National Audit Office

Report
by the Comptroller
and Auditor General

HM Revenue & Customs

Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks

HC 610 SESSION 2015-16 17 DECEMBER 2015

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HM Revenue & Customs

Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 16 December 2015

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Sir Amyas Morse KCB
Comptroller and Auditor General
National Audit Office

15 December 2015

HC 610 | £10.00

This report provides an overview of the issues facing HM Revenue & Customs (HMRC) in dealing with tax fraud and how it has responded to them.

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Contents

The National Audit Office study team consisted of:
Mikey Brooks, Richard Hagen, Colm Molloy, Jonny Mood and Sarah Taylor, under the direction of Rob Prideaux.

This report can be found on the National Audit Office website at www.nao.org.uk

For further information about the National Audit Office please contact:

National Audit Office
Press Office
157–197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

Key information

Figure 1

What this report is about

This report looks at tax fraud. This is where the law has been broken.

This differs from our previous work on tax avoidance, which looked at the problem of people bending the rules of the tax system to gain a tax advantage that Parliament never intended.

Definitions of tax fraud

HM Revenue & Customs (HMRC) has identified three types of behaviour that illegally deprive the Exchequer of tax revenue; we refer to these as tax fraud.

Evasion

when registered individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities. Evaders will typically engage with HMRC, but understate a declared source of income

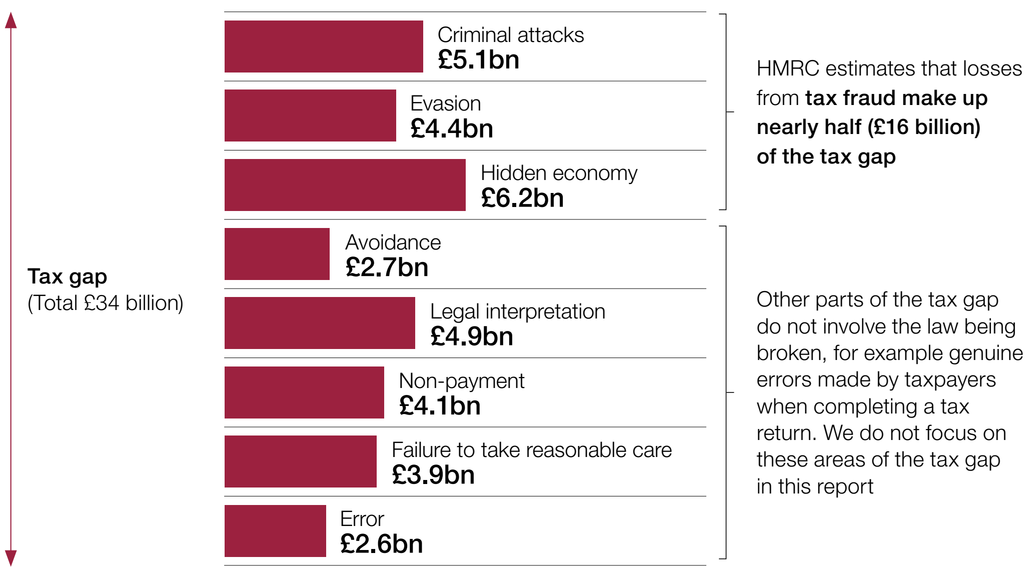
Hidden economy

involves people whose entire income is unknown to HMRC ('ghosts') and those for whom HMRC knows of some sources of income but not others ('moonlighters')

Criminal attacks

typically involve coordinated and systematic actions by criminal gangs, with varying levels of sophistication and organisation

Losses from tax fraud are £16 billion per year



Source: National Audit Office

HMRC addresses tax fraud as part of its overall approach to tackling non-compliance. Non-compliance encompasses all of the tax gap.

HMRC's overall approach to tackling non-compliance is threefold:

- **Promote** compliance with tax law.
- **Prevent** people and businesses getting their tax affairs wrong.
- **Respond** when people and businesses do get it wrong.

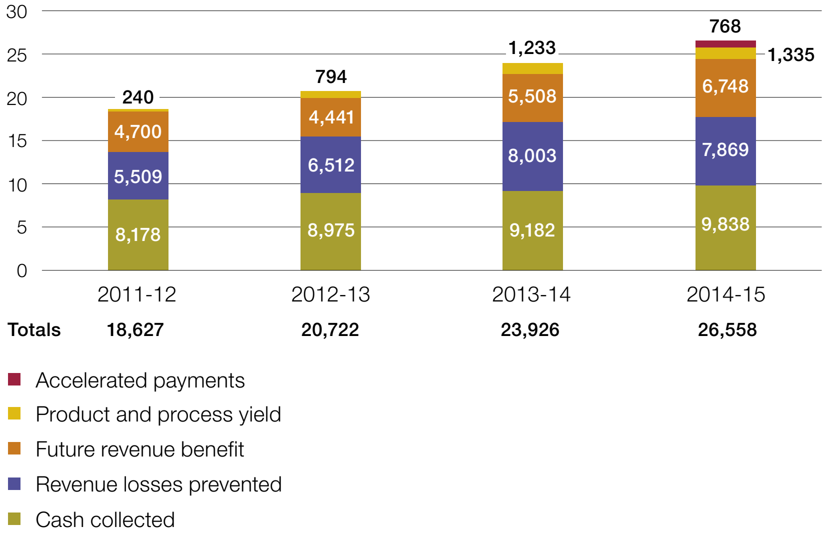
HMRC's Enforcement and Compliance division is responsible for identifying and managing risk to taxation.

'Compliance yield' is the additional tax revenue generated by HMRC's work to close the tax gap

HMRC has met its overall targets to increase compliance yield. It reported additional revenue of £26.6 billion in 2014-15, exceeding its target by £0.6 billion.

It has only partial data on how much revenue was protected by its work to tackle tax fraud.

Yield from tackling all parts of the tax gap (£m)



Summary

What we mean by tax fraud

1 HM Revenue & Customs (HMRC) is responsible for administering the tax system, including the management and reduction of risks to tax revenue. HMRC measures the gap between what tax revenue it should in theory collect and what it does collect (the tax gap) and assesses what behaviour led to that gap. Where these behaviours lead to the law being broken we refer to this as ‘tax fraud’ (**Figure 1** on pages 4 and 5).

2 Tax fraud is a longstanding and intractable problem, not only for HMRC but for tax administrations across the world. Reducing the amount of tax that is lost because of people and businesses acting illegally is a high priority for HMRC.

3 HMRC addresses tax fraud as part of its overall response to those who fail to comply with their tax liabilities. HMRC’s wider compliance and enforcement work encompasses all the behaviours that contribute to the tax gap. The difference between behaviours is not always clear cut. Tax fraud differs from tax avoidance, which involves acting within the letter but not the spirit of the law; when investigated, tax avoiders may be found to have misused tax rules but their actions are not normally illegal.

Context of this report

4 This report provides an overview of the issues facing HMRC in dealing with tax fraud and how it has responded to them. Over the course of this Parliament we will evaluate how effective HMRC is in tackling different facets of tax fraud. In this report we describe:

- the nature and scale of tax fraud in the UK (Part One);
- how HMRC tackles these problems (Part Two); and
- HMRC’s approach to prosecutions (Part Three), which has been a particular area of interest to the Committee of Public Accounts.

5 We also reflect on the choices to be made in designing an approach to tackle tax fraud and the importance of data and analysis to inform and influence these choices. The way that HMRC addresses tax fraud is taking place in the context of wider changes it is making to its business. In particular, these changes have focused on transforming the business processes and systems that collect tax from those who are willing to pay, which accounts for 95% of all tax revenue. Since 2010, HMRC has also made a successful case for investment in its enforcement and compliance work in order to increase the revenue it raises from those less willing to comply, which accounts for the remaining 5% of revenue.

6 HMRC has an ambitious long-term strategy to transform its business by enhancing its use of data and technology. It has committed to implementing fundamental changes to its business model designed to have a lasting impact. A great deal of HMRC's energy and focus over the next five years will be to automate its systems and migrate more taxpayers into digital channels in order to increase its efficiency and effectiveness. Its strategy places considerable emphasis on doing more to help taxpayers get their tax right first time.

7 If successful, these measures will increase the amount of tax HMRC collects through its standard processes, allowing an increasing proportion of its expertise to be devoted to tackling those who deliberately break the rules. As we reported in July 2015, HMRC's plans for change are ambitious and carry with them significant delivery risks.[1]

The nature and scale of tax fraud

8 There is a wide range of ways in which people break the law by not paying taxes that are due. HMRC has defined three main behaviours (**Figure 2** overleaf):

- evasion, where individuals or businesses omit, conceal or misrepresent information to reduce their tax liabilities;
- participation in the hidden economy, where an entire source of income is not declared; and
- criminal attacks, where organised criminals carry out coordinated attacks on the tax system such as smuggling goods to evade excise duty or fraudulently generating repayments of tax.

We use the term 'tax fraud' in this report as a generic term to refer to these behaviours (paragraph 1.3).

9 HMRC estimates that losses to tax fraud amount to £16 billion each year. This is nearly half of HMRC's current estimate of the tax gap (£34 billion). The tax gap is only an estimate, but it is the best data available on the amount of tax lost, including through tax fraud. The losses HMRC attributes to evasion, the hidden economy and criminal attacks have fluctuated from year to year but the overall trend in tax fraud is flat. HMRC estimates that losses from tax fraud accounted for 3.2% of all tax due in 2009-10 and 3.0% in 2013-14 (paragraphs 1.6 to 1.7).

1 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, *Report by the Comptroller and Auditor General*, National Audit Office, July 2015.

Figure 2
Tax fraud

HMRC has identified three types of behaviour

Behaviour	Examples
Evasion	Stating that your income is lower than it is in a self-assessment tax return. Not disclosing income or assets held offshore.
Hidden economy	Not telling HMRC about a main source of income, such as a job paid cash-in-hand. Not telling HMRC about a secondary source of income such as money from renting out a property.
Criminal attacks	Smuggling genuine or counterfeit products, such as alcohol or tobacco, into the UK to evade duties. Cyber attacks on HMRC systems to fraudulently claim tax repayments.

Source: National Audit Office analysis of HM Revenue & Customs documents

10 **HMRC has assessed that two groups, smaller businesses and criminals, are responsible for 17 of the 21 biggest risks relating to tax fraud.** HMRC has identified over 50 large and strategic risks to the collection of tax. 21 of these risks relate to tax fraud. An example of such a risk is small businesses failing to register for VAT when their turnover exceeds the threshold for registration. Of the 21 risks, 8 relate to organised crime and 9 involve medium-sized, small or micro-businesses. HMRC believes that these businesses are responsible for tax losses of £17 billion, almost half of its estimate of the total tax gap, but it does not consider its internal estimate of how much of this is the result of tax fraud robust enough for publication (paragraphs 1.8 to 1.11).

How HMRC tackles tax fraud

11 **HMRC has changed its approach to enforcement and compliance in response to pressures to make savings and then to increase revenues.** Between 2006 and 2011, HMRC invested in technology and retrained staff to allow it to better direct its activities towards the areas of greatest risk, based on improved data to detect non-compliance and a better understanding of taxpayer behaviours. This allowed it to reduce headcount. From 2010, it recruited and trained more staff to expand its coverage of all taxpayer groups, in particular small and medium-sized businesses, and ran a five-year campaign to increase the number of prosecutions. In 2014, HMRC refocused its strategy to concentrate more on the things it can do earlier in the cycle to promote compliance with tax law and prevent tax fraud and tax avoidance, while dealing more robustly and effectively with tax fraud when it occurs. HMRC is still developing this strategy (paragraph 2.4).

