

The Parliamentary Accounts Committee report on HMRC: th.

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This is the text of the full Parliamentary Accounts Committee press release on H M Revenue & Customs issued at 00.01 today:

HM Revenue and Customs 2010-11 Accounts: tax disputes

The Rt Hon Margaret Hodge MP, Chair of the Committee of Public Accounts, today said:

“This report is a damning indictment of HMRC and the way its senior officials handle tax disputes with large corporations. We uncovered both specific and systemic failures which must be addressed.

“There is more than £25 billion outstanding in unresolved tax bills and it is essential that there should be proper accountability to Parliament for the settlements reached by HMRC.

“Having looked at the two cases in the public domain, we are concerned that many millions of pounds may be lost to the public purse.

“It is extremely disappointing that senior HMRC officials were not prepared to cooperate with our inquiry in a spirit of openness. We accept that there is a need for confidentiality to protect individual taxpayers, but this must not be used as a cloak to protect the Department from scrutiny.

“It is absurd that we had to rely on the media and the actions of a whistleblower to find out about the details of individual settlements. Parliament and the public have legitimate concerns that large companies are being treated more favourably than ordinary taxpayers, whether they be small businesses or hard-working families.

“The Department’s working practices must be seen by the taxpaying public to be absolutely impartial. The impression being given at the moment is quite the opposite, of far too cosy a relationship between HMRC and large

companies.

“In several cases, HMRC chose to depart from its normal governance procedures. It is extraordinary that the same officials who negotiated deals also approved them. In one instance, a mistake led to a potential £20 million of interest on a tax liability not being collected. Parliament and the public must be assured that settlements do not short-change the Exchequer.”

Margaret Hodge was speaking as the Committee published its 61st Report of this Session which, on the basis of evidence from the Cabinet Secretary and HM Revenue & Customs (the Department), examined tax disputes.

At 31 March 2011 HM Revenue & Customs (the Department) was seeking to resolve tax issues valued at over £25 billion with large companies, some of which included disputes over outstanding tax. The Department must collect as much outstanding tax as possible and be held properly to account for how it resolves tax disputes. We have serious concerns about how the Department handled some cases involving large settlements, where governance arrangements were bypassed or overlooked until it was too late. In some cases the same officials negotiated and approved the settlements, which is clearly unacceptable.

Investigation of these specific cases has led to serious concern about systemic issues which must be addressed with the utmost urgency. There needs to be proper separation between the negotiation of tax settlements and the authorization of such settlements. And the Department must address issues of accountability so that Parliament and the public can be satisfied that best value is secured.

The Department has made matters worse by trying to avoid scrutiny of these settlements and has consistently failed to give straight answers to our questions about specific cases, which has severely hampered our ability to hold it to account for the settlements reached.

The Department has insisted on keeping confidential the details of specific settlements with large companies, even where there have been legitimate concerns about the handling of cases. Details of some cases only reached the public domain because the press secured the details. We recognise the general intention of the legislation is to keep taxpayers' details confidential, but there is a provision which allows the Commissioners to authorise disclosure in certain circumstances. Furthermore, HMRC has a clear duty to assist Parliament in its work to establish value for money and detailed information can be necessary if Parliament is to properly meet its obligations. Given the public interest in these very large settlements, it is not unreasonable that they should be subject to more specific scrutiny. As it stands, the Department's decision to withhold details from us reduces transparency and makes it impossible for Parliament to hold Commissioners to account. This situation is entirely unacceptable.

We discovered that the Department's governance processes for large settlements were not applied consistently. In one case, a mistake was not picked up until too late because the Department failed to follow its own governance procedures. The C&AG told us that this resulted in a loss of up to £8 million in interest forgone. We have since received evidence from a whistleblower that the total value of interest payable in respect of this particular settlement could be as high as £20 million. Our understanding of how this case was settled is inhibited by the imprecise, inconsistent and potentially misleading answers given to us by senior departmental officials, including the Permanent Secretary for Tax. In particular, his evidence to the Treasury Select Committee on his relationship with Goldman Sachs is less than clear given his evidence to us that he facilitated a settlement with the company over their tax dispute. We expect far greater candour from public officials involved in administering such an important area of government, especially when there is a question about whether HMRC acted within the law and within its protocols. We are concerned that whistleblowers using the provisions of the Public Interest Disclosure Act 1998 face threats of dismissal for providing important and relevant information.

The Department accepts that its governance arrangements have not provided sufficient assurance and that independent scrutiny of large settlements is needed. It has appointed two new Commissioners with tax expertise, and plans to introduce a new assessor role to permit independent review of large settlements before they are finalised. The Cabinet Secretary assured us that proposals would be submitted to the Public Accounts Committee by Christmas. We welcome these measures, but they will not by themselves guarantee proper accountability. In future, the Department needs to ensure it follows its own governance procedures and checks without exception. In particular, it needs to make sure that in all cases there is a clear separation between the roles of those negotiating and those signing off settlements.

We saw little evidence of a culture of personal accountability within the Department. We were told that one individual was held accountable for the mistake which led to a loss of the interest due to the Department. However, those at the top of the Department also need to take responsibility for how the overall system has been designed and operated, since that is the context in which mistakes have occurred.

We have serious concerns that large companies are treated more favourably by the Department than other taxpayers. We were told by the Cabinet Secretary that the relationship management approach adopted for large companies had been very successful in terms of tax collection. But for the public to have confidence in this approach, the Department's working practices must be seen to be absolutely impartial. The Department has left itself open to suspicion that its relationships with large companies are too cosy. We are also concerned that large companies appear to receive preferential treatment compared to small businesses and individuals — for example, in settling the totals due at less than the sum claimed by HMRC and in the time they are allowed to pay their tax liabilities without incurring interest charges. In order to

maintain public confidence, the Department must ensure it avoids any perception of undue leniency in its dealings with large companies and must be seen to treat every taxpayer equally before the law.

We welcome the Comptroller and Auditor General's proposal to conduct further work to consider the reasonableness of the settlements reached in the specific cases where normal governance processes were not followed, and to report on whether proper legal advice was secured in a timely manner and that HMRC complied with its own published procedures and protocols. The Department has agreed to co-operate fully with this inquiry and with any subsequent hearings we hold.

OK, HMRC, get out of that one.

The case for radical overhaul is, I think, made.

Now who is going to deliver it? Not the new Permanent Secretary, that's for sure.

And that's what worries me.