



HM Revenue
& Customs

Sir Jonathan Thompson KCB
Chief Executive and Permanent Secretary

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Meg Hillier MP Chair,
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30th April 2019

Dear Ms Hillier

66th PAC Report of 2017-19: HMRC's Performance 2017-18

I am writing to update the committee on the progress on recommendations 1, 3 and 4 as requested in the above report which was published on 28 January 2019.

Recommendation 1:

HMRC should, in its next annual error and fraud statistics, include an explanation of the impacts of terminating the Concentrix contract and de-prioritising improvements to the Tax Credits system, and an explanation of the different causes of error and fraud. By April 2019, HMRC should report to the Committee on what actions it is taking to help claimants avoid errors and what impact these actions are expected to have on overpayments and underpayments.

Response:

HMRC remains committed to helping our customers access the support to which they are entitled. Our strategy is increasingly focused on supporting and guiding customers to claim correctly by using education and reminder campaigns. Examples of these campaigns include targeted letters to increase understanding of the criteria for single or joint claims ("undeclared partner") and how to declare self-assessed income for tax credits purposes.

Analysts estimate that the undeclared partner campaign will have reduced the level of error and fraud in 2018-19 by 0.4ppts. We are looking to embed this type of activity further in our compliance strategy.

Traditional operational compliance activity continues to play a key role, and without it each year we would see roughly twice as much lost to error and fraud in the tax credits system.

As I said in my evidence to the PAC hearing on 30 April 2018, it is difficult to isolate the impact of each of the decisions we made to reprioritise IT changes as part of the Department's 2018-19 budget setting and resource prioritisation.

For example, I referred to our plans to offer an online service for new tax credits claims ("digital new claims"). Digital enhancements such as this, or moving customers to renewing their claims without using paper ("paperless renewals"), looked to shift the channels through which our customers access our services but were not primarily aimed at addressing error and fraud.

We made the decision not to deliver these changes because their value for money was not as strong relative to other priorities – in part because of the short remaining lifespan of tax credits – and because of the difficult decisions we had to make to reduce the pressure on the Department so that we could support the delivery of EU Exit.

The original business case for digital new claims assessed the benefits from April 2017 to January 2019 – when new claims ceased – as almost £2.8m after costs. Early work on paperless renewals identified potential DEL savings of £600,000 per annum, plus an opportunity for resource savings that had not yet been calculated at the time the project ended.

Given a digital channel, a small number of our customers may have found it easier to avoid error when they made a new claim to tax credits or renewed their award, but the business case for these changes was not predicated on these benefits.

However, we have introduced new ways to support tax credits customers as part of our 'Making Tax Digital for Individuals' programme, such as through faster processing of our vulnerable customers' claims over the telephone and by encouraging customers to provide us with information through their Personal Tax Account. Our customers can also now find out online or through our mobile app how much and when they'll be paid, and over one million customers renewed their tax credits online in 2017-18. These changes have reduced inbound contact to HMRC and will benefit our customers until the closure of tax credits in 2023.

Recommendation 3:

"HMRC should take more responsibility for ensuring tax reliefs provide value for money. In particular, HMRC should set out, by April 2019, an approach for improving its understanding of the cost for those tax reliefs where it does not already have that information."

Response:

HMRC's responsibility on tax reliefs is shared with HM Treasury as part of the shared policy function. HMRC is working on developing its understanding of tax reliefs to ensure that it understands impacts on customers better and to improve compliance work.

HMRC aims to continuously improve its understanding of the cost of tax reliefs in order to accelerate provision of additional material on costs of reliefs HMRC have prioritised analytical resource to undertake a project to publically provide more information on the costs for reliefs where none are currently published. This project has already started and will run in 2 stages over several years. The first stage will involve a comprehensive review of currently available data to provide indicative estimates for tax reliefs. The second stage will identify those reliefs where HMRC would need to collect or purchase additional data to estimate the relief. In some cases this may require further information from individuals and businesses which will have an impact on them and could increase burdens. HMRC and HM Treasury will then weigh the costs of acquiring data against the benefits of generating further estimates. Within both stages a prioritisation framework will be applied to ensure that higher risk reliefs are estimated first, with lower risk reliefs being considered later.

HMRC continues to improve their annual statistical reliefs publication. In January 2019, the publication was expanded to include an estimate for the number of claimants for a significant proportion of reliefs. HMRC will further improve this publication in Summer 2019 to include an

expanded list of reliefs, categorisations and descriptions for reliefs, and a number of new estimates. For future years, annual updates to the publication will take place in the Summer so that it can be based more extensively on outturn revenue figures instead of forecasts.

HMRC intends to make significant progress on coverage of reliefs over the project, but there may remain some un-costed reliefs due to data limitations. As the statistical reliefs publication is published annually, Summer 2020 will be the first opportunity to publish new estimates for a significant number of additional reliefs. We will consider the appropriate form for publishing additional information subject to working through the necessary statistical protocols. HMRC intends to make strong progress publishing new estimates by the end of 2020 and will continue to expand coverage into 2021 and 2022. It is a priority to expand coverage in a timely manner whilst ensuring high quality.

HMRC recognises that this ongoing work to understand tax reliefs is an important element of informing advice about value for money of policy options for the tax system, where the Department works closely with HM Treasury.

Recommendation 4:

“HMRC should report back to the Committee by the end of 2018 on how it will improve the quality of PAYE administration by employers and pension providers. In subsequent years, HMRC should report publicly on changes in the quality of PAYE administration and how this is affecting taxpayers, Tax Credits and Universal Credit.”

Response:

HMRC continues to work with employers through the jointly managed engagement team with DWP, to identify areas where there are common mistakes and issues. In particular, work continues with employers to correct mistakes in RTI submissions.

HMRC is working on more significant proposals to raise the quality of the administration of PAYE and the interventions HMRC could make to improve PAYE for employees, employers, HMRC and the DWP for the Spending Review 2019 process. Those include some changes to policy, responsibilities and accountabilities and would require funding if accepted and prioritised.

System enhancements are being introduced and a new Earlier Year Update process is currently being piloted in response to representations from employers. These include:

Earlier Year Update (EYU)

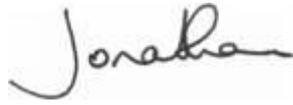
The issue is that throughout the year an employer submits RTI data using the year to date position. After the tax year ends we expect employers to tell us about any amendments, corrections or updates via an EYU. This process uses the updated information figure not the year to date figure. Employers struggle with the different approaches and knowing what the amendment or update should be. As a result EYUs generate a cycle of employer errors as each seeks to correct the last. The pilot is to replace the EYU with a closed year Full Payment Submission which will continue the year to date position employers are familiar with.

System Enhancements to improve employee matching

The issue is where employers submit incorrect data or change software in month 1 of the tax year our system rules can create an incorrect result for the individual employees resulting in incorrect codes, outputs and increased front line demand. These can be broken down, for example duplicate employments can be created. Whilst our systems will automate correction in the majority of cases the incorrect data may have been supplied to DWP for UC purposes. We are developing 3 system tweaks to improve the matching of our data to prevent issues at source. We expect this to prevent approx. 100k duplicate employments and all 395K cases caused by what we call fractured employments created in month 1.

We will continue to routinely monitor the accuracy of PAYE data as part of current business assurance processes

Yours sincerely

A handwritten signature in black ink that reads "Jonathan". The signature is written in a cursive style with a large initial 'J' and a long, sweeping tail.

**SIR JONATHAN THOMPSON
CHIEF EXECUTIVE AND PERMANENT SECRETARY**