World class tax authority

Claire Ralph reviews the Association of Revenue and Customs' report which proposes actions to create world class tax authority.

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The Association of Revenue and Customs (ARC) the union that represents senior civil servants in HMRC held a parliamentary launch event in mid-March to mark the publication of its report *Funding the Nation: Optimising HMRC* (tinyurl.com/arcreportftnoh). Many of the report's themes were picked up in the plenary speech by Loz Hutton (president of ARC) before the session opened out into a *Question Time* style panel event chaired by Sir Edward Troup, former permanent secretary at HMRC, with contributions from Lord Leigh of Hurley (chair of the House of Lords' Finance Bill Subcommittee) and tax law professor Judith Freedman.

The report itself remains focused on the changes required to make HMRC an effective tax authority both in terms of collecting the tax that is due and in being a vital part in a functioning economy, making evidence-based recommendations to improve its performance for the next government.

There was a lively panel discussion covering the report's main themes, the importance of HMRC's role in collecting tax revenue on which public services depend and some excellent questions from the audience. Despite efforts by Edward Troup to steer clear of policy there were mentions of tax simplification and how some policy discussions were taken without early enough consideration for tax administration and HMRC capacity/resourcing. Another interesting theme was the issue of big data, with acknowledgement from several on the panel that the human capital and skills of officers were still vital even as the service continues to place more reliance on data driven risk-based work especially in compliance.

The report focuses on the principles that a world class tax authority should aspire to, considers the current challenges that HMRC faces (many and varied) and where possible considers the financial cost of proposed changes.

Key points

- Changes required to make HMRC an effective tax authority both in terms of collecting the tax that is due and in being a vital part in a functioning economy.
- Investment in HMRC's customer service is necessary to improve voluntary compliance.
- HMRC's aging workforce is a matter of particular concern at the most senior grades.
- How can AI be harnessed to improve customer service and compliance?
- An investment of £900m could produce additional funds for government of more than £11bn over the course of a parliament.

Current position and future action

A fundamental achievement of the report is to pull together a number of eye-catching statistics that illustrate the complex and varied current challenges across a range of aspects of HMRC's operations.

Customer service

While recognising the fact that increasingly online services have diminished the need for direct person-to-person contact, the reduction in customer service staff - in contrast to increasing volumes of calls and post - demonstrates the immediate problems. The increase in demand to some extent comes from frozen tax thresholds bringing more people into taxation or increasing the complexity of taxpayers' affairs. Across the last six years, the number of higher rate taxpayers has increased by a third to over 5.5m and additional rate taxpayers by 120% to over 850,000. The Office for Budget Responsibility (OBR) predicts an additional three million taxpayers will be brought into the higher rate over the next year.

ARC has calculated the current cost to the economy of up to £1bn a year arising out of poor customer service to taxpayers and advisers which would only increase with increasing demand. Challenged by Edward Troup, the panel was asked where the priority should be for extra resources – compliance or customer service. Both Loz and Judith noted that compliance isn't an island and needs to be supported by investment in customer service to improve voluntary compliance.

HMRC workforce

Another stark fact is the potential time bomb in the HMRC workforce which needs to be planned for. Civil service staff survey responses show deteriorating engagement scores for HMRC (59% in 2022) which are also lower than the civil service median along with increasing numbers planning to leave (41% in the next three years). This sits alongside an aging workforce where 38% are over 50 and 10% over 60. These numbers are significantly higher at the most senior grades creating a risk that significant amounts of knowledge and experience could be lost in the next few years. Bearing in mind the complexity of much of the work done by HMRC staff, particularly in the compliance field, along with the value placed on HMRC skills and experience by external employers, there is a real risk that HMRC will not retain the necessary skilled staff to adequately deal with the challenges of the current tax market.

At present HMRC does not keep track of the formal tax qualifications of its staff – just one example that suggests it does not have a sophisticated enough workforce plan to ensure all its skills needs are covered. Interestingly HMRC has recently advertised for 78 externally qualified tax professionals using the potential for a better work life balance as a hook, presumably because it knows it cannot compete on salary (tinyurl.com/hmrccareersad).

It has been noted though that current requirements for 60% of working time to be in the office means that many private sector tax professionals may not see HMRC as such a flexible place to work any more. Both Lord Leigh and Edward Troup remarked about the professionalism stakeholders expect when dealing with HMRC. They identified the importance of valuing and rewarding skilled staff to reap the benefits of investment in their training etc.

Information technology estate

According to a March 2021 government report, HMRC's IT estate extends to 600 systems, 1,000 IT changes a month, operating 24/7 and serving 45 million citizens and five million business taxpayers. This demonstrates the scale of work required when systems start to age or are unable to communicate with each other. Aside from the well-documented troubles with making tax digital, research done by ARC shows that up to 4.4m working hours are lost to HMRC staff in a year due to problems with internal systems.

An audience question about the risk of a data/systems problems comparable to the Post Office Horizon scandal for HMRC prompted debate among the panellists who emphasised the importance of checks and balances within HMRC and the decision making protocols within senior grades.

