seeking new powers to tackle promoters and scheme users.

**Figure 6**

HMRC has changed how it tackles tax avoidance

**HMRC now has more tools to tackle the supply of (promoter) and demand for (user) marketed avoidance schemes**




**Note**

1 DOTAS refers to Disclosure of Tax Avoidance Schemes.

Source: National Audit Office analysis of HMRC information

## a Improving the coordination of work to counter marketed tax avoidance

**4.6** To coordinate its activities better, HMRC has set up a new counter-avoidance directorate. This will have 1,200 staff in post by the end of 2014-15. In establishing the counter-avoidance directorate, HMRC brought together its operational and policy responses in one team. Prior to this HMRC's operational response was not fully joined-up: the users of schemes were dealt with by local compliance teams, the schemes themselves by the specialist investigations team and related policy issues within the business tax team. This gives HMRC better information and more capability to identify and manage open avoidance cases, and recommend policy changes.

**4.7** HMRC has identified areas where it needs to improve its management information. Bringing its avoidance activity under one directorate gives HMRC a better understanding of the information it holds, and where it could be refined. HMRC is revising its methodology so that it takes a consistent approach to recording the number of open avoidance cases. HMRC has now identified 65,000 avoidance cases, which are under investigation. This is 24,000 more than when we published our study in November 2012. Changes to the way HMRC records open cases are likely to increase the number still further. For example, stamp duty avoidance cases may involve a husband and wife, but previously HMRC recorded such cases as having one rather than two users.

**4.8** HMRC is also doing more to publicise tribunal victories, including naming the promoters involved, and consulting on whether it should have new powers to name people who repeatedly use avoidance schemes. HMRC regularly publishes descriptions of schemes, to warn users that promoters are offering a tax avoidance scheme, rather than good tax advice.

## b Seeking new powers to tackle marketed avoidance

**4.9** HMRC has asked for and received new powers which should allow it to disrupt promoters' behaviour and challenge scheme users more quickly and effectively. These should remove many of the advantages of entering a tax avoidance scheme and increase the risk of doing so.

**4.10** When we reported in 2012, HMRC faced significant areas of challenge:

- The length of time it takes to resolve cases. Litigation is a lengthy process, which is an advantage to scheme users as they are able to retain the tax at dispute until a tax tribunal decision.
- Settling the backlog of cases. Where tribunals find in favour of HMRC, the other scheme users often do not settle as they argue that their arrangements are different.
- Repeat avoiders. There are a minority of people who use multiple tax avoidance schemes regularly.

**4.11** HMRC accepted our and the Committee's recommendations to address these issues. It has acted to disrupt the market and change the economics of promoting and operating avoidance schemes by seeking new powers in five areas:

- **An accelerated payment rule.** This gives HMRC the power to issue accelerated payment notices to those who use tax avoidance schemes. Under this rule, HMRC, rather than the user, can hold the disputed tax until the case is resolved.
- **Follower notices to tackle avoidance schemes with multiple users.** HMRC obtained new powers in 2014 to help it resolve tax avoidance cases more quickly. HMRC can now issue 'follower notices' to scheme users where, in its view, the issues have already been decided by a court or tribunal. Scheme users can continue their dispute, but do so at risk of a penalty if they are unsuccessful at tribunal.
- **Powers to tackle serial avoiders.** HMRC has announced it will consult on actions it could take to impose additional compliance and reporting requirements and costs on the repeat users of avoidance schemes.
- **A stronger disclosure regime.** HMRC consulted on strengthening its disclosure regime, known as DOTAS (Disclosure of Tax Avoidance Schemes), in 2014. Proposed measures to strengthen DOTAS include: allowing HMRC to publish summary information about disclosed tax avoidance promoters and schemes; and, updating and extending the descriptions of schemes that must be disclosed. HMRC also plans to establish a DOTAS taskforce to prevent scheme users from avoiding the new rules.
- **Conduct notices and other sanctions on scheme promoters.** In 2014 HMRC obtained powers to issue conduct notices to promoters whom it considers abuse the rules, and to publish the names of promoters who breach a conduct notice. HMRC intends to use this measure to tackle around 20 promoters who sell schemes that have little chance of working, who rely on failing to disclose relevant material to HMRC, or who provide misleading descriptions of the schemes they promote.