12 HMRC uses a range of interventions to tackle tax fraud. HMRC's activities to tackle tax fraud include: running publicity campaigns and other forms of communication to 'nudge' taxpayers towards acting honestly; encouraging tax evaders to voluntarily settle their tax affairs using disclosure facilities; using taskforces to target particular risks; undertaking civil investigations to gather evidence of tax fraud; and pursuing criminal investigations with a view to prosecution. These activities sit within HMRC's overall approach to tackling non-compliance by taxpayers, which is threefold: to promote compliance with tax law, such as by making it easy for taxpayers to comply with their tax obligations; to prevent non-compliance before it occurs; and to respond robustly to recover lost tax revenue (paragraphs 2.8 and 2.10).

13 HMRC has achieved its revenue target from all compliance work, but has only partial data on how much revenue was protected by its work to tackle tax fraud. In 2010, HMRC was set a target to increase the yield from its compliance work by £7 billion by 2014-15. This target included the additional revenue HMRC could generate from tackling tax fraud and all other forms of non-compliance, such as simple error and legal but contrived arrangements to avoid tax by exploiting loopholes in tax law. It reported additional revenue of £26.6 billion in 2014-15, exceeding its target by £0.6 billion. HMRC does not record compliance yield in a way that identifies what proportion of the total yield is derived from all its activities to counter tax fraud. For example it has more complete information on the yield from its work to tackle organised crime than tax evasion. We estimate that between 30% and 40% of compliance yield may be generated by HMRC's activities to tackle tax fraud, based on HMRC's analysis of the compliance yield it can attribute to the largest tax risks. This is a crude estimate based on partial evidence, and we will look for firmer evidence of HMRC's impact as we evaluate its response to different aspects of tax fraud in our future work (paragraph 2.15).

14 It is inherently challenging for HMRC to understand whether it is using the best mix of measures to tackle tax fraud in the long term. HMRC uses compliance yield as a direct measure of the effectiveness of its compliance work, while its annual tax gap calculation provides an indicator of the long-term impact of HMRC's work overall. However, it is difficult for HMRC to know how its interventions interact with one another or whether it is achieving the best outcome from the resources it deploys to tackle tax fraud in the round. It is also hard to detect or quantify potential unintended consequences of its compliance work, such as whether disrupted criminal activity is displaced to other gangs, or the long-term effect on taxpayers' behaviour of encouraging tax evaders to volunteer information about their income and assets so they can benefit from lighter penalties than might otherwise have been imposed. The problem of measuring outcomes is one faced by all tax administrations worldwide. HMRC recognises this complexity and is developing its thinking on how to design a new range of performance measures that will give it a better understanding of the impact from its work (paragraphs 2.17 to 2.21).

HMRC's approach to civil and criminal investigations

15 **HMRC prioritises recovering the tax lost as a result of tax fraud, and uses civil investigations in the majority of cases.** HMRC will usually encourage the taxpayer to cooperate so it can collect tax that is due. It believes that using its powers to investigate tax fraud by civil means is usually the best way to recover the missing tax at the lowest cost. It imposes fines and other sanctions to punish and deter deliberate evaders. HMRC's approach reserves criminal investigation and prosecution for cases where it believes it needs to send a strong deterrent message or when, given the severity of the fraud, it considers prosecution the only appropriate action. HMRC always seeks to prosecute organised criminal gangs (paragraphs 3.3 to 3.4).

16 **HMRC has met its target to increase prosecutions, but recognises that it needs to better prioritise the cases it selects for criminal investigations.** HMRC agreed a target to increase prosecutions by 1,000 a year by 2014-15. Although HMRC cannot demonstrate that this was the right number, the target had the effect of prompting it to change its processes and make its investigations more efficient. This led it to focus on less complex cases, in particular a large number of prosecutions for evading income tax, VAT and tobacco duty, and lower-value cases. HMRC has recognised that it needs to align the cases it selects for criminal investigation more closely with its analysis of risk and how effective a successful prosecution would be in creating a deterrent. It is introducing internal guidance to achieve this (paragraphs 3.14 to 3.17).

17 **HMRC has more to do to understand what benefits it has achieved by increasing the number of prosecutions.** The main reason for increasing prosecutions is for the deterrent effect it may create; that is, a credible threat of criminal prosecution may deter people who would otherwise have committed tax fraud from doing so. In 2014-15, HMRC claimed £295 million in yield from the deterrent effect of its additional 1,000 prosecutions. However, in 2015 HMRC evaluated the deterrent effect of these prosecutions and found it could not verify their monetary value. The deterrence effect is inherently difficult to evidence. HMRC has therefore commissioned a range of research methods including surveys, interviews and data analysis. HMRC's surveys found an increased awareness of prosecutions, but it proved difficult to evidence changes in behaviour or increases in tax revenues from prosecutions. HMRC has developed its understanding of the deterrence effect, but needs further information to determine the right type and number of cases to select for criminal investigation (paragraphs 3.19 to 3.21).

Concluding remarks

18 We welcome HMRC's readiness to think and act strategically about the future of its business, the main focus of which we have summarised in paragraphs 5 to 6. We encourage HMRC to step back and take a more fundamental look at the enforcement and compliance part of its business, and in particular to strengthen its understanding of the long-term impact of its actions on those who seek to break the rules. Designing an approach to tackling deliberate non-compliance that raises revenue efficiently and effectively requires any tax authority to ask and answer some fundamental questions. These include:

- What is the right balance between pre-emptive measures to promote tax compliance and post-hoc interventions to identify and tackle non-compliance?
- What is the optimal level of enforcement coverage?
- What is the role of punishment and enforcement when the rules have been broken?
- What should be the balance between measures that maximise revenue in the short term and those with a more long-term impact on reducing the tax gap?
- What are the costs and benefits of different types of activities?

19 HMRC has processes and approaches in place to respond to non-compliance, many of which are well established and longstanding. However, it is healthy for any organisation to challenge received ways of doing things. There are no perfect answers to these questions but HMRC should be able to explain and justify its choices. Like any tax authority, HMRC faces competing pressures and constraints, and putting resources into work in one area means not doing something else. It must fulfil its objectives within tight funding requirements. Different governments have different priorities and HMRC must respond to these. HMRC must also respond to unpredictable economic pressures and the expectations of taxpayers and the wider public. This leaves it with some difficult judgements to make about the balance of its compliance activities; we illustrate some of these in **Figure 3** overleaf.

20 HMRC has achieved the targets to raise extra revenue from its compliance work that were set in the 2010 Spending Review. While we recognise the significance of this achievement, we consider HMRC's approach has been to make incremental and tactical changes which was a rational response to the need to raise more tax revenue in the short term during a time of austerity. HMRC will only achieve value for money if the choices it makes take sufficient account of long-term outcomes.

21 We believe HMRC has started to take a more strategic view of its compliance business, but needs to go further. It has begun to shift the balance of its work, placing increasing emphasis on measures to prevent non-compliance rather than relying so much on investigating it afterwards. It is working to improve the way it collects and analyses data. For example, it has improved its assessment of tax risks, and is seeking to link this analysis more explicitly with the compliance yield it achieves and its decisions about where to deploy resources. Alongside these positive steps, we encourage HMRC to do more to strengthen the evidence that underpins its decisions, and to develop a clearer view of what would be the optimal balance of compliance activities based on sound data, analysis and judgement.

Figure 3

An illustration of the judgements tax authorities must make about the balance of compliance work

All tax administrations face trade-offs in deciding their approach to promoting compliance with tax law. There are no right answers.[1] This figure is illustrative only, and does not depict a series of choices that HMRC recognises or considers in designing its compliance business.[2]

Aim for money now or more money later?

Focus on the short-term target of collecting tax that is due (greater certainty)

HMRC has focused on meeting annual revenue targets. This may imply giving less attention to increasing future returns. HMRC's approach has been influenced by the external demands on it to provide revenue to fund public services during a time of austerity.

Maximise returns over the longer term (less certainty)

Focus on rectifying problems or preventing them?

Focus on preventing the problems arising (harder to measure)

HMRC wants to prevent problems before they occur. It recognises that too much of its work has been about resolving problems after they have happened. HMRC is seeking to change the balance of its work so that more of it stops potential losses before they occur.

Focus on resolving problems after they have occurred (easier to measure)

Expect taxpayers to self-regulate or impose rigorous checks and controls to enforce compliance?

Trust taxpayers not to cheat the system (lighter touch but with less assurance that non-compliance is detected)

'Promote, prevent and respond': HMRC wants to help people get their tax right first time, but to provide a strong challenge and deterrent to those who seek to cheat the system. The burden this places on taxpayers differs by type of tax and customer.

Expect people to break the rules and build barriers and sanctions to deter non-compliance (higher regulatory burden, but with more positive assurance that non-compliance is detected and challenged)

Use civil or criminal powers to investigate and punish non-compliance?

Use civil powers to investigate and impose penalties and sanctions (brings in more revenue for lower cost, but reduces the visible threat to those who break the law)

HMRC uses civil investigations in the majority of cases. It reserves criminal investigations and prosecutions for the more serious cases or where it believes it needs to send a strong deterrent message. HMRC may move from a civil to criminal investigation, or vice versa, depending on what it finds.

Routinely use criminal investigations, seeking to prosecute all tax fraud (high cost in relation to the direct financial impact but sends a strong message about the consequences of law-breaking)

▼ 1 National Audit Office's judgement of the balance of HMRC's compliance effort between 2010-11 and 2014-15. This is not intended to imply a qualitative judgement about which point on the scale is best, nor does it indicate where HMRC aspires to be in the future.

2 HMRC asked us to include the following text: "HMRC disagree with this model and the National Audit Office's interpretation that there is a choice to be made between the activities outlined above. Effective administration of the tax system is about seeking to optimise all and HMRC's view is that this presents a too simplistic view of the balance of judgements that have to be made".

Source: National Audit Office

Part One

The problem of tax fraud

1.1 Most people and most businesses try to give HM Revenue & Customs (HMRC) the right information it needs to assess what tax they owe. There are a minority of individuals and businesses who are not honest in their dealings with HMRC and therefore break the law.

1.2 This part examines:

- the complex range of behaviours that lead to illegal activity;
- HMRC's assessment of losses; and
- HMRC's analysis of risks.

There is a complex range of illegal behaviours

1.3 HMRC has identified three types of behaviour that illegally deprive the UK Exchequer of tax revenue; we refer to these as tax fraud. These are:

- **Evasion**

  This is committed when registered individuals or businesses deliberately omit, conceal or misrepresent information to reduce their tax liabilities. Evaders will typically engage with HMRC, but understate a declared source of income.

- **Hidden economy**

  Activities involve people or businesses whose entire income is unknown to HMRC ('ghosts') and those for whom HMRC knows of some sources of income but not others ('moonlighters').

- **Criminal attacks**

  Attacks on the tax system typically involve coordinated and systematic actions by criminal gangs, with varying levels of sophistication and organisation.

Figure 4 overleaf outlines some of the activities that fall within the scope of these behaviours, and provides some examples.

