



**Response from ICAS to the  
All-Party Parliamentary Group on Responsible Tax  
Inquiry into public confidence  
in HMRC's capability to collect tax fairly and effectively**

20 October 2016

## About ICAS

1. The following submission has been prepared by the ICAS Tax Committee. This Committee, with its five technical sub-Committees, is responsible for putting forward the views of the ICAS tax community, which consists of Chartered Accountants and ICAS Tax Professionals working across the UK and beyond, and it does this with the active input and support of over 60 committee members. The Institute of Chartered Accountants of Scotland ('ICAS') is the world's oldest professional body of accountants and we represent over 21,000 members working across the UK and internationally. Our members work in all fields, predominantly across the private and not for profit sectors.
2. ICAS has a public interest remit, a duty to act not solely for its members but for the wider good. Evidence provided by ICAS aims to inform in a positive and constructive manner. ICAS is apolitical and will not take a stand for or against a particular political position. From a public interest perspective, our role is to share insights from ICAS members into the many complex issues and decisions involved in the design and implementation of fiscal measures, and to point out operational practicalities. Our representatives also contribute based on the collective experience of decades of work which ICAS members and staff have undertaken with both the UK and Scottish Parliaments and tax authorities, and other European and worldwide institutions, on a shared agenda that seeks better outcomes for all stakeholders.

## Introduction

3. ICAS welcomes the opportunity to contribute to the All-Party Parliamentary Group on Responsible Tax inquiry into public confidence in HMRC's capability to collect tax fairly and effectively.
4. HMRC has faced considerable challenges in recent years, against a background of significant reductions in its resources. Its remit includes the National Minimum wage, student loan repayments, tax credits, aspects of money laundering regulation as well as more traditional 'taxation'. There has also been extensive and ongoing tax legislative change, with a succession of lengthy Finance Acts – requiring consultation, implementation and development of guidance.
5. ICAS appreciates the efforts of HMRC to work with stakeholders through its consultation meetings and the various stakeholder forums it operates.
6. There have been problems with HMRC customer service levels, as discussed below. The recent restructuring of HMRC into three new groups is intended to address customer service issues but it is too soon to say how effective this will be, particularly as further reductions in HMRC resources are planned. It is essential for rebuilding and maintaining public trust and confidence that HMRC is adequately resourced so that it can perform its numerous functions properly.

## General:

**What levels of trust and confidence do the public have in the capability of HMRC to collect tax in an effective and efficient way that:**

- a) preserves and encourages fairness and equity?
- b) is an efficient use of resources?
- c) provides a first rate customer service

## **What can be done to improve the levels of public confidence in HMRC's capability?**

7. The UK tax system depends on a degree of trust and voluntary compliance – coercion alone is not enough. In order to maintain public confidence and trust in HMRC it is essential that the service provided to all taxpayers is of an acceptable standard. HMRC staffing levels have been significantly reduced since 2010. All the evidence suggests that this has had an adverse impact on the service levels provided to individuals and smaller businesses. The Public Accounts committee (PAC) report into the quality of HMRC's service to personal taxpayers (published in July 2016) noted that HMRC had acknowledged that its service levels in 2014/15 and periods of 2015/16 were unacceptable.
8. HMRC's performance statistics for 2015/16 show that there was a catastrophic drop in standards in several months of 2015 and in spite of some improvements later in the year the overall picture was

poor. In the course of the year HMRC aimed to answer 80% of 'phone calls made to them and actually answered only 72%. For the answered calls the average waiting times ranged from 20 minutes in June 2015 to an improved but still disappointing 6 minutes in March 2016. In one week in October 2015 the PAC noted that the average time taken to answer a call reached nearly 35 minutes.