**4.12** A general anti-abuse rule (GAAR) was also announced in 2012. The GAAR is designed to tackle abusive tax avoidance schemes where the current law is unable to defeat arrangements that achieve a tax outcome the legislation had not intended. This legislation took effect in July 2013 (March 2014 for National Insurance contributions). The timing of tax returns means that HMRC is likely to be considering the first cases where GAAR could apply in 2015.

## What remains to be done?

**4.13** HMRC's response to our and the Committee's recommendations on marketed tax avoidance has been exemplary. In the next parliament, the Committee may want to examine whether HMRC's new powers to tackle marketed avoidance are working as intended. HMRC will need to demonstrate that it is reducing its backlog of 65,000 open avoidance cases. It also faces the challenge of finding ways to measure the impact of new approaches it is introducing to promote compliance and prevent tax avoidance from happening. The impact of these will be harder for HMRC to measure than the additional tax yield HMRC secures from its investigations.

# Part Five

## The Committee's interest in issues of international tax

### Why this is important

**5.1** International tax law and the tax practices of multinational companies have a significant bearing on the amount of tax paid in the UK. The Committee of Public Accounts (the Committee) has taken a strong interest throughout this parliament in promoting a fair and efficient tax system in the UK and challenging what it considers to be harmful tax practices. The Committee's work has highlighted that some issues are international in nature and require a more coordinated approach between tax administrations worldwide.[11] There has been significant global debate and interest in international tax issues, in which the Committee has been influential.

### What the Committee found

**5.2** In October 2014, the Committee held a conference on the impact of globalisation on taxation. The opening address of the conference set out the Committee's views:

> "Who pays tax and who avoids paying tax – whether it's legal or not – has become a major issue of public debate and public concern. It is unfair and offensive to many people that companies and individuals can take advantage of expensive advice to choose how much tax they pay on the money they make, or the profits they earn. Paying tax should cease to be a voluntary gesture for the rich and the powerful and a civic obligation for the rest of us. We should all pay our fair share of tax. Exploiting the complexity of our tax rules to avoid paying a fair share of tax is therefore morally reprehensible. We are both bewildered and shocked at sheer lengths that some companies … will go to get out of paying their fair share of tax on the profits they make in the jurisdictions in which they do business."[12]

**5.3** This debate extends beyond issues of tax administration and raises questions about the need for reform of tax law which fall outside our remit. We have therefore not sought to evaluate the adequacy of international tax law in our value for money work.

11 HC Committee of Public Accounts, *Tax avoidance: the role of large accountancy firms*, Forty-fourth Report of Session 2012-13, HC 870, April 2013.

12 Committee of Public Accounts conference, 'Impact of globalisation on taxation', 30 October 2014.

## What has changed?

**5.4** The Committee's main concerns have been in three areas: the need to reform international tax rules; whether HMRC does enough to challenge artificial tax arrangements by multinational companies; and whether it could do more to share information on potential tax evasion with other tax authorities.

### Reforming international tax rules

**5.5** The government has sought to address the Committee's recommendation that the UK should lead on international tax reform to tackle cross-border avoidance and evasion. It has supported the Organisation for Economic Co-operation and Development's (OECD's) *Action Plan on Base Erosion and Profit Shifting* (BEPS)[13] and used the UK's presidency of the G8, in 2013, to call for new standards of transparency for multinational corporations.