Figure 4
Tax fraud

Examples of evasion, the hidden economy and criminal attacks on the tax system

Behaviour	Definition	How this can happen	Examples
Evasion	Where registered individuals or businesses deliberately omit, conceal or misrepresent information to HMRC to reduce their tax liabilities.	Self-assessment tax returns: telling HMRC in a tax return that an income is lower than it actually is, or deductible costs are higher than they really are. VAT return: telling HMRC that fewer sales were made than is the case. Offshore: not telling HMRC about income and assets held offshore that are taxable in the UK. Inheritance tax: an individual tells HMRC that they have inherited less than they have. This may include not telling HMRC about gifts from the deceased person before their death. Corporation tax: a business falsely understating profits or overstating costs. PAYE: a business not paying over to HMRC all of the PAYE it has deducted from its employees' pay.	A sole trader routinely under-declared his self-assessment tax returns over a period of 6 years to lower his tax liability by a total of £30,000. A woman failed to declare the true extent of lifetime gifts she had received from her aunt, of whose estate she was both the sole executor and beneficiary. In so doing, she deliberately evaded £1.5 million of inheritance tax.
Hidden economy	Undeclared economic activity by businesses or individuals where all or part of their income is unknown to HMRC.	Not declaring a main source of income: • Undeclared cash-in-hand work, sometimes by people working illegally in the UK. • A small and growing business that has not engaged with HMRC, for example not registering for VAT when the threshold is reached. • An established business: where the people behind the business are deliberately not paying taxes. Not declaring a secondary source of income: • Moonlighters: where someone is earning a secondary income and not telling HMRC about it. • Rental income: where a property is rented and the income is not declared.	A man ran an 'off-book' take-away food outlet and did not declare his profits to HMRC over a five-year period. Other take-away businesses connected to his family were identified as having been running for 17 years without declaring profits to HMRC. This led to lost tax of more than £1 million. A trader did not register with HMRC as self-employed despite placing more than 520,000 listings on online marketplaces over 6 years. This resulted in nearly £300,000 of tax owed.
Criminal attacks	Coordinated and systematic attacks on the tax system by organised criminal gangs, of varying levels of sophistication and organisation.	Smuggling genuine or counterfeit products into the UK to evade duties. Improper use of products liable to excise duty, such as laundering red diesel, which is intended for agricultural machinery, and selling it for non-agricultural use. Fraudulently reclaiming repayments of VAT or income tax using stolen details. Exploiting rules on the VAT-free movement of goods between EU member states, for example goods are transferred between traders, one of whom goes missing, owing VAT (known as missing trader intra-community or MTIC fraud).	A criminal gang was caught in possession of equipment used for producing illegal cigarettes and tobacco products, as well as a sizeable quantity of raw tobacco, which if sold could have resulted in a tax loss of nearly £5 million. A criminal gang used stolen and fabricated data to set up bogus online VAT and self-assessment accounts to attempt to steal more than £1 million in tax repayments.

Source: National Audit Office analysis of HM Revenue & Customs information

1.4 The distinction between tax evasion and tax avoidance is not always clear. For example, HMRC has prosecuted people involved in tax avoidance schemes because they have engaged in fraudulent behaviour, such as lying about the value of financial assets. Others who signed up for the scheme would be challenged by HMRC, but would not be considered evaders unless they knew of the fraud.

1.5 The nature of the risks facing HMRC changes over time. This is due to factors outside HMRC's control that it must respond to, such as:

- recessions and economic recoveries. Academics have found that as economies come out of recession, growth in the formal economy creates opportunities for, and an increase in the size of, the hidden economy; and
- technological changes. These have changed how people buy, sell and pay for goods. There has been an increase in buying and selling through online marketplaces rather than face-to-face, and increased use of digital payment platforms instead of cash.

The risks may also change due to factors within HMRC's control, such as:

- perceptions of how likely it is for someone to be caught and what penalty will be applied; and
- unintended consequences of changes to the tax system.

HMRC's assessment of losses from tax fraud

1.6 HMRC seeks to assess the difference between the amount of tax that it collects and how much it should, in theory, collect. It calls this the tax gap.[2] HMRC estimates the tax gap was £34 billion in 2013-14, the latest year available. Evasion, the hidden economy and criminal attacks made up 46% of the tax gap. This breaks down as: evasion £4.4 billion; hidden economy £6.2 billion; and criminal attacks £5.1 billion.

1.7 These areas are a longstanding cause of losses. HMRC's estimates of the tax gap for tax fraud as a proportion of total tax liabilities have stayed relatively constant over time (**Figure 5** overleaf). The sum of these three areas has fallen slightly from a combined 3.2% of total liabilities in 2009-10 to a combined 3.0% in 2013-14.

HMRC's analysis of risk

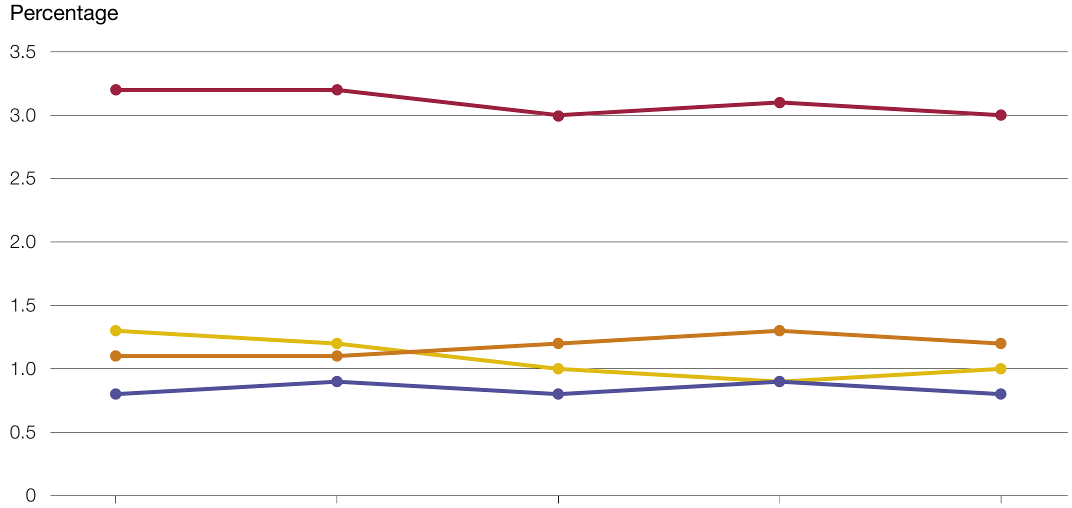
1.8 HMRC does not publish a breakdown of the tax gap figures for evasion, the hidden economy and criminal attacks with analysis of the taxes and groups that contribute to them. HMRC does not consider such a breakdown of the headline data reliable enough to publish. For example, HMRC estimates that micro, small and medium-sized businesses are responsible for 49% (£17 billion) of the total tax gap, but is not able to say with confidence what proportion of the tax gap related to evasion is caused by these businesses.

2 We describe the tax gap methodology and its limitations further in our report: Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, *Report by the Comptroller and Auditor General*, National Audit Office, July 2015.

Figure 5

The tax fraud tax gap as a percentage of total liabilities over time

Tax fraud as a proportion of total tax liabilities stayed relatively constant between 2009-10 and 2013-14



Behaviour	2009-10	2010-11	2011-12	2012-13	2013-14
All tax fraud	3.2% (£14.3bn)	3.2% (£15.6bn)	3.0% (£15.2bn)	3.1% (£15.4bn)	3.0% (£15.7bn)
Criminal attacks	1.3% (£5.8bn)	1.2% (£5.8bn)	1.0% (£5.1bn)	0.9% (£4.6bn)	1.0% (£5.1bn)
Hidden economy	1.1% (£4.9bn)	1.1% (£5.4bn)	1.2% (£6.1bn)	1.3% (£6.3bn)	1.2% (£6.2bn)
Evasion	0.8% (£3.6bn)	0.9% (£4.4bn)	0.8% (£4.0bn)	0.9% (£4.5bn)	0.8% (£4.4bn)

Notes

1 Tax gap percentage figures and monetary values for 2012-13 and 2013-14 are taken from HMRC, *Measuring tax gaps 2015 edition. Tax gap estimates for 2013-14*, October 2015.

2 Tax gap monetary values for 2009-10, 2010-11 and 2011-12 are National Audit Office calculations using data on percentages and total liabilities published in the 2015 edition of *Measuring tax gaps* and may therefore contain rounding errors.

Source: National Audit Office analysis of HM Revenue & Customs documents

1.9 In 2013-14 HMRC began to develop its analysis of the scale and nature of non-compliance risks. It does this by bringing together data, intelligence and economic analysis. HMRC plans to refresh and develop this strategic picture of risk annually.

1.10 HMRC's strategic picture of risk includes all risks to tax that HMRC values at more than £250 million, and others that it considers pose a risk to the integrity of the tax system or HMRC's reputation for running it. For example, offshore tax evasion is one of the risks, as is small businesses failing to register for VAT when their turnover exceeds the threshold for registration. HMRC has identified for each risk the key tax, group and behaviour. Tax fraud accounts for 21 of HMRC's 54 strategic risks. HMRC has identified a further 2 tax fraud risks that could become significant risks within the next five years and is undertaking further work to assess their impact.

1.11 HMRC has identified the main taxpayer group associated with each risk. The major contributors to the risks associated with evasion and the hidden economy are small and micro-businesses and individuals with complex tax affairs (**Figure 6**). Organised criminals are responsible for criminal attack risks. Criminal attack risks are spread across taxes whereas evasion and hidden economy risks are focused on VAT and self-assessment.

1.12 HMRC has not identified wealthy individuals or large businesses as the most significant contributor to any of the tax fraud risks. HMRC assesses that these taxpayers pose a larger revenue risk due to tax avoidance and legal disputes than tax fraud. However, it has identified that they contribute in a lesser way to 10 evasion, hidden economy and criminal attack risks. These include offshore income tax evasion, corporation tax evasion and overseas businesses not registering for VAT in the UK.

1.13 HMRC is now in the process of aligning these risks to its headline measure of the tax gap. It is, for example, assessing how much of the tax gap is attributable to each of the strategic risks and how its yields address these risks.

Figure 6

Individuals and businesses most associated with tax fraud

Risks from evasion and the hidden economy are more likely to relate to smaller businesses and individuals, with organised criminals associated with the risk of criminal attacks

Group[1]	Number of evasion risks	Number of hidden economy risks	Number of criminal attack risks	**Total**
Micro-businesses	2	2	–	**4**
Small businesses	3	1	–	**4**
Medium-sized businesses	1	–	–	**1**
Large businesses	–	–	–	**0**
Charities and non-profit organisations	1	–	–	**1**
Individuals	–	3	–	**3**
Organised criminals	–	–	8	**8**
Total	**7**	**6**	**8**	**21**

Note

1 HM Revenue & Customs defines: micro-businesses as those with turnover of less than £2 million or fewer than 9 employees; small businesses as those with turnover of more than £2 million but less than £10 million or between 9 and 20 employees; and medium-sized businesses as those with turnover greater than £10 million and with more than 20 employees but that are not within the scope of the large business directorate (around 2,000 of the UK's largest and most complex businesses).

Source: National Audit Office analysis of HM Revenue & Customs documents

Part Two

How HMRC tackles tax fraud

2.1 Part One outlined the nature and scale of the problems relating to tax fraud that face HM Revenue & Customs (HMRC). This part examines HMRC's:

- organisational and strategic approach;
- actions to tackle the problems; and
- measurement and understanding of its actions.