Investment in compliance

The significant returns on compliance investment (£15 for £1 invested in 2021-22) have long been used to justify provision of additional funds to HMRC. However, these have largely been one-off pots rather than long-term investments, announced at budgets, and even these have noticeably reduced in size in recent years. A total of £1.7bn invested in compliance was announced in 2010 and 2015, but only an additional £689m in subsequent years and the 2024 Spring Budget only announced investment in collection. There was agreement that compliance isn't an island within HMRC and is far more interconnected with other aspects of HMRC performance than the piecemeal funding settlements in recent times seem to expect.

Report recommendations

Unsurprisingly, the recommendations focus largely on investment but identify the significant benefits that could result.

1. Short-term investment in high-yielding compliance supported by customer service investment

This considers the two sides of collecting tax with improved customer service expected to increase voluntary compliance and a shorter-term focus on specific parts of the tax gap that have been persistently high, and in some cases increasing, such as small business. This area also covers reviewing the criminal investigation policy to ensure that this is effective in deterring more serious levels of non-compliance.

2. Longer-term strategic investment in reducing the tax gap

The tax gap has remained at roughly the same percentage of total tax for the past few years.

ARC proposes work to understand different elements of the tax gap, in particular with a focus on the causes of small business non-compliance. With a historic return on compliance investment in relation to small business of between £11 and £15 for every £1 spent, the revenue should more than justify the spending. Again, this recognises the impact of additional compliance work on customer service demand and asks for supporting funding, echoed by comments made at the launch event.

3. Long-term staffing and skills plan

This requires the department to identify the skills and experience it needs to deal with changes occurring in the next decade, including digital and IT skills which will be the foundation for much of future tax administration. Such a plan should involve setting out expectations of specific roles at particular grades and identify necessary training pointing out that taxpayers need to be sure they are dealing with HMRC staff who are able to deal with their affairs competently. Much is made of the time taken to train and mentor new tax professionals and the requirement to factor that into workforce planning. Bearing in mind the attractiveness of external tax professional roles in particular, ARC believes that there needs to be a review of how the department can ensure it retains the best talent and maintain institutional knowledge.

4. An ongoing technology plan

This refers to HMRC's IT strategy last updated in July 2023 which has lots of great buzz words but no detail of what it really means. ARC recommends a plan which follows principles outlined in the OECD's tax administration report 3.0. It identifies the need to identify the legacy systems that are the highest priority for upgrade in terms of improving the administrative burden on staff and enabling agents to do more on behalf of their customers. It also recommends looking at how artificial intelligence (AI) can be harnessed to improve customer service and compliance – a world class tax administration needs at least to have systems that parallel those in the outside tax world and AI is already being used by advisers.

This proposal also touches on policy areas identifying that common bases for taxes alongside timetables and time limits would hugely simplify tax administration. Some aspects of this are already being considered in the consultation on HMRC's enquiry, assessment and penalty powers.

5. A clear data strategy

There is an obvious tension between the purpose of collecting data and the cost to taxpayers of providing it. The report identifies the need to structure its data collection to work most efficiently with the systems used by taxpayers in their personal and business lives. But it also proposes looking at whether the scope of data collected could extend to information that will help better evaluate policy changes, including deadweight and administration costs. An ongoing criticism of current tax policies, particularly in relation to tax reliefs, concerns the lack of evaluation of the costs and benefits but often there are difficulties in finding data to conduct such analyses. When new policies are being developed it seems at least reasonable to consider whether there is easy data that could be collected to help review the value of those changes. ARC also proposes easier access to HMRC data by academics and outside researchers who may be able to carry out analyses that are useful to it – something Judith Freedman picked up in the launch event.

6. A clear strategy for tax administration

This recommendation effectively calls for a replacement for the much-missed Office for Tax Simplification within HMRC to focus on simplifying tax administration processes. The report again touches on policy here, highlighting particular legislation, such as the high-income child benefit charge (HICBC), which has created well-documented administrative complexity. The report recognises recent simplification changes, including reform of the non-domicile regime and the new specialist task force to advise on eligibility for research and development tax reliefs. However, it also identifies that the proposed changes to the HICBC to make it fairer almost certainly result in even greater administrative complexity by introducing the household basis for calculation. The proposal here is to have a team that will address these types of issues alongside more process-based aspects of administration.

Impact assessment

At a time when public sector budgets are stretched to the limit probably the most important aspect of this report is the calculation of the return to the exchequer from investing in compliance. ARC has produced estimates based on recent years published returns on compliance investment. These suggest that an investment of just over £900m could produce additional funds for government of more than £11bn over the course of a parliament. Crucially this includes over £200m invested in customer service which has no direct return but would contribute to improved voluntary compliance and equally remove some of the current burden that tax compliance puts on individuals and businesses. The value of this would be hard to measure but welcomed by taxpayers and advisers alike.

Conclusion

It is good to see a union taking responsibility for highlighting the important work being carried out by its members and collating the evidence at a critical time to present to the next government. Those members know the ins and outs of how the department works and are in the best position to promote positive change in matters of wide relevance to taxpayers and their agents.

Author details

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