### HMRC's challenge of artificial tax arrangements by multinational companies

**5.6** HMRC has taken steps to tackle tax practices which the Committee has called into question, although their impact is yet to be demonstrated. It has invested in its capacity to challenge transfer pricing and will implement new legislation to address avoidance by multinational companies. In 2012, the government gave HMRC an extra £29 million to help it challenge abusive transfer pricing arrangements and strengthen its risk assessment capability across large business. HMRC is using the funding to employ additional staff, although the roles require specialist knowledge and HMRC has said it will take some time to recruit and train staff. HMRC expects that the OECD will recommend further changes to transfer pricing rules through its BEPS project.

**5.7** The government announced a new diverted profits tax at autumn statement 2014 to address companies that divert their profits out of the UK. Legislation will be included in the 2015 Finance Bill. The new tax will affect companies who enter into contrived arrangements to divert profits from the UK by avoiding a UK taxable presence or by other contrived arrangements. The diverted profits will be subject to tax of 25% from 1 April 2015.

13 Organisation for Economic Co-operation and Development, *Action Plan on Base Erosion and Profit Shifting*, 2013.

## Sharing information with other tax authorities

**5.8** We also examined HMRC's progress in recovering tax through the UK-Switzerland tax agreement, which has addressed UK resident individuals holding money in Swiss bank accounts. The government reached agreement with the Swiss authorities in October 2011, to tackle offshore evasion by UK holders of Swiss bank accounts. In 2012, HMRC estimated that the agreement would generate £5 billion for the Exchequer by March 2016 but reduced its estimate to £1.7 billion by March 2016 the following year. By November 2014, HMRC had secured £1.2 billion in tax from UK holders of Swiss bank accounts. As part of this work, HMRC contacted over 22,000 individuals to provide them with an opportunity to self-certify if their tax affairs were in order or to provide a voluntary disclosure. The next instalment of this withholding tax is due by the end of March 2015. After a slow start, HMRC appears to be on track to meet its revised forecast of tax yield from the UK-Swiss agreement.

**5.9** HMRC is continuing to investigate 3,600 UK taxpayers whose Swiss account details were leaked by a former employee of HSBC, known as the Lagarde List. In November 2014, the Committee raised concern about HMRC's slow progress in acting on this information. HMRC has recouped £136 million from these investigations to November 2014. It does not have an estimate of the final expected yield.

# Part Six

## Improving the administration of personal tax

### Why this is important

**6.1** Pay As You Earn (PAYE) is HMRC's largest single tax collection process. For many people PAYE is their only contact with income tax. It relies on employers deducting the correct amount of tax from a taxpayer's income and paying it to HMRC. The PAYE system aims to collect the correct amounts evenly during the year. Errors can have a big impact on taxpayers who will experience uncertainty and inconvenience, and in some cases suffer financial hardship. In 2013-14, HMRC collected £162.1 billion in income tax and £106.7 billion in National Insurance contributions, most of which was collected through PAYE.

**6.2** Before the start of this parliament, HMRC had significant problems when it introduced a new system to modernise the collection of PAYE – the National Insurance and PAYE Service (NPS). NPS combined individuals' tax records into a single taxpayer account. The PAYE service was severely impaired during the implementation of NPS, affecting millions of taxpayers.

**6.3** The next phase of HMRC's modernisation of the PAYE system was real-time information (RTI). RTI aims to improve the timeliness and accuracy of the data HMRC collects about what income tax is due and collected under PAYE. It requires employers to submit a record of the income and the tax deducted each time they make a payment to their employees.

### What the NAO and the Committee of Public Accounts found

**6.4** At the start of this parliament HMRC was completing the final phase of its project to modernise income tax collection through the PAYE system. The NPS brought together all of an individual's employment and pension income into a single record. HMRC had previously held these records separately, which increased the likelihood of HMRC issuing an inaccurate tax code or collecting too much or too little tax.