HMRC's organisational and strategic approach

How HMRC organises its work

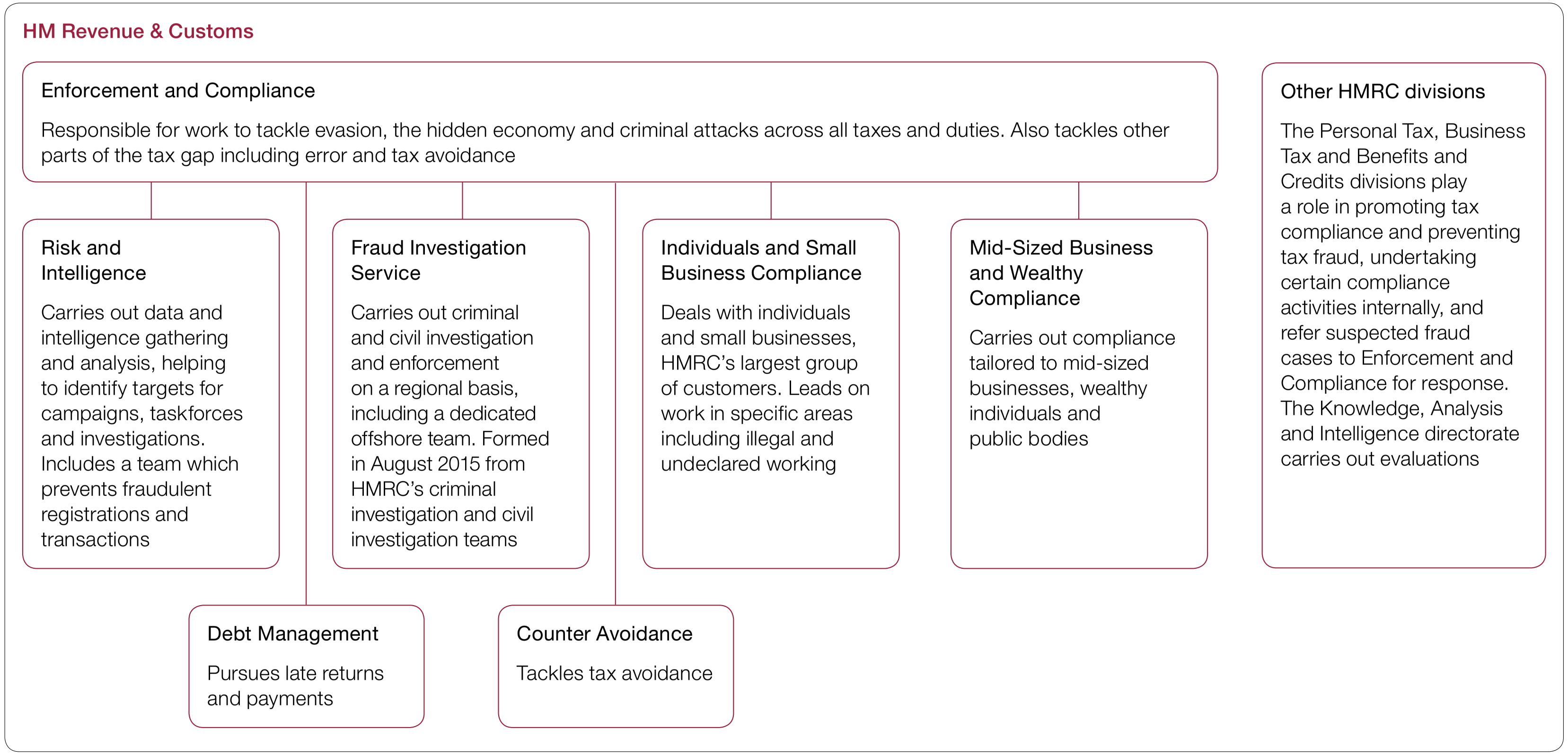
2.2 Enforcement and Compliance is responsible for identifying and managing risks to taxation. It is HMRC's largest division and employs almost half of all HMRC staff. **Figure 7** shows the key directorates within Enforcement and Compliance.

2.3 In autumn 2015 HMRC brought together its Criminal Investigations and Specialist Investigations directorates into a single Fraud Investigation Service. This contains HMRC's specialist tax and criminal justice experts who deal with serious investigations. The merger had a number of aims. These included greater clarity about when HMRC should choose to carry out criminal or civil investigations, or both, and providing a more joined-up approach to tackling tax fraud. HMRC also created two new directorates: Individuals and Small Business Compliance, and Mid-Sized Business and Wealthy Compliance. These took over some of the activities previously undertaken by the Local Compliance and Specialist Personal Tax directorates. This aimed to align HMRC's response to both the individual and business tax affairs of wealthy individuals who are more likely to own or be associated with medium-sized businesses. It should also allow HMRC to tackle risks across a larger population through joint working and data sharing.

Figure 7

How Enforcement and Compliance is organised

Most work to tackle non-compliance takes place within Enforcement and Compliance's directorates, but other lines of business play a role



Source: National Audit Office analysis of HM Revenue & Customs information

HMRC's approach to enforcement and compliance has changed over time

2.4 HMRC has developed its approach to enforcement and compliance work over time. We have identified different phases:

- **Building capability and improving productivity (2006 to 2011)**

  HMRC ran a programme to implement a new operating model for its work, to allow it to direct resources based on a better understanding of taxpayer behaviours. The programme introduced new technology systems and processes, retrained staff, and allowed Enforcement and Compliance to reduce its headcount by 3,400.

- **Expanding activities and rising headcount (2010 to 2015)**

  HMRC received funding in the 2010 Spending Review to increase the volume of its activities. It had identified that its activities had fallen too low in some areas; for example, its coverage of small and medium-sized businesses fell by 60% between 2003-04 and 2009-10. HMRC gradually increased staff numbers working in this area of business, while reducing overall staff numbers.

- **Revising its strategy (2013 to 2014)**

  HMRC began to develop a long-term strategy for its work. It aims to tackle the behaviour that leads to non-compliance, which should lead to more people giving HMRC correct information. This will allow HMRC to focus on the dishonest minority. This strategy is based on the three broad things a tax administration can do: create the right environment for people to pay their taxes (HMRC refers to this as 'promote'); put systems in place to identify and stop tax fraud as taxpayers give HMRC information ('prevent'); and identify tax fraud and take action in response ('respond').

- **Implementing the strategy (2015 to 2020)**

  HMRC is developing its thinking on how it will change what it does to increase the number of people who provide HMRC with correct information without it having to intervene directly. HMRC is considering what balance to strike between the three areas of promote, prevent and respond for particular behaviours and taxpayers.

2.5 HMRC has begun a programme to modernise its administration of the tax system. This builds on changes it has already made to make better administrative use of its data. The first phase of this combined each individual's employment and pension income into a single record, where previously they were held separately. The second phase was the implementation of Real Time Information, which allows HMRC to keep an individual's records up-to-date during the tax year.[3] The next phase will include providing personalised online services for taxpayers and automating the processing of tax information where possible. For example, HMRC plans to pre-populate tax returns and online accounts with real-time data.

3 This is discussed further in 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, Part Five.

2.6 HMRC anticipates that these changes, alongside online guidance and support, will reduce the number of mistakes that taxpayers make. Its Enforcement and Compliance staff will then be able to focus more effort on tackling tax fraud as they will spend less time correcting simple errors. This will be supported by investment in data analytics to target its activities on high-risk areas.

2.7 HMRC's plans not only include changes in its use of technology, but changes to the shape and size of its workforce and estate to support new ways of administering tax. We reported in 2015 that these plans are ambitious and carry with them significant delivery risks.[4]

HMRC's actions to tackle tax fraud

2.8 HMRC has a range of activities, powers and sanctions to tackle tax fraud (**Figure 8** overleaf). Some are focused on particular groups, sectors or taxes, while others are aimed at the wider population. They include disclosure facilities, which offer taxpayers the chance to put their tax affairs in order; taskforces that target areas of high risk; and investigations that can result in civil penalties, confiscation of assets, or a caution, community sentence or imprisonment. HMRC may use a combination of these in tackling a specific risk. See Appendix Three for a detailed list of the powers and sanctions HMRC can use.

2.9 HMRC has increased the range and volume of its actions to tackle tax fraud. The government gave it specific funding to extend the scope of its work in this area between 2010 and 2015, including:

- **more staff to work on tax fraud:** HMRC planned to redeploy more than 6,000 staff into high-priority, high-risk areas;
- **new activities:** such as taskforces, which target high-risk businesses and areas, and the Managing Serious Defaulters programme, which monitors the tax affairs of known evaders for several years after they are caught;
- **new teams:** such as a dedicated affluent unit to oversee the approach to this complex and risky group and an offshore coordination unit to act as a dedicated response to offshore evasion; and
- **developing existing capacity to tackle organised crime:** to reduce losses by increasing activity in several areas, including the approach to tackling evasion of alcohol and tobacco duty.

4 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, *Report by the Comptroller and Auditor General*, National Audit Office, July 2015.

Figure 8

HMRC has a range of activities to tackle tax fraud

Some target particular groups or sectors while others are aimed at the general population[1]

Activity	Description
Campaigns	These are opportunities for specific groups of taxpayers (such as landlords) to bring their tax affairs in order. If the disclosure is full and accurate then HMRC will not usually prosecute. The campaigns are publicised by HMRC and relevant trade bodies.
Compliance checks	Checks by HMRC on tax returns where risks have been identified. Depending on the nature of the offence, HMRC will contact the taxpayer to seek further information or refer the case onwards for civil or criminal investigation where evasion is suspected.
Follow-up with non-compliant taxpayers	Monitoring of known defaulters, for example through HMRC's Managing Serious Defaulters programme where it monitors high-risk taxpayers for 2 to 5 years.
Investigations	Civil or criminal powers to investigate individuals and businesses with a view to further action. HMRC has a range of sanctions it can use to punish and disrupt tax fraud.
Penalties	HMRC can impose penalties on taxpayers who do not comply with their tax obligations. The level of the penalty will increase for deliberate behaviour and where taxpayers do not cooperate.
Sector-specific activities	Working with industries to counter specific threats, for example the scheme to licence alcohol wholesalers to try to reduce the sale of illicit alcohol.
Taskforces	Focused activity targeting individuals or businesses in a particular sector and location that HMRC believes is high-risk.

Note

1 Appendix Three provides a full list of activities.

Source: National Audit Office

Fit of HMRC's activity to its strategy

2.10 Figure 9 demonstrates how some of HMRC's interventions to tackle tax fraud fit with its strategy for tackling non-compliance.

Figure 9

HMRC's strategy for tackling non-compliance

HMRC plans to increase the number and impact of its 'promote' and 'prevent' activities

Promote

Encourage people and businesses to pay tax and to pay in full

- Publicity campaigns using the media
- Educational guidance and tools for taxpayers and tax agents
- Working with others to promote voluntary compliance, for example professional bodies

Prevent

Stop attempts at fraud from happening or succeeding

- Use of data and intelligence to identify and stop or amend suspect registrations and transactions at or shortly after an attempt
- Reviewing and redesigning products and processes to remove risk points, for example introducing registration for alcohol wholesalers

Respond

Take action against fraudsters once fraud has occurred

- Taskforces targeting particular trades or incomes (such as rental income) in a particular area
- Campaigns to encourage people and businesses to settle their tax liabilities
- Use of data and intelligence to identify cases of suspected fraud
- Naming the most serious defaulters on gov.uk
- Ongoing monitoring of known evaders through the Managing Serious Defaulters programme
- Working in partnership with other bodies in the criminal justice system to share knowledge, intelligence and data
- Civil punishments including fines, penalties and civil recovery of tax
- Criminal prosecution
- Proceeds of crime recovery powers

Customer relationship approach

For large businesses and wealthy individuals, HMRC's approach is based on building a close and tailored contact between HMRC and the taxpayer

Source: National Audit Office analysis of HM Revenue & Customs information

2.11 HMRC recognises that much of its activity to tackle tax fraud deals with problems after they have occurred ('respond'). HMRC is seeking to change its interventions so that more of them stop potential losses before they occur. HMRC has a behaviour change team, which applies behavioural insights to try to 'nudge' people into more compliant behaviour. This includes prompting people to act honestly at key moments, such as when completing a tax return. HMRC also uses publicity to encourage people to be honest, such as the evasion publicity campaign it ran in 2012-13.