9. The statistics for 2015/16 also include performance against two targets for measuring success in clearing incoming post. In 2015/16 HMRC aimed to clear 80% within 15 working days of receipt, and 95% within 40 working days. Over the year they failed on both counts, clearing only 52% within 15 days and 87% within 40 days; these fell short of the levels of 70% and 94% attained in the previous year.
10. HMRC refers to taxpayers as "customers" but leaving nearly a third of calls unanswered and only dealing with approximately half of post received within 15 days suggests that either insufficient priority was being given to customer service or that HMRC has insufficient resources to provide an acceptable service. The recent restructuring of HMRC into three new groups is intended to address customer service issues but it is too soon to say how effective this will be, particularly as further reductions in resources are planned.
11. Lacklustre performance in dealing with calls and post, combined with the closure of all HMRC Enquiry Centres and an increased emphasis on digital interaction has caused the erosion of any personal contact between the majority of taxpayers and HMRC. This undermines trust in HMRC and it also fuels distrust of those, like large companies and wealthy individuals, who still have a personal relationship with HMRC through HMRC's customer relationship managers (large companies) or the High Net Worth Unit (wealthy individuals). Recently there have also been worrying signs that even the service provided by customer relationship managers to large businesses is deteriorating, with companies experiencing increased turnaround times and difficulties in obtaining responses.
12. As noted above it is essential that HMRC has adequate resources to provide an acceptable level of service to all taxpayers, if public trust and confidence in HMRC are to be rebuilt and maintained. The PAC report referred to above noted that between 2010–11 and 2014–15 HMRC cut staff numbers in personal tax from 26,000 to 15,000. It was then forced to recruit 2,400 new staff to tackle the collapse in customer service in 2015. However, further reductions are planned by 2020/21; the intention is that increasing use of digital systems will mean that this is feasible. We comment in more detail on Making Tax Digital (MTD) below but in the context of HMRC resourcing we believe it is essential that MTD is not used as an excuse to reduce HMRC staff numbers further in the short to medium term. It should instead be used to free up staff for interaction with larger numbers of taxpayers, not least to provide vital assistance to those struggling with the transition to digital.
13. Public confidence in HMRC might also be enhanced if the HMRC Board was expanded to include non-executives from a wider range of backgrounds. HMRC's 'Our governance' page states that: "The Board is in place to advise and challenge on the management of HMRC, particularly focusing its attention on the performance of the department and its future strategic direction." The Board (and hence performance and strategy) might benefit from the addition of non-executive members with a background of working closely with small businesses and with lower income and unrepresented individuals.

#### **Customer service:**

**To what extent does HMRC consider the customer's experience in the allocation of its resources and the services it provides?**

**Is the HMRC strategy for improving the customer experience fit for purpose?**

14. There appears to be a lack of understanding, amongst policy makers at HM Treasury and HMRC, of the operational impact of tax policies on businesses and individuals. We would like to see more business and behavioural awareness amongst policy makers.
15. The administrative burden of taxation is shifting increasingly to taxpayers – VAT and PAYE always placed administrative burdens on businesses which were then increased and extended to individuals by the introduction of self-assessment. Real Time Information (RTI), and now Making Tax Digital (MTD), continue this trend without any apparent appreciation of the effect this will have on businesses and individuals.