**6.5** We have reported annually on the administration of PAYE during this parliament, and each time the Committee of Public Accounts (the Committee) has taken further evidence from HMRC on its progress.[14] We reported that failings in HMRC's processes had led to significant data problems when it implemented NPS. This led to errors in the tax codes people received and an inability to reconcile tax records. HMRC was slow to tell people about these problems. By December 2009, it had identified that up to seven million people had under- or overpaid income tax during 2008-09, but did not begin to tell them until September 2010. Many customers attempted to contact HMRC, which further impacted on the service HMRC could provide. We reported on *Managing and replacing the Aspire contract* in 2014 and found that this level of performance was not typical and that HMRC had a strong track record of delivering technology projects.[15]

**6.6** These issues led the Committee to conclude that HMRC failed in its duty to process PAYE accurately and on time.[16] In 2013 and 2014, we and the Committee reported on the much more successful implementation of the Department's RTI project.[17,18]

## What has changed?

### National Insurance and PAYE service (NPS)

**6.7** In 2011, the Committee drew a commitment from HMRC that it would stabilise the NPS system and clear the backlog of open cases by the end of March 2013. HMRC met this commitment and managed the process robustly, taking reasonable decisions along the way of what was and wasn't achievable. Its work to stabilise PAYE cost £78.9 million and HMRC chose not to collect around £953 million of tax to keep workloads manageable. HMRC also chose to forego the recovery of underpayments of income tax from 250,000 pensioners where their tax codes for 2008-09 and 2009-10 did not reflect that they were receiving a state pension as well as other income. HMRC judged that this group of people could reasonably have claimed a concession as it had not used information in a timely manner.

**6.8** We reported that during 2013-14 HMRC used the NPS system more effectively to automate tasks, and that HMRC now had the capacity to handle the volume of work it generated. NPS was an outlier against HMRC's track record of developing and implementing technological changes effectively. HMRC's actions to resolve the problems NPS created demonstrated sound management of a challenging situation.

14 See reports by Comptroller and Auditor General on HMRC's annual reports and accounts.
15 Comptroller and Auditor General, *Managing and replacing the Aspire contract*, Session 2014-15, HC 444, National Audit Office, July 2014.
16 HC Committee of Public Accounts, *HM Revenue and Customs' 2009-10 Accounts*, Eighteenth Report of Session 2010-11, HC 502, February 2011
17 HC Committee of Public Accounts, *HMRC Tax Collection: Annual Report and Accounts 2012-13*, Thirty-fourth Report of Session 2013-14, HC 666, December 2013.
18 Comptroller and Auditor General, *HM Revenue & Customs 2013-14 Accounts*, National Audit Office, June 2014.

### Real time information (RTI)

**6.9** In its implementation of RTI, we found that HMRC had learned the lessons from NPS and phased the new system's introduction, starting with a pilot during 2012-13. This allowed HMRC to test how the system functioned before it went live.

**6.10** HMRC has also listened to taxpayers and tried to understand and respond to concerns about the burden of RTI on small businesses. In March 2013, HMRC announced a one-year relaxation of some rules for employers with up to 49 employees. It used this period to work with businesses on areas of specific concern. It extended the temporary relaxation to April 2016 for existing micro-businesses with up to 9 employees.

### Future improvements to the administration of PAYE

**6.11** The NPS and RTI systems have allowed HMRC to do more to keep taxpayer records up-to-date in-year than its previous computer systems. NPS combined data from separate areas of its business to give a single record of each taxpayer's employment and pension income. RTI gives HMRC the capability to update records throughout the year.

**6.12** NPS and RTI will support HMRC as it modernises its business and provides a better service with fewer and better-targeted resources. HMRC sees digital services as vital to achieving this. HMRC's ability to offer automated online services will build on the data and information available through the modernisations of the PAYE system already achieved.