2.12 Earlier action to tackle illegal activity will require more focused and intensive activities aimed at specific taxpayer groups. Criminals, hardened evaders and persistent participants in the hidden economy will not respond to general 'nudges' to pay. 'Prevent' activities may require HMRC to disrupt these activities, for example by tackling supply chains or enablers (see **Figure 10**). HMRC is now developing its thinking to help it decide on the right 'promote, prevent, respond' approach for specific problems, and how a joined-up approach across HMRC would achieve this.

Funding for additional measures announced in 2015

2.13 HMRC received additional funding for its work in the Summer Budget 2015. **Figure 11** shows the areas that HMRC has prioritised.

Figure 10
Disrupting the tobacco smuggling supply chain

The law was changed in 2006 to help HMRC disrupt the tobacco smuggling supply chain, but it needs to be used in conjunction with other measures

The potential profits from tobacco smuggling are substantial. The UK has one of the highest rates of tobacco duty in the world. Criminal gangs smuggle tobacco into the UK from foreign markets where tobacco is cheaper.

Since 2000, HMRC has worked with other government departments and tobacco industry representatives to make tobacco smuggling more difficult. HMRC identified that a change in the law would help in this. In 2006, the government made tobacco manufacturers legally responsible for controlling their supply chain. The legislation requires tobacco manufacturers not to over-supply foreign markets.

We reported in 2013 that tobacco manufacturers' sales data showed supplies to high-risk markets had fallen since legislation was introduced. However, the supply of certain brands to specific countries was considerably higher than legitimate local demand. We also reported that HMRC had not applied the full range of sanctions available to it under supply chain legislation.

Source: Comptroller and Auditor General, *Progress in tackling tobacco smuggling*, Session 2013-14, HC 226, National Audit Office, June 2013

Figure 11

Measures announced in the Summer Budget 2015

HMRC has identified nine priorities for additional funding to tackle tax fraud and non-compliance

Measures to tackle tax fraud	Estimated Exchequer impact 2016-17 to 2020-21 (£m)
Additional resourcing for criminal tax fraud investigation and prosecution	
Additional resourcing for criminal investigations of suspected tax fraud. This will provide 125 staff in HMRC and 10 more staff in the Crown Prosecution Service.	465
Tackling illicit tobacco	
HMRC will create an additional 15 teams targeting organised criminals involved in tobacco fraud. This equates to 330 more staff in HMRC and 20 in the Crown Prosecution Service. This measure will begin in November 2015.	350
Expanding the Fiscal Crime Liaison Officer network	
Fiscal Crime Liaison Officers are based outside the UK where they work with law enforcement agencies and international organisations to tackle illicit trade. HMRC will recruit 51 staff starting in November 2015, intended to improve coverage of tobacco fraud.	110
Tackling illicit alcohol	
From November 2015 HMRC will create an alcohol national control room, which will enable it to collect and analyse more intelligence. This will inform the deployment of taskforces to tackle alcohol fraud.	835
The hidden economy	
HMRC will receive powers to obtain data from payment providers and business intermediaries to identify hidden economic activity. HMRC will also recruit an extra 250 staff to work on tackling the hidden economy.	860
Wealthy individuals: enhanced compliance	
An extension of HMRC's current customer relationship management model to wealthy individuals with assets worth between £10 million and £20 million.	235
Wider measures to address non-compliance	
Large business: enhanced compliance	
New powers to tackle large businesses undertaking aggressive tax planning and/or refusing to engage with HMRC. These include financial penalties, naming and shaming and compelling large businesses to publish their tax strategy.	1,655
Specialist personal tax: enhanced compliance	
Provides 200 additional staff to work on Specialist Personal Taxes.	630
Local compliance resource	
HMRC will add 1,300 staff to tackle non-compliance by mid-size businesses, public bodies and affluent individuals.	2,070
Total	**7,210**

Notes

1 All measures begin in April 2016 unless otherwise stated.

2 Due to the restructure in Enforcement and Compliance discussed in paragraph 2.3, Local compliance resource relates to staff in the new Mid-Sized Business and Wealthy Compliance directorate.

Source: HM Government, *Summer Budget 2015: policy costings*, July 2015

HMRC's measurement and understanding of its actions

Performance measurement

2.14 One of HMRC's main performance measures is yield from its work to tackle non-compliance; HMRC refers to this as compliance yield. We reported in 2014 that this is a complex combination of measures designed to reflect the breadth of HMRC's activities to address non-compliance. It includes, for example, the tax recovered from civil and criminal investigations, the losses it thinks its interventions have prevented in future years and its estimate of legislative changes designed to address particular risks. What HMRC measures has varied over time and caution is needed when making year-on-year comparisons.[5]

2.15 Compliance yield is used to agree targets with HM Treasury. At the 2010 Spending Review HMRC was set a target to increase the additional revenue from its enforcement and compliance work by £7 billion a year by 2014-15, with a total yield target of £26 billion. HMRC achieved this target and reported a total yield of £26.6 billion in 2014-15. HMRC does not record all yields based on what type of behaviour is being addressed. For example, it has a governance board to oversee its approach to addressing organised crime and as a consequence separately identifies its yield in this area. It does not report yields separately for its work to address tax evasion. We reviewed HMRC's data and information on the compliance yield that may be attributable to the largest tax risks. Our analysis was limited by the partial evidence available. We estimate that between 30% and 40% of compliance yield may be generated by HMRC's activities to tackle tax fraud.

2.16 The main focus for the 2011 to 2015 spending review period was on increasing tax revenues, which reflected the wider government objective to improve public finances. HMRC focused on meeting its yield targets and bringing money in quickly.

2.17 Yields are a readily measurable part of performance, and provide a hard measure of the value of the action taken. As they are a measure of the output of work, rather than outcomes, they are less reliable for assessing the longer-term impact on taxpayer behaviour.[6] They may match outcomes in the short-term for audits of taxpayers that result in an additional amount of tax being paid, but they cannot capture the wider impact, such as: whether tax evasion, once detected, is displaced to other taxes; whether disrupted criminal activity is displaced to other gangs; and the long-term effect on tax compliance of encouraging tax evaders to volunteer information about their income and assets so they can benefit from lighter penalties than might otherwise be imposed.

5 Comptroller and Auditor General, *HM Revenue & Customs 2014-15 Accounts*, *Report by the Comptroller and Auditor General*, National Audit Office, July 2015, Part Three.

6 For example, in 2013 we reviewed a sample of cases where yield had been claimed for investigations into tobacco crimes. In one case we found an impact had been claimed when illicit goods were seized, assuming that this would prevent fraud for 12 months. No arrests were subsequently made and seizures 9 months later showed the activity was ongoing. Comptroller and Auditor General, *Progress in tackling tobacco smuggling*, Session 2013-14, HC 226, National Audit Office, June 2013.

2.18 HMRC is developing new measures of its performance with the aim of overcoming some of these shortcomings. It has developed its measure of yield over the last few years to reflect the range of its activities but recognises that it needs to better measure the contribution its work makes to the outcomes it tries to achieve. This is a problem faced by other tax administrations. In 2014 the Organisation for Economic Co-operation and Development (OECD) published a guide to measuring tax compliance outcomes, as part of a project sponsored by HMRC. The report recommended that revenue bodies integrate outcome and effectiveness measures into their existing and future processes and reporting.

Understanding what works

2.19 Evaluation plays a key role in providing good quality evidence about what works and what does not. It is important for informing decisions about what activities HMRC should stop, change or carry on. It is not straightforward for HMRC to evaluate its work in tackling tax fraud. When it undertakes an activity HMRC may influence taxpayers who would have been compliant anyway. Those who are non-compliant with one type of tax may displace that behaviour to other taxes in response.

2.20 When HMRC introduces different activities it often does not have robust evidence about what works because what it is doing is new. HMRC may make a set of assumptions about the impact the activity will have based on what data and information are available at the time. It is important that these assumptions are tested during and after the project and before the activity becomes business as usual.

2.21 We have found that HMRC does not always have the data and management information it needs to fully evaluate its activities, and that it relies on measurements of output as a proxy for evidence of effectiveness. Changing this will require better planning for evaluations so that it can conclude on the impact of activities. This may involve starting some activities on a smaller scale, so their effect on the people involved can be assessed against a wider pool of taxpayers. It may also require HMRC to consider whether the way it collects data and information on taxpayers is good enough for this purpose. In 2013 we examined evaluations across government departments and found that they are often not good enough to reliably identify the impact of activities.[7] HMRC is planning to evaluate the activities funded through the Spending Review 2015 so that it can conclude on their impact.

7 National Audit Office, *Evaluation in Government*, December 2013.

Part Three

HMRC's approach to prosecutions

3.1 In Part Two we described the range of interventions HM Revenue & Customs (HMRC) uses to tackle revenue losses. One of the higher profile of these is criminal prosecution. HMRC's approach to prosecutions has been the subject of parliamentary and media interest, often for when prosecutions are not used rather than when they are.

3.2 In this part we examine HMRC's use of prosecutions. They are one of a range of measures HMRC can take to tackle tax fraud. Prosecutions are at the sharper end of the sanctions HMRC can use and furthest from its standard approach to collecting tax. We examine:

- HMRC's strategy for civil and criminal investigations;
- HMRC's place in the criminal justice system; and
- HMRC's prosecutions target from 2010 to 2015.

HMRC's strategy for civil and criminal investigations

3.3 In general, HMRC prioritises civil action over criminal prosecution, using prosecutions in a minority of cases. It considers civil investigations more cost efficient and uses them wherever it considers they will be an effective way of collecting the tax due. It does not consider a civil investigation a soft option and can impose a range of sanctions including financial penalties, disqualification as a company director, and naming deliberate defaulters who owe more than £25,000 (see Appendix Three). HMRC believes that these act as a deterrent against future tax fraud. The government is planning to strengthen the civil penalties at HMRC's disposal to tackle offshore tax evasion and introduce new criminal offences for tax evasion.

3.4 When HMRC identifies serious wrongdoing it has a choice about the most appropriate response.

- Since 2012, when it opens a civil investigation HMRC has been able to offer a contract to people it believes have committed tax fraud (the Contractual Disclosure Facility). This gives people the opportunity to admit to HMRC all tax fraud they have committed. In exchange for their full cooperation HMRC will not prosecute them. If they accept HMRC's offer, HMRC does not need to undertake a full investigation and may reduce penalties for full cooperation.

- If the offer is rejected or the person does not cooperate by making a full and accurate disclosure, HMRC will consider whether to continue with a civil investigation or start a criminal investigation.
- HMRC moves straight to a criminal investigation where the nature of the tax fraud or the circumstances demand prosecution, for example in cases of repayment fraud or if there are links to wider criminality. Prosecution may be the only effective way of stemming financial loss, particularly when HMRC is dealing with an organised criminal gang.

