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Mr Andrew Tyrie MP
Chair
Treasury Select Committee
7 Millbank
House of Commons
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11 January 2011

Dear Mr Tyrie,

**COMMITTEE OF PUBLIC ACCOUNTS HEARING ON HMRC 2009-10 ACCOUNTS
AND C&AG'S REPORT**

Following my letter dated 12 November, in which I provided some additional information about our legacy Pay As You Earn (PAYE) open cases, I am writing to offer a further update about the approach we plan to take in order to secure the best value for the taxpayer in our collection of underpayments for the year 2007-08. This letter is also to tell you about how we have managed an issue concerning pensioners and the application of extra statutory concession (ESC) A19.

At the Committee of Public Accounts Hearing on 16 November, I was asked how much of the value of the PAYE underpayments for that year might be recovered. I reserved my answer, as we needed to conduct a proper analysis of what would give us the best return for the taxpayer given the resources available and the trade off with other priorities. In particular I was mindful of the fact that we get a much better return when we collect more recent debt than when we go after older debt, and that our focus in recent months has been the running of the end of year reconciliation (EoYR) exercise for the years 2008-09 and 2009-10.

Our analysis shows that the best and most reliable way of recovering underpayments of less than £2000 is to collect the money through PAYE. To collect 2007-08 underpayments by adjusting the tax code which will apply for the tax year

2011-12, we need to process these cases now as we only have until late March to do this work. We will prioritise cases which represent larger amounts to maximise value for money given our limited resources.

As the Committee is aware, we decided not to collect underpayments of less than £300 to deal with the operational impact of the 2008-09 and 2009-10 EOYR exercise. This allowed us to remove high volumes of customers with lower value underpayments from the process, thereby protecting service levels for customers generally, with minimum impact on revenue foregone.

For 2007-08, concentrating on cases worth £300 or more leaves in scope around 25% of the cases to deal with by volume, but those contain around 80% of the value. The Commissioners of HMRC have therefore decided, using our Collection and Management powers, that the £300 tolerance should also apply to the 2007-08 year in order to allow the work to get the underpayments into codes to start as soon as possible.

I wanted also to update you on a decision the Commissioners have taken concerning the application of extra statutory concession (ESC) A19 to some pensioner cases as part of the EoYR exercise for 2008-09 and 2009-10. In about 250,000 cases the customer had received state pension but that had not been included in their tax code for 2008-09 and 2009-10, and because they have other income this is likely to result in an underpayment of tax. These cases may have built up over several years and only surfaced now because National Insurance and PAYE System (NPS) allows us to pick up cases where an individual is over state pension age and does not have that state pension income included on their NPS record.

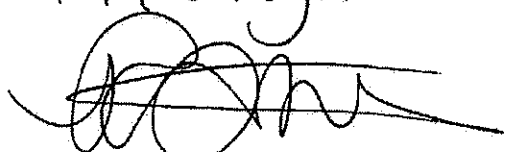
Of this population of 250,000 who might have been liable, we considered most would have a good claim for the tax to be foregone by HMRC under the terms of ESC A19. Without issuing notices of underpayment to each relevant customer we cannot identify in advance which of these customers would be eligible for ESC A19 to be applied. On the basis that the vast majority would, if they contacted us, be eligible for the concession, the Commissioners have therefore decided that the department should not seek individual claims.

Finally I am pleased to report that by the end of the calendar year, we completed 90% of the cases where HMRC had received all the relevant information for the years 2008-09 and 2009-10. We are now working hard to complete the process for the remaining cases.

I am writing in similar terms to Rt Hon Margaret Hodge MP and a copy of both letters will be sent to Amyas Morse.

May I take this opportunity to wish you a Happy New Year.

Kind regards



LESLEY STRATHIE
CHIEF EXECUTIVE