## What remains to be done?

**6.13** Through the introduction of NPS and RTI, HMRC has significantly improved the administration of PAYE. HMRC recognises that it has more to do to realise the benefits from PAYE modernisation. We reported in 2014 that HMRC has a high-level vision for the PAYE operating model. However, the detail of this vision, including the opportunities to fully exploit RTI data, still needs to be refined. In the new parliament, the Committee may wish to press HMRC on how it is using RTI.

**6.14** The Committee recommended in December 2013 that HMRC must work to improve the provision for disaster recovery within RTI, especially as information from RTI will be essential to calculating benefit payments under Universal Credit. The government responded that it has adequate measures in place and that full disaster recovery was not necessary for tax purposes, and the cost of providing it was prohibitive. In the new parliament, the Committee may wish to examine the robustness of the RTI systems as Universal Credit is rolled out.

# Part Seven

## Improving customer experience

### Why this is important

**7.1** HMRC interacts with over 45 million people and 4.9 million business customers, predominantly in the collection of tax. One of HMRC's strategic objectives is to improve the service it provides to customers. HMRC aims to improve customer experience by reducing the cost of engaging with HMRC and by making its processes and products more simple and straightforward.

**7.2** People do not have a choice about whether or not they interact with HMRC. This places an even greater obligation on HMRC to provide a good service and deliver the standards of customer service that people expect from other businesses. Good customer service can also reduce costs to HMRC – as it will have fewer repeat calls or letters – and reduces the time and effort people need to spend to pay the correct amount of tax.

### What the NAO and Committee of Public Accounts found

**7.3** We and the Committee of Public Accounts (the Committee) reported on HMRC's customer service performance in 2012 and 2013.[19,20] The Committee regularly asks HMRC about this performance when taking evidence on other subjects. We found that HMRC had improved its customer service from a low point in 2010. Despite this, customers were still not getting a good service. HMRC had not met all its targets despite them being lower and covering fewer areas than those of other organisations. Most HMRC telephone helplines were more expensive 0845 numbers. The Committee concluded that HMRC has an "abysmal record on customer service but has given us welcome commitments for how it plans to improve".

19 Comptroller and Auditor General, *Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012.

20 HC Committee of Public Accounts, *HMRC: Customer service*, Thirty-sixth Report of Session 2012-13, HC 869, March 2013.

## What has changed?

**7.4** The Committee has recognised and welcomed a change in HMRC's attitude to customer service. In its report *HMRC: Customer Service* (2013), the Committee found that in the past HMRC had considered it too difficult to implement recommendations to improve services and reach standards that are commonplace elsewhere. The Committee noted an attitude change from HMRC and recognition that better customer service is an essential part of its strategy to collect revenues while also reducing costs.

**7.5** HMRC's recent customer service performance has varied. Performance has improved since 2010-11 but HMRC does not expect to meet its 2014-15 targets (**Figure 7**). HMRC achieved its target to answer 80% of post within 15 days in 2012-13 and 2013-14, but a dip in performance this year means it will not now meet its target. HMRC has attributed this lower performance to diverting some staff dealing with customer post to support tax credits renewals. HMRC has previously worked towards answering 90% of telephone calls, but has not come close to this level of performance. For 2014-15 it has revised this target to 80% of calls answered, but it does not expect it will be able to achieve this.

**7.6** In 2012, we recommended that HMRC should provide "alternatives to 0845 numbers, to reduce the cost to customers". HMRC has reduced the costs of customers calling its helplines. It began to change to 03 numbers at the start of 2013 and had withdrawn all its 0845 numbers by the end of December 2014. HMRC estimated that customers will save £13 million annually by replacing its 0845 numbers with cheaper 03 numbers.