3.5 This approach is shown in a simplified way in **Figure 12** overleaf. In practice, HMRC may use a range of these measures or move from a civil to a criminal investigation or vice versa, depending on what it finds. Other countries' tax authorities take similar criteria into account when considering the case for opening a criminal investigation, including complexity, seriousness and whether it is a repeat offence (Appendix Two).

3.6 HMRC is currently restating its decision-making criteria about when it pursues civil or criminal investigation to make this clearer for its staff and the public. This does not include a fundamental review of the approach itself.

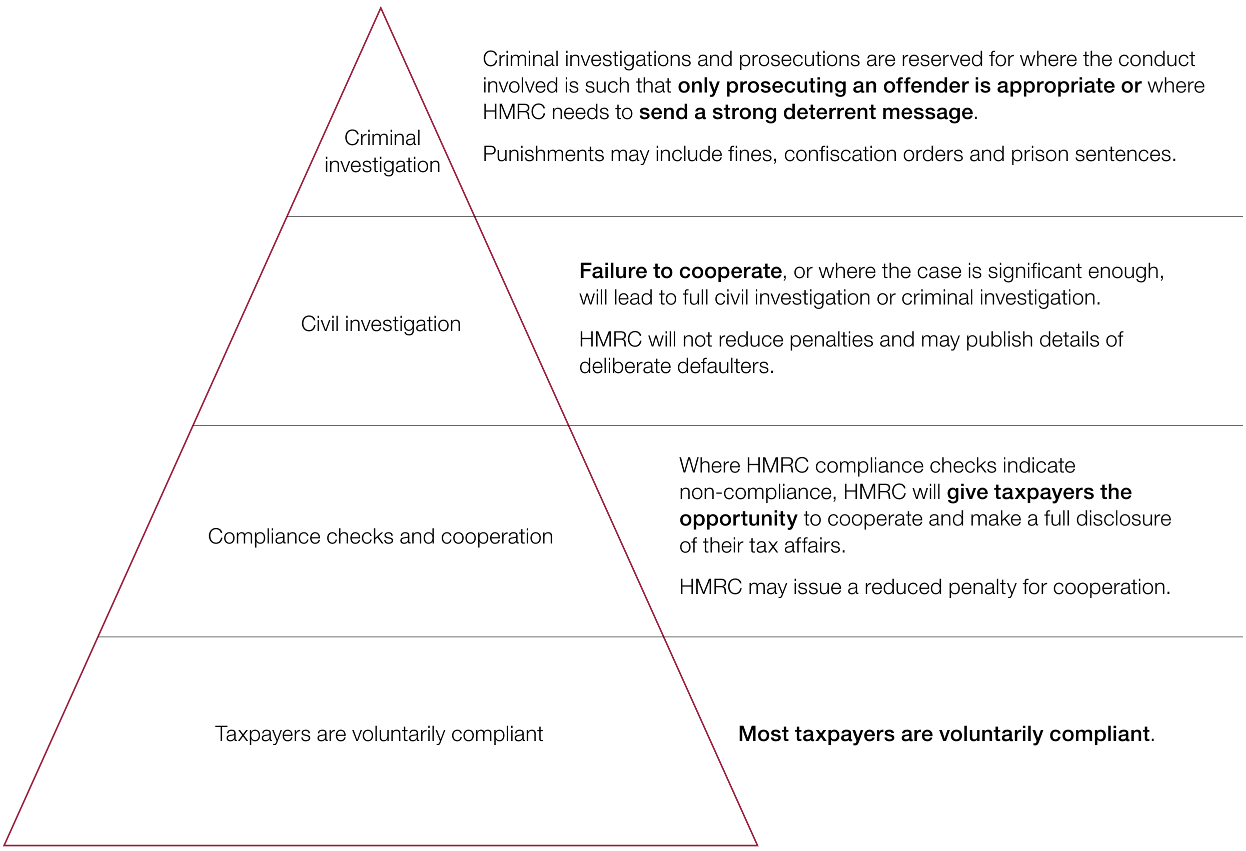
The costs and yields of civil and criminal investigations

3.7 HMRC has assessed that civil investigations are more cost-efficient than criminal investigations. It has sought to analyse the staff costs and yields of both civil and criminal investigations for different types of tax fraud, ranging from a civil investigation of somebody who has declared income or assets using a disclosure facility, to a criminal investigation of serious and complex crime. HMRC is working to improve the robustness of its analysis. Its analysis to date suggests a wide range in the rate of return HMRC can evidence from investigations of different types. The analysis supports HMRC's policy to pursue civil investigations in the majority of cases on the grounds that they cost less and have more clearly attributable financial benefits than criminal investigations.

3.8 The balance between the costs and yields may vary over time. For example, since HMRC first set out its policy in 2005, it has introduced contractual disclosure facilities, which allow it to focus its civil and criminal investigations on those who do not cooperate. At the same time, HMRC has changed how it manages criminal investigations, to improve its productivity and reduce the average time taken between the start of an investigation and prosecution. Understanding those changes can better inform decisions about what balance HMRC should strike between civil and criminal investigations.

Figure 12
HMRC's approach to civil and criminal investigation

HMRC reserves criminal investigations for the minority of cases where taxpayers do not cooperate or where it considers prosecution is the most appropriate action



Source: National Audit Office analysis

HMRC's place in the criminal justice system

3.9 HMRC's criminal investigations form part of the broader criminal justice system; the system of organisations that together investigate, prosecute and punish crimes (**Figure 13**). HMRC is the primary investigator of tax related crime in the UK. HMRC told us that few criminal groups specialise in tax fraud. Organised criminals are adaptable and focus on the areas of highest financial gain, which may or may not involve tax fraud. Other law enforcement bodies have other priorities and do not tackle organised crime in order to protect tax revenues.

Figure 13

HMRC and key organisations in the criminal justice system

HMRC is the only body which focuses on tax fraud

Investigation

HMRC
Responsible for policy on tax evasion and leads the UK government response to tax crime.

HMRC works with a range of bodies to carry out tax-related investigations. It may undertake joint investigations, use evidence obtained by other bodies or provide support to other bodies that investigate criminal activity.

Border Force
Part of the Home Office, Border Force detects tax crimes at the UK border. It refers cases to HMRC where tax offences are identified.

National Crime Agency
Leads UK law enforcement's attempts to cut serious and organised crime. It may work with HMRC on cases of serious tax crime, and provides covert investigation support to HMRC.

The NCA has tax powers to raise an assessment where there are reasonable grounds to suspect that a person or business has earned income, profit or gain at least partly through criminal conduct and it has not been declared to HMRC.

Serious Fraud Office
Investigates and prosecutes serious or complex fraud and corruption. Makes intelligence referrals to HMRC.

Police forces
43 police forces in England and Wales, Police Scotland, and the Police Service of Northern Ireland.

Investigations may be carried out jointly with police forces or use evidence obtained from the police.

Other public bodies
HMRC works with a wide range of public bodies on specific investigations:

Government bodies: For example, the Environment Agency to tackle evaded landfill tax, or the Department for Business, Innovation & Skills on the national minimum wage.

Local authority trading standards departments work with HMRC to help prevent illicit sales or services like wrongly calibrated scales at landfill sites.

Financial regulatory bodies: such as the Prudential Regulation Authority and the Financial Conduct Authority.

Tax authorities, customs and police outside the UK
HMRC receives and requests information and action.

Prosecution (charge)

Prosecuting authorities
Decide whether to prosecute individuals. In England and Wales this is the Crown Prosecution Service, in Scotland the Crown Office and Procurator Fiscal Service, and in Northern Ireland the Public Prosecution Service for Northern Ireland.

Hearing or Trial

Courts and Tax tribunals
Hear and rule on criminal cases and civil proceedings brought by HMRC on tax fraud.

Sentence

Prison services
Responsible for the administration of prisons: National Offender Management Service in England and Wales, the Scottish Prison Service and the Northern Ireland Prison Service.

Source: National Audit Office

3.10 HMRC's criminal investigations are not usually carried out jointly with other law enforcement bodies, but it is common for evidence to be gathered from a range of sources. HMRC also helps other enforcement bodies in their criminal investigations, for example by providing information it holds on suspects.

3.11 HMRC builds evidence against people but does not prosecute them itself.[8] It is the prosecuting authorities who decide whether to prosecute a case, based on the strength of the evidence and whether a prosecution is in the public interest. HMRC works with prosecuting authorities to manage the flow of cases for prosecution decisions and in the more complex cases can seek early and continuing advice from them as it builds a case. The large majority of cases that HMRC passes to prosecuting authorities lead to a charge. The main reason why prosecuting authorities will not prosecute a case is because the evidence is insufficient.

3.12 Following a successful prosecution in court, a confiscation order may be used to recover the proceeds of criminal activity.[9] In 2014-15, HMRC's Confiscation and Enforcement Team raised £6.4 million through 147 confiscation orders.

HMRC's prosecutions target from 2010 to 2015

3.13 In the period up to 2010, HMRC reduced staff numbers and focused its criminal investigation resources on tackling sophisticated criminal attacks. This left HMRC less able to prosecute other tax fraud. As part of the 2010 Spending Review, HMRC received funding to expand its coverage of prosecutions through its Volume Crime project. Its main aim was to significantly reduce tax fraud through the deterrent effect of more people being prosecuted.

3.14 HMRC agreed a target to increase the number of prosecutions not involving organised crime by 1,000 a year by 2014-15 from a baseline of 165 in 2010. HMRC aimed to assess the deterrent effect of this as part of the project. HMRC did not set a target for prosecuting tax fraud by criminal gangs, which tend to be large in value but relatively small in number, to avoid focusing on the number rather than quality of cases investigated.

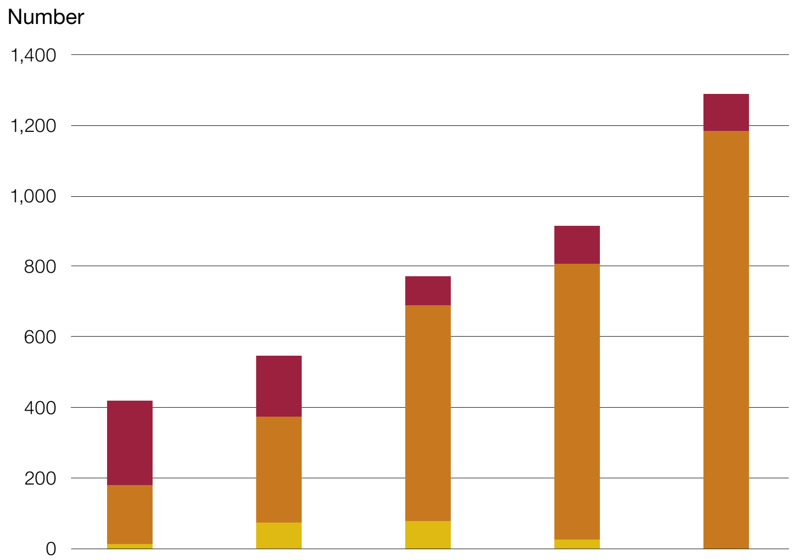
3.15 HMRC managed the growth in prosecutions by adding an extra 200 staff to criminal investigations work and revising how investigations were conducted. Staff were set guidelines on the length of time they should spend planning and investigating, with a shorter end-to-end process. HMRC also agreed with the Crown Prosecution Service, which carries out most of the prosecutions in the UK, how they would work together to achieve the target. HMRC met and exceeded the target in 2014-15 (**Figure 14**). It was announced at the Summer Budget 2015 that HMRC would receive additional funding for criminal investigations into serious and complex tax crime. This will focus particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by 2020.