16. The PAC report referred to above noted that whilst HMRC reduced its own costs of providing services for personal taxpayers between 2010–11 and 2014–15, costs to its 'customers' increased due to increased waiting times and call charges for HMRC's helpline. According to the report every £1 saved by HMRC on its telephone services over the period resulted in an estimated £4 in additional costs to customers.
17. HMRC's 'Charter' used to include a commitment to keep the cost of dealing with it as low as possible. In annual surveys from 2011 to 2015 no more than 41% of tax agents felt that HMRC had achieved the required standard in any year. It appears that this is no longer even one of HMRC's aims as the commitment was dropped in the new version of the Charter published at the start of 2016.
18. The main focus of HMRC's efforts over the next few years is MTD which will have major consequences for customer experience and customer service. ICAS supports the overall objectives of MTD, as set out by HMRC in December 2015. The four 'foundations' are laudable goals, but we have significant reservations about the timescale and the mandatory approach particularly for small and medium enterprises.
19. MTD should be voluntary. If HMRC provides a secure, user-friendly digital solution which removes some of the difficulties encountered by taxpayers dealing with HMRC in recent years it should attract willing users among businesses and individuals alike. If a voluntary approach is adopted, those creating the new system will face the challenge of making it attractive and easy for users. They are therefore likely to set realistic goals, aiming initially at those most likely to become enthusiastic early adopters. Attention would be focused on addressing HMRC service standards for individuals and businesses.
20. If MTD proceeds on the proposed mandatory basis then for small businesses, particularly those with a single owner manager, the challenge in terms of available time, and the costs of maintaining real-time digital records and making quarterly tax submissions is immense. One of the stated aims of MTD is to tackle the tax gap but there is a grave danger of currently compliant businesses moving into the shadow economy.
21. Unfortunately, HMRC publicity around MTD has suggested negative messages about tax agents. Agents have so far been excluded from viewing their clients' online accounts and development of agent services consistently runs behind the development of the business and personal tax accounts. This is causing major problems for agents and clients which need to be addressed urgently, in line with the commitment in the HMRC Charter to 'accept that someone else can represent you'. We believe agents are vital to implementation and every effort should be made to work with them and ensure that they can assist their clients in dealing with the huge challenge of MTD.

#### **Dealing with tax avoidance and evasion:**

##### **How effective is HMRC in dealing with**

##### **a) aggressive tax avoidance?**

##### **b) tax evasion?**

##### **What legislative, resourcing or other measures would help to narrow the tax gap?**

##### **Does HMRC make appropriate use of all the powers and opportunities in its toolkit?**

22. The introduction of DOTAS, reinforced by the subsequent introduction of the GAAR, Follower Notices and Accelerated Payment Notices has largely eradicated the aggressive, heavily marketed tax avoidance schemes of the past.
23. HMRC's well publicised successes in the courts and the reputational consequences of the publicity surrounding these, against a background of public and media disapproval of tax avoidance are also likely to deter individuals and companies from using tax avoidance schemes in future.
24. During the previous parliament over 40 anti-avoidance measures were passed. Recently there have been consultations on further proposed measures and new penalties. We consider it would be helpful to allow existing measures time to operate and to be tested in the tribunals, before legislators

and other interested parties evaluate their overall effectiveness – and before additional measures are introduced.

25. HMRC has not yet used the GAAR, or imposed any monitoring notices under the Promoters of Tax Avoidance Schemes (POTAS) regime. We have been told by HMRC that they see the existence of GAAR and the POTAS regime as changing behaviour – so using the powers would represent a ‘failure’. If this is so we assume that behaviour is changing so it is hard to assess whether there is a real need for proposed additional measures.
26. Considerable media coverage has been given to the taxation of multinational companies in recent years. The UK government has been a strong supporter of the OECD’s Base Erosion and Profit Shifting (BEPS) project to tackle global corporate income tax losses. If consistently implemented by all major economies BEPS should assist in ensuring that profits are taxed where there is economic substance.
27. The UK has already implemented, or is in the process of implementing many of the OECD measures. HMRC (and the government) should be working to promote the implementation of BEPS in other key jurisdictions.
28. Lack of HMRC resources may undermine key measures to tackle tax evasion. Common reporting standards (CRS) should assist tax authorities, including HMRC, by providing information about taxpayers across borders. The consultation “Tackling Offshore Tax Evasion: A requirement to correct” suggests that HMRC believes it would need 5 years to analyse the CRS data. It is essential that HMRC is properly resourced so that it can deal with the CRS data within a reasonable timescale;

#### **Staffing and resources:**

##### **Are HMRC’s resources adequate?**

**Is HMRC able to recruit and retain people with appropriate skills, qualifications and experience? Within constrained budgets, what could HMRC do to achieve better and more sustainable services?**

29. See our comments above on HMRC resources and services.