## What remains to be done?

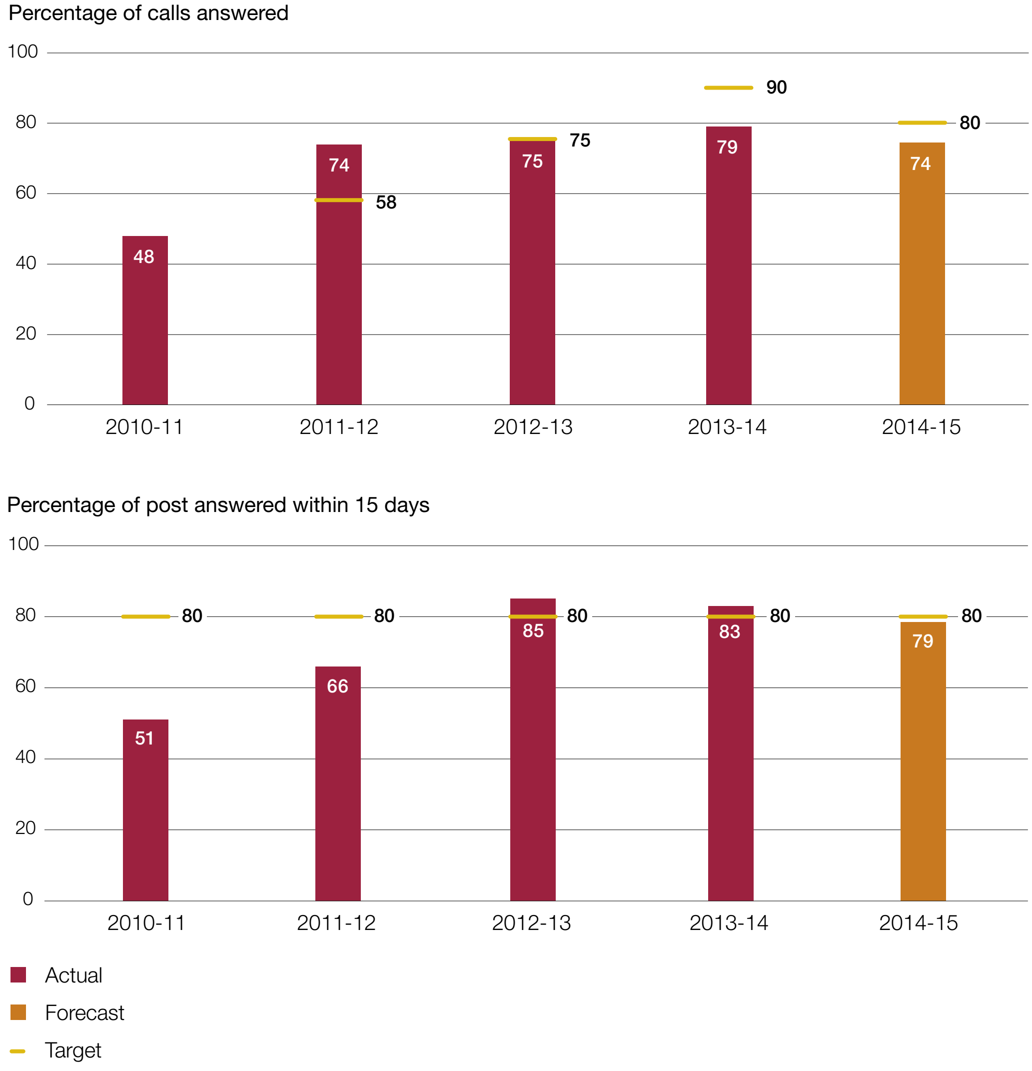
**7.7** HMRC recognises that its customer service performance over this parliament has been unacceptable and that while it has made improvements, it has fallen short of the standards that people should expect. HMRC has not met all its target levels of performance and it has recently acknowledged that its telephone services are not good enough at peak times.

**7.8** In 2013, the Committee concluded that "HMRC's target of answering 80% of calls within five minutes is woefully inadequate and unambitious." It recommended that HMRC set a more challenging short-term target for call-waiting times, and a long-term target that is much closer to industry standard. HMRC disagreed with the recommendation, responding that it had to balance the costs of introducing new targets against other priorities, such as improving the quality of customer advice.