8 In England and Wales prosecution is carried out by the Crown Prosecution Service; in Scotland by the Crown Office and Procurator Fiscal Service; and in Northern Ireland by the Public Prosecution Service for Northern Ireland.

9 Comptroller and Auditor General, *Confiscation orders*, Session 2013-14, HC 738, National Audit Office, December 2013.

Figure 14
Tax fraud prosecutions, 2010-11 to 2014-15

HMRC more than doubled the number of prosecutions[1]



	2010-11	2011-12	2012-13	2013-14	2014-15
Organised crime	240	173	82	108	103
Volume Crime[2]	165	297	610	782	1,183
Other[3]	15	75	78	25	2
Total	**420**	**545**	**770**	**915**	**1,288**

Notes

1 A prosecution is achieved when the prosecuting authority decides to take a case on for prosecution. The cases are not necessarily heard in court in that year.

2 Volume Crime covers tax fraud prosecutions that do not involve organised crime.

3 Other prosecutions are mostly for tax credit offences. The number of tax credit prosecutions recorded by HMRC has fallen in the past 2 years following the creation of a single fraud investigation service in the Department for Work & Pensions. This body investigates and sanctions all benefit and tax credit offences. Tax credit prosecutions are no longer recorded by HMRC in its prosecution figures.

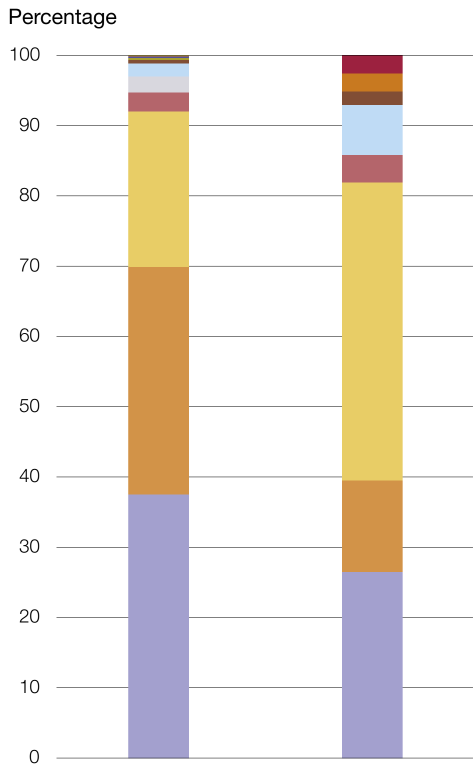
Source: National Audit Office analysis of HM Revenue & Customs data

3.16 HMRC has recognised that it needs to better prioritise its prosecutions. Its aim to increase volume and productivity resulted in a focus on less complex cases, but these cases did not correspond closely with HMRC's assessment of the tax fraud risks across tax regimes (**Figure 15** overleaf). The Volume Crime project intended to increase prosecutions across a range of taxes and to include cases where the amount of tax at stake was lower than in organised crime cases. **Figure 16** on page 35 shows the variation in the amount of tax at stake in cases that were successfully prosecuted. The value of cases in our sample ranged from £250 through to an organised crime case worth £160 million. HMRC does not yet know what the right balance of case size should be. **Figure 17** on page 35 shows the outcomes of prosecuted cases in 2014-15. Around one-third of cases resulted in a custodial sentence.

Figure 15

Breakdown of prosecutions compared to the value of key risks

Tax fraud prosecutions in 2014-15 compared to the tax risks that HMRC has identified



	Prosecutions	Value of risks
Customs duty (%)	0.00	2.59
Stamp duty (%)	0.08	0.00
Corporation tax (%)	0.08	2.48
National minimum wage (%)	0.16	0.00
Other[1] (%)	0.31	0.00
Tax credits (%)	0.54	1.97
Alcohol duty (%)	1.79	7.13
Money laundering (%)	2.33	0.00
Oils duty (%)	2.64	3.88
IT, NIC, CGT, IHT[2] (%)	22.20	42.43
Tobacco duty (%)	32.38	13.04
VAT (%)	37.50	26.48

Notes

1 Other includes 4 prosecutions not categorised by HMRC.

2 Income Tax, National Insurance Contributions, Capital Gains Tax and Inheritance Tax. These are all taxes or contributions paid by or on behalf of individuals.

Source: National Audit Office analysis of HM Revenue & Customs data

Figure 16
Tax at stake for successful prosecutions, 2014-15

The amount of tax revenue at stake in cases leading to a conviction varies significantly

Revenue at stake by range	Number of cases in range[1]	Percentage of all cases by number	Total value of cases in each range[2] (£)	Percentage of all cases by value
Up to £4,999	64	16	115,179	0.02
£5,000 to £9,999	40	10	284,686	0.04
£10,000 to £49,999	125	31	2,838,788	0.44
£50,000 to £99,999	44	11	2,876,779	0.45
£100,000 to £499,999	72	18	15,445,034	2.39
£500,000 to £999,999	15	4	9,793,445	1.52
£1 million or over	39	10	613,598,039	95.14
Total	**399**	**100**	**644,951,949**	**100**

Notes

1 Each case may involve several people. The figure includes both convictions from the Volume Crime project and organised crime cases.

2 Total value of cases does not sum due to rounding.

Source: National Audit Office analysis of HM Revenue & Customs conviction data

Figure 17
The outcomes of cases which concluded in 2014-15

Outcome of prosecution[1]	Percentage of cases[2]	Detail on outcomes
Custodial sentence	32	The average sentence was 29 months, ranging from 1.5 months to 240 months.
Suspended sentence	16	The average sentence was 11 months, ranging from 1 month to 84 months.
Non-custodial sentence	41	This includes sentences such as compensation and community service. Around a third of non-custodial sentences were administered through cautions.
Acquittal	9	The defendant was acquitted.

Notes

1 Outcomes are recorded in this table by lead sentence only. For example, an individual receiving both a custodial sentence (eg prison) and a non-custodial sentence (eg fines) is recorded as receiving a custodial sentence. The data include organised criminal cases, as well as Volume Crime cases.

2 Total does not sum to 100% due to a small number of cases where there is incomplete information.

Source: National Audit Office analysis of HM Revenue & Customs data on cases which concluded in 2014-15

3.17 HMRC is planning to introduce guidance on the distribution of Volume Crime cases across taxes to take forward for criminal investigation and prosecution. This aims to better align risks with prosecutions. The distribution will not align exactly with the risks, as HMRC also plans to consider the balance it strikes in its coverage of particular taxpayers and where prosecutions will have the biggest impact. It does not currently know what this balance should be. HMRC is not introducing distribution guidance for cases involving organised criminals, where it will always seek a prosecution.

3.18 HMRC aims to secure widespread publicity for prosecutions because it believes that this has a significant part to play in creating the deterrent effect. We found evidence that it publicised the outcomes of around 20% of successful prosecutions in 2014-15, but HMRC does not know if this was enough to create a deterrent effect. It has also explored ways to increase awareness of prosecutions, such as through piloting a website that shows the location of people who have been successfully prosecuted.

3.19 HMRC claimed £295 million of yield from the deterrent effect of Volume Crime prosecutions in 2014-15 based on the modelling it had done when constructing the business case. It undertook research on the deterrent effect of prosecutions from the Volume Crime project and sought to estimate the financial benefit to HMRC of the deterrent effect. Its evaluation was unable to verify the value of the deterrence effect from the Volume Crime project.

3.20 HMRC has commissioned a range of research to build its understanding of the deterrence effect of its work more widely, as well as the deterrence effect of its extra prosecutions. This includes: surveys of businesses' and individuals' attitudes to compliance; media tracking; interviews with businesses to understand changes in their attitudes; and research with prosecuted taxpayers. It has also examined the impact of specific initiatives focused on particular sectors, such as campaigns that encourage electricians and plumbers to bring their tax affairs up to date.

3.21 This research has expanded HMRC's understanding of the deterrence effect of its work. The research presents a complex picture. It found in relation to the deterrent effect of prosecutions:

- an increased awareness of prosecutions for tax evasion (the first step towards a deterrent effect), but could not find evidence of changes in behaviour or any increase in tax revenues as a result.

Its survey of small and medium-sized enterprises found:

- an increase in those reporting that tax evasion is always unacceptable;
- sustained awareness of prosecutions by HMRC; and
- an increase in the proportion of respondents who felt that tax evaders were likely to be prosecuted.

Its survey of individuals found:

- declining awareness of prosecutions by HMRC, which its analysis suggested may be due to a decrease in press releases for prosecutions by HMRC; and
- a decrease in the proportion of respondents who felt that tax evaders were likely to be prosecuted.

Appendix One

Our previous work

1 We have reported previously on HM Revenue & Custom's (HMRC's) approach to tackling evasion, the hidden economy and criminal attacks. **Figure 18** overleaf summarises the findings from the most relevant reports.

Figure 18

Our previous work relevant to tax fraud

Report title	Date	Conclusions
Tackling the hidden economy	April 2008	HMRC has made improvements in response to recommendations from the NAO and Committee of Public Accounts. We recommended HMRC mounts a more effective deterrence, by making fuller use of the penalties available, and securing more publicity for successful prosecutions.
Managing civil tax investigations	December 2010	HMRC could obtain greater value from exploiting more fully the potential of civil investigations by ensuring dedicated investigation resources are deployed more closely to the risks; concluding cases more quickly; and strengthening their deterrent effect.
Renewed alcohol strategy: a progress report	January 2012	Alcohol excise fraud is a significant risk to revenue. We found HMRC had exceeded its financial objective in delivering its alcohol strategy, but needed to improve the effectiveness of its work with industry to disrupt the supply chain for alcohol diverted illicitly to the UK market. We also recommended HMRC should strengthen the financial and performance information it uses to inform delivery of the strategy.
The compliance and enforcement programme	March 2012	This change programme helped HMRC substantially increase compliance yield with fewer staff. It introduced new technologies to strengthen compliance work, including its approach to assessing risks. We acknowledged that HMRC was working to exploit the full potential of new capabilities and recommended that it integrate the new systems into business processes and ensure staff have the capabilities to use new technologies.
Progress in tackling tobacco smuggling	June 2013	HMRC's renewed strategy for tackling tobacco smuggling which launched in April 2011, is logical and wide-ranging but its approach to deterring and disrupting the distribution of illicit tobacco within the UK is not yet effectively integrated.
Tackling VAT fraud (Part Three of the *Comptroller and Auditor General's report on HMRC's 2012-13 Accounts)*	July 2013	HMRC made good use of intelligence to respond to the risks of VAT fraud. HMRC's interventions and wider cooperation had helped reduce significantly VAT losses from missing trader fraud from between £2 billion and £3 billion in 2005-06 to an estimated £0.5 billion to £1 billion in 2010-11. We recommended HMRC should consider the costs and benefits of enhanced real-time risk profiling of VAT payment returns, and should increase the urgency of its response to the fraud risk posed by internet-based traders.
How HMRC resources compliance work (Part Three of the *Comptroller and Auditor General's report on HMRC's 2013-14 Accounts)*	July 2014	HMRC used £1 billion of additional funding between 2011-12 and 2014-15 to target specific risk areas and increase tax revenues. It was constrained in how flexibly it could reallocate resources but had responded to changing threats to tax revenue by shifting the balance of its activities. We recommended that HMRC could further improve its strategic planning process by using its assessment of risks to explicitly inform the deployment of resources, and build a view of the optimal deployment of resources by risk type.
HMRC's assessment of the tax gap and tax risk (Part Two of the *Comptroller and Auditor General's report on HMRC's 2014-15 Accounts)*	July 2015	HMRC has identified 54 strategic risks to revenue. More systematic and deep analysis is needed to understand whether HMRC's yields are related to the inherent nature of the risks or the effect of HMRC interventions. As HMRC deploys new techniques it needs to develop a suitable range of measures to understand their effectiveness.

