



Committee of Public Accounts

House of Commons, London SW1A 0AA

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Jim Harra,
Permanent Secretary
HM Revenue & Customs
100 Parliament Street
London
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30 October 2019

Dear Permanent Secretary,

RE: HMRC Standard Report

Thank you to you and your colleagues for providing evidence to the Committee on 21 October in relation to HMRC's performance during 2018-19. May I also take this opportunity to congratulate you on your appointment as the new Chief Executive and First Permanent Secretary at HMRC.

The Committee recognises that HMRC has performed well in 2018-19, collecting record levels of tax revenue (£628 billion, an increase of £22 billion from 2017-18) that can be spent on important public services. We also recognise the importance of the tax system responding to modern working practices, delivering high quality services for customers and introducing digital tax services. We therefore welcomed the opportunity to explore HMRC's progress in these important areas and to revisit issues previously raised with your department. Given the imminent dissolution of Parliament, rather than publishing a report we have set out our conclusions and recommendations in this letter.

The Tax Gap

HMRC reported it secured increased tax revenue from its enforcement and compliance activities during 2018-19. Even so the estimated Tax Gap increased from £30 billion (5.3%) in 2015-16 to £35 billion (5.6%), in 2017-18. You told us that this was due to a number of factors, such as the increase in self-employment and the challenge of keeping up with continually evolving tax avoidance schemes. We note HMRC's desire to reduce the Tax Gap, including through a greater focus on preventative measures to help taxpayers get their tax affairs right first time and reduce the opportunities for mistakes to be made. However, despite the Tax Gap being a key measure for HMRC's performance, there is no target for reducing its size.

Recommendation: HMRC should establish a stretching annual target for reducing the size of the Tax Gap. This should be in place by 1 April 2020.



Maintaining the relevance of the tax system

The number of Self Assessment tax returns received by HMRC has been steadily increasing since 2010-11 as a result of the growth self-employment, the gig economy and certain changes in tax policy such as the introduction of the High Income Child Benefit Charge. We understand that the cost of collecting £1 of income tax through Self Assessment is, on average, four times higher than through the Pay As You Earn system, and that the Tax Gap associated with the self-employed is higher than for those in employment. We discussed in the session that while around 40% of self-employed taxpayers use a tax agent, a high proportion of those returns are incorrect.

Recommendation: HMRC should set out how it will tackle the risks arising from the growth in self-employment, including: how it will support these individuals to get their tax affairs right; and how it intends to support taxpayers in selecting tax agents that have demonstrated high professional standards.

Making Tax Digital

HMRC launched Making Tax Digital for VAT on 1 April 2019. Given the impact you expect the income tax and Corporation Tax parts of the Making Tax Digital programme to have on managing small business tax risks and reducing the Tax Gap, we are concerned at the lack of clarity around when they will be implemented. We are also concerned that HMRC's Annual Report does not highlight transparently these parts of the programme as being 'not on track'. We note that the uncertainty around the future of the programme is exacerbated by the need to secure funding from HM Treasury. We are also concerned about the potential impact of the vacant post of a Chief Digital and Information Officer.

Recommendation: In preparing for the Spending Review, HMRC should re-evaluate the case for Making Tax Digital in light of the delays in implementing the income tax and Corporation Tax components of the programme.

Customer service performance

While HMRC accepted our 2018 recommendation to introduce performance measures that provide a broader overview of customer experience by the start of 2019-20, this has not yet been implemented. You told us that HMRC has started publishing "experimental data" which considers the outcomes for customers, for example, the number of repeat callers as a proxy measure for how many customers got what they needed from their first telephone call. While we note that you intend to consider whether to introduce the new measures as part of Spending Review considerations in 2020-21, we are concerned about any further delays.

Recommendation: HMRC should set targets that provide a broader overview of customer performance by 31 March 2020 at the latest.



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HMRC's customer service performance deteriorated during 2018-19, missing four its five key targets including: the percentage of callers waiting more than 10 minutes to speak to an advisor, which increased from 14.6% in 2017-18 to 19.7% in 2018-19 (against a target of 15%); and the percentage of customer post turned around within 15 days which dropped from 80.7% to 76.6% (against a target of 80%). We were disappointed to learn that inefficient and ineffective recruitment practices had led to problems in staffing customer service teams and contributed to the deterioration in customer service performance.

Recommendation: HMRC should set out the results of its review of recruitment practices and what measures it has put in place to ensure it has the capacity and capability to deliver on its customer service performance targets.

Tax Credits

Tax Credits are gradually being replaced by Universal Credit, administered by the Department for Work & Pensions. For some claimants it is only when they move over to Universal Credit that they understand the full extent of the amount they owe as a result of previous overpayments, causing considerable distress to some of the most vulnerable people in our communities. We are concerned that failure to properly manage the transfer of the remaining £6.8 billion of Tax Credit debt to DWP will inflict further uncertainty and hardship on those affected.

Recommendation: HMRC should write to all current Tax Credit claimants to inform them whether they have accumulated debt as a result of overpayment and, if so, how much is owed.

I am copying this letter to the Comptroller & Auditor General and to the Treasury Officer of Accounts.

I would be grateful if you could provide a response to the six recommendations I have set out in this letter by *Thursday 30 January 2020*. We will publish your response on our website.

MEG HILLIER MP
CHAIR OF THE COMMITTEE OF PUBLIC ACCOUNTS