**7.9** In the longer term, HMRC aims to provide its customers with the same high levels of service as experienced from banks, retailers and other service organisations offering more personalised and convenient contact. HMRC sees digitalisation as key to its ability to modernise its business and deliver a better service with fewer and better targeted resources. In the new parliament, the Committee might wish to consider HMRC's progress in improving customer service, and how quickly and effectively HMRC is digitising its processes to give a better level of service which responds to customers' needs.

## Figure 7
HMRC customer service performance (2010-11 to 2014-15)

**HMRC has improved against its key measures of customer service performance for telephones and post since 2010**




Source: HM Revenue & Customs, *Annual Report and Accounts 2013-14*, July 2014; HM Revenue & Customs, *Annual Report and Accounts 2012-13*, July 2013; and Comptroller and Auditor General, *Customer service performance*, Session 2012-13, HC 795, National Audit Office, December 2012

# Appendix One

## HMRC's approach to monitoring the implementation of recommendations

**1** HMRC is the subject of scrutiny and recommendations from a number of external bodies. In addition to the Committee of Public Accounts (the Committee) and NAO, these include the Treasury Select Committee, HM Inspectorate of Constabulary, the Major Projects Authority, the European Commission and the European Court of Auditors.

**2** HMRC reported that it received over 300 recommendations from external bodies during 2013-14. The volume of recommendations made to HMRC makes it important that it has a system in place to track and monitor their implementation.

**3** In our work we found that HMRC's approach to monitoring the implementation of recommendations had developed over this parliament and become more comprehensive; and, that it now reports publicly data on the number of recommendations made by external scrutiny bodies.

### HMRC's approach to monitoring the implementation of recommendations has developed over this parliament and become more comprehensive

**4** HMRC began to formally monitor the implementation of recommendations in late 2009. At this time it reported updates on recommendations from the Committee and the NAO to its Audit and Risk Committee twice a year. There was little uniformity in its approach to reporting information to the Audit and Risk Committee from those responsible for implementing a recommendation (the business owners within HMRC).

**5** Since 2012, HMRC has revised its approach so that its internal reporting to the Audit and Risk Committee is more frequent and comprehensive. HMRC has increased the frequency of its updates to the Audit and Risk Committee and now reports to each bi-monthly meeting. These reports now include progress in implementing recommendations from a wider range of external organisations, such as the Major Projects Authority. HMRC has expanded this further since April 2014 to include recommendations from cross-government reports by the Committee or the NAO that it considers relevant.[21]

21 Reports examining cross-cutting issues relevant to some or all government departments.

**6** HMRC's process for monitoring recommendations via its Audit and Risk Committee is now well-established and is consistent. The Committee receives information on:

- whether relevant business units have implemented or have rejected recommendations from external organisations;
- the number of recommendations implemented and new recommendations received since its last meeting; and
- how HMRC plans to proceed with overdue recommendations, which have not been implemented by the agreed implementation date or within 12 months.

**7** HMRC has categorised its recommendations to indicate those where the failure to implement them is likely to have the greatest financial, operational or reputational impact. Tier 1 recommendations are those made by the Committee of Public Accounts, the National Audit Office, other parliamentary committees, the Major Projects Authority and the Independent Police Complaints Commission. HMRC considers failure to implement accepted Tier 1 recommendations as likely to have the greatest impact. HMRC reports these every two months. Tier 2 recommendations are made by other external organisations and are considered to be lower impact, with updates reported to the Audit and Risk Committee twice a year in May and November. There are two further sub-categories, with recommendations also labelled as 'significant' or 'routine' to indicate their importance.

**8** Our work indicates that there is appropriate ownership of implementing the recommendations within HMRC. We have seen examples of where business owners have reclassified recommendations from routine to significant, for example to highlight that completion by the target implementation date may not be possible. We have also seen cases where business owners have challenged and re-opened recommendations that they had previously closed, reflecting ongoing internal scrutiny.