Source: National Audit Office

Appendix Two

International comparison of approaches to tackling tax fraud

1 In summer 2015 we surveyed supreme audit institutions on the response to tax fraud taken by the revenue bodies they audit. The results of this survey are given in **Figure 19** on pages 40 and 41.

Figure 19

International comparison of approaches to tackling tax fraud

We surveyed international supreme audit institutions

	UK	Australia	Belgium	Canada
Does the relevant tax authority pursue civil investigations into tax fraud?	Yes	Yes	Yes	No – not for evasion. Only for tax avoidance.
Does the relevant tax authority pursue criminal investigations into tax fraud?	Yes	Yes	Yes	Yes
What guides the tax authority's decisions about whether to pursue a civil remedy or criminal prosecution?	Criminal investigation is usually reserved for cases where HMRC needs to send a strong deterrent message, or where the conduct involved is such that only prosecuting an offender is appropriate such as cases of organised crime.	It is based on assessment of risk, complexity, revenue at risk and economies of scope (coverage of a variety of tax fraud).	It is based on consultation between the tax administration and the public prosecutor to decide on the seriousness of the case.	Criminal proceedings are launched in cases of: significant international evasion; promoters of evasion schemes; financial crime cases investigated jointly by the federal police, domestic police, or international law enforcement partners; significant cases involving particular taxes, such as Goods and Services Tax, Harmonised Sales Tax including the underground economy.
When fraud is identified, does the tax authority pursue 100% of tax owed?	Yes	Yes	Yes	Yes
What additional financial penalties are also applied?	Additional penalties range from 10% to 200% of tax due.	Additional penalties vary from percentage of tax due or multiples of a standard fine.	Additional penalties range from 10% to 200% of tax due plus €25 to €5,000.	Additional penalties range from 50% to 200% of tax due.
Does the tax authority have prosecution targets to meet?	Yes	No	No information available	No
Are disclosure facilities used in the case of domestic and offshore evasion?	Yes	Yes	Yes	Yes
Do disclosure facilities offer immunity from prosecution?	Yes – provided there is no serious criminal act involved, the taxpayer makes a full disclosure and does not reoffend.	Yes – if initiated by the taxpayer but not necessarily in cases where criminal investigations were opened by the tax authority.	Not at present although there have been disclosure facilities in the past which offered immunity from prosecution.	Yes – if the disclosure is voluntary, immunity may be offered. This does not apply if the customer is aware of an investigation by the tax authority or disclosure does not involve information which was unlikely to be uncovered during an investigation.

Source: Responses to questionnaires sent to international supreme audit institutions, asking about the tax authority in their country

	Denmark	Estonia	Germany	Netherlands	Norway	Sweden
	Yes	Yes	Yes	Yes	Yes	Yes
	Yes	Yes	Yes	Yes	Yes	Yes
	If possible the tax authority will pursue a civil remedy first and only pursue criminal prosecution if necessary. In cases raising important issues of principle, the tax authority can pursue criminal prosecution in order to establish precedence.	It depends on whether the offence is a misdemeanour or criminal under Estonian law.	The law enforcement agencies (prosecutor's office, police and tax police) do not have discretion: they are obliged to open an investigation if they are aware of a tax offence. Civil proceedings operate alongside criminal prosecution.	It is based on a three way consultation between the Public Prosecutor Service, the Fraud Division and the tax authority.	It is based on the amount evaded, criminal network involvement, the duration of the offence and any repeat offences.	The choice between charging a fine and filing a report of suspected tax fraud depends mainly on the amount of tax withheld.
	Yes	Yes	Yes	Yes	Yes	Yes
	Additional penalties range from 50% to 100% of tax due.	Additional penalties vary from €1,200 to €32,000.	Additional penalties of 10% to 20% of tax due plus 6% per annum.	Additional penalties range from 5% to 300% of tax due depending on the nature of evasion and voluntary disclosure.	Additional penalties range from 15% to 60% of tax due.	Additional penalties range from 2% to 40%.
	Unavailable	No	No	No	No	No – instead there is a target regarding the number of days required for criminal investigations.
	Yes – but only for offshore evasion	No	Yes	Yes	Yes	Yes
	In a recent disclosure from 2012-13, the offenders were given immunity from criminal charges and their identity would remain anonymous, but they had to pay the evaded tax with interest plus a fine of 60% of the evaded tax. The fine could be reduced if special circumstances existed.	Not applicable.	Yes – if the disclosure is voluntary and a full disclosure is made. This does not apply if the tax administration had already discovered tax evasion or had announced an investigation.	Yes – if the disclosure is voluntary and is within 2 years after the tax return should have been filed.	Yes – if the taxpayer makes a voluntary and correct disclosure.	Yes – if the disclosure is voluntary. This does not apply once someone is told that an audit is underway.

Appendix Three

HMRC's interventions

1 HM Revenue & Customs (HMRC) has a range of powers, penalties and sanctions available to it to tackle evasion, the hidden economy and criminal attacks. HMRC refers to these as its compliance toolkit.

Powers

- Compliance checks on taxpayers. Checks may be prompted by error or deliberate misstatement. Where evasion is identified, cases should be referred internally to ensure they are considered for investigation.
- Taskforces are focused bursts of activity in particular sectors and areas to target a small number of individuals or businesses (around 100 to 300) where HMRC believes there is a high risk of evasion. Taskforces have focused, for example, on the construction industry in London, and are used to identify specific cases for criminal prosecution or civil action.
- Campaigns aim to provide a method for people and businesses to come forward who are under-declaring due to lack of awareness, carelessness or deliberate intent, and bring their tax affairs in order. These can be both onshore (such as for landlords with undeclared rental income) or offshore (such as the Liechtenstein Disclosure Facility). Criminal prosecution is normally foregone in exchange for the tax due and penalties, if the disclosure is full and accurate.
- 'Code of Practice 8' is used to investigate technical issues that are not fraudulent, although it can be used if HMRC suspects fraud but cannot identify the individual responsible.
- 'Code of Practice 9' allows HMRC to open civil proceedings to recover tax including interest and a penalty (a percentage of the tax owed which depends on the taxpayer's level of cooperation) where it does not consider criminal prosecution appropriate. By proceeding with an investigation, HMRC foregoes a criminal prosecution, but reserves the right to start criminal proceedings if a taxpayer fails to disclose fully. Part of Code of Practice 9 is the offer of the Contractual Disclosure Facility.
- Securities allow HMRC to ask taxpayers to pay a deposit or bond in order to continue trading, when it thinks there is a risk they will not pay on time. HMRC can use the security to settle the liability if necessary. It is a criminal offence to not pay the security or continue trading if the security has not been given.

Penalties

- Flat-rate penalties for circumstances such as a failure to submit a tax return on time.
- Daily penalties may be added if the failure continues after a flat-rate penalty has been charged.
- Tax-geared penalties based on a proportion of the tax due. For example, the penalty for an inaccuracy in a tax return will depend on the tax, taxpayer behaviour, timing and other factors and can be reduced depending on the taxpayer's level of cooperation.

Sanctions

- Debt recovery powers where a taxpayer is not paying the tax due to HMRC.
- Publishing details of deliberate defaulters of more than £25,000 of tax who have not fully cooperated with HMRC ('naming and shaming').
- Placing an individual on the Managing Serious Defaulters programme – the tax affairs of people who have been charged a penalty or prosecuted or who have been identified as being a high risk to HMRC are monitored more closely for 2 to 5 years.
- Disqualification as a company director – HMRC can request that the Department for Business, Innovation & Skills disqualify a director.
- Removal of 'fit and proper person' status – for people who worked in Money Services Bureaux or Trust and Company Service Providers.
- Confiscation orders can be used to recover money stolen as a result of criminal activity or assets purchased with the proceeds of crime. Prosecuting authorities will pursue confiscation orders through the courts.
- Financial reporting orders – where a person has to regularly submit details of their financial affairs to authorities.
- Forfeiture of cash and goods where these are seized at the UK border.
- Serious crime prevention orders provide restrictions on a person to prevent reoffending, for example restricting where a person lives, who they associate with and where they go.
- Compensation – a court order to repay losses sustained by the Exchequer.
- Criminal investigation with a view to prosecution. The possible outcomes for those prosecuted are imprisonment, fines, confiscation of assets, cautions, community sentences, or being found not guilty.

2 Other elements of HMRC's approach to tackling evasion, the hidden economy and criminal attacks that we have identified include:

- education and awareness – working with trade bodies and industry representatives, and targeted communication and educational support to high-risk groups;
- media publicity – publicising court decisions and prosecution successes, mapping criminal prosecutions, press releases and use of social media;
- process changes – stricter controls over taxpayer registration and increased use of real-time transaction profiling to identify and stop risky registrations and repayments; and
- sector-specific responses – for example, the scheme to licence alcohol wholesalers and the use of mobile road fuel testing units to identify vehicles using illicit fuels.

Appendix Four

Our approach

1 This report provides an overview of the issues facing HM Revenue & Customs (HMRC) in dealing with tax fraud and how it has responded to them. In this report we describe:

- the nature and scale of tax fraud in the UK (Part One);
- how HMRC tackles these problems (Part Two); and
- HMRC's approach to prosecutions (Part Three), which has been a particular area of interest to the Committee of Public Accounts.

2 We reached our findings about HMRC's response to tax fraud following our analysis of evidence collected between August and October 2015. The main methods are outlined below.

Document review

- We reviewed internal HMRC documents relating to its assessment of tax risks, its strategy for civil and criminal investigations, the business cases for new activities and their evaluations.
- We reviewed published HMRC documents on the tax gap and statements on its approach to tackling tax fraud.
- We reviewed documents relating to the 2010 Spending Review and subsequent Budgets and Autumn Statements.
- We reviewed academic literature relating to tax fraud and tax administration.

Data analysis

- We undertook analysis of HMRC's prosecution data for the period 2010-11 to 2014-15. This included detailed analysis of the outcomes of prosecutions in 2014-15.
- We analysed published tax gap data and unpublished data on HMRC's assessment of strategic tax risks.
- We analysed HMRC press releases during 2014-15 that related to the successful prosecution of tax fraud.
- We reviewed HMRC's cost benefit analysis of civil and criminal investigations.

Interviews

- We undertook semi-structured interviews with a range of staff from HMRC.
- We spoke to a range of law enforcement bodies and the three prosecuting authorities.
- We spoke to a range of professional bodies and academics.

Previous National Audit Office work

- We drew on audit findings from previous studies. We provide more detail on this in Appendix One.

Survey

- We sent a survey to a selection of supreme audit institutions which asked questions about the response to tax fraud taken by the revenue bodies they audit. The results of the survey are shown in Appendix Two.

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£10.00

ISBN 978-1-78604-018-3

9 781786 040183

National Audit Office

Design and Production by NAO Communications
DP Ref: 10854-001