## HMRC's reporting of data on the number of recommendations made by external bodies

**9** As well as improving its internal reporting, HMRC reports headline data on the status of recommendations from external bodies. Since 2012-13 HMRC has reported this data in its annual report and accounts. **Figure 8** overleaf is the table that HMRC published in 2013-14. HMRC reported that it had put in place action plans and agreed revised dates for all overdue recommendations, and that these are reviewed at each Audit and Risk Committee.

## Figure 8

Recommendations made to HMRC by external bodies, 2013-14

**HMRC reports data on the status of recommendations from all external bodies that make recommendations**

| External organisation making recommendation | Opening balance | New | Closed | Closing balance | Overdue |
|---|---|---|---|---|---|
| **Tier 1 recommendations** | | | | | |
| NAO/PAC/TSC | 22 | 61 | 61 | 22 | 5 |
| NAO section 2 and management letters | 57 | 128 | 138 | 47 | 9 |
| NAO cross-cutting reports | 0 | 29 | 21 | 8 | 0 |
| Independent Police Complaints Commission and the Major Projects Authority | 16 | 37 | 36 | 17 | 3 |
| **Total** | **95** | **255** | **256** | **94** | **17** |
| **Tier 2 recommendations** | | | | | |
| Deep dive reviews (includes starting gate and project assessment reviews) | 9 | 40 | 29 | 20 | 0 |
| European Commission and European Court of Auditors | 36 | 18 | 14 | 40 | 0 |
| Health and Safety | 5 | 1 | 5 | 1 | 1 |
| HM Inspectorate of Constabulary | 5 | 15 | 6 | 14 | 0 |
| Interception of Surveillance Commissioner | 0 | 6 | 1 | 5 | 0 |
| Office of Surveillance Commissioners | 1 | 8 | 9 | 0 | 0 |
| UK Statistical Authority | 5 | 0 | 5 | 0 | 0 |
| GCHQ | 1 | 0 | 0 | 1 | 1 |
| **Total** | **62** | **88** | **69** | **81** | **2** |

Source: HM Revenue & Customs, *Annual Reports and Accounts 2013-14*, July 2014

# Appendix Two

## How we compiled this report

**1** This report sets out how HMRC has responded to key recommendations by the Committee of Public Accounts (the Committee) and the National Audit Office (NAO) between June 2010 and December 2014. In this report we have examined HMRC's responses to recommendations in the following areas:

- settling large tax disputes;
- tackling marketed tax avoidance;
- the Committee's interest in issues of international tax;
- improving the administration of personal tax; and
- improving customer experience.

**2** We have published alongside this report:

- an annex that provides a more detailed description of HMRC's response to key recommendations;[22] and
- a database of the recommendations made by the Committee to HMRC between June 2010 and December 2014.[23] This includes the government response to recommendations from the Committee.

22 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.

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

## Our evidence base

**3** We undertook fieldwork between October and December 2014 to examine HMRC's progress against key recommendations from the NAO and the Committee. In our fieldwork:

- We reviewed formal government responses to recommendations from published Treasury Minutes.
- We reviewed the updates HMRC provides to its Audit and Risk Committee on the implementation of specific recommendations from the NAO and the Committee.
- We reviewed HMRC's published reports and data, such as customer surveys, briefings on tax collection and compliance and yield statistics.
- We carried out interviews with departmental staff to gather further information on progress in responding to recommendations in the 5 key areas of this report.
- We verified the information we received against the evidence we obtained during our financial audits and value-for-money work.

**4** We also examined HMRC's response to all recommendations from the NAO and the Committee, including those made in cross-government reports that refer directly to HMRC. We confirmed with HMRC the latest position in relation to recommendations that we did not examine in this report to inform Figure 1. We reviewed documentary evidence for a sample of recommendations to ensure HMRC's descriptions matched our understanding of the changes.

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