

What I'd do at HMRC

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A number of people have asked me what I would do if I was to head HMRC, [as the Telegraph noted John McDonnell suggested I should do in 2012](#). I stress, I am not seeking to do so and nor do I think it remotely likely that I will, but I told my students only last week that it was their duty to think what they might really do if they held a position of responsibility, so I thought I might follow my own advice to them.

In doing so I make a number of assumptions. First, I assume I would report to a Chancellor who would indulge my wishes to uphold the rule of law, to maximise revenue and to do so in a way that minimised inconvenience to the compliant taxpayer. Second, I assume that means I would not be budget constrained if I could demonstrate a likely increased yield without negative social consequences. Third, I am presuming this implies legislative support. Last, I am assuming tax policy is a Treasury issue and that HMRC's task is implementation: although I would presume an active engagement on tax policy would come with the post of head of HMRC I am not considering tax changes here as a result.

So, five obvious priorities (in the interests of brevity). First set up an Office for Tax Responsibility. This would have three tasks. The first would be appraising the effectiveness of tax policy including the effective tax spends implicit within it and whether these can be justified in yield terms. So, for example, it would consider why we spend so much subsidising pensions and whether this pays for society. A regular review of the distributional impacts of such tax spends (alternatively expressed as the cost of allowances and reliefs) on different parts of society, including on a gender basis, and on the type of economic entity favoured would be required. Tax effectiveness cannot be appraised without data. Its second role would be to assess the tax compliance gap as realistically as possible: my criticism of HMRC's current approach is too well known to be repeated here. The aim would be to work out whether HMRC was allocating resources to closing the tax gap effectively. There is ample evidence from the PAC that HMRC does not know how to do this now. And third it would act as an internal audit function to make sure there was no bias in HMRC's work. It's long been felt for example that the wealthiest get a good deal from HMRC. I would want to know if this was really true and if so to eliminate it: such perceptions are dangerous to effective tax

systems.

The second priority would be capturing data. This means, for example, making sure automatic information exchange with other countries really works, and that the data can be rapidly appraised to appropriately assess risk. Then it requires a commitment to country-by-country reporting that does not exist at present. It also requires substantial commitment of effort to working with the Registrar of Companies to ensure company's accounting data was really collected without exception from all companies, without exception. Effort would also be required to ensure all trusts were identified whether or not a public register of them is required, or not. There is a lot of evidence, some found by me, that HMRC is operating in the dark in these areas. In particular, automatic information exchange from UK banks and financial services providers on the identities of all companies, trusts, and maybe partnerships and sole traders, to whom they provided services would be critical. I stress, I would not require very much data and certainly not detailed accounting information unless the taxpayer failed to disclose. The aim is to simply create data on who is likely to owe tax and so have the smoking gun to check whether appropriate tax return data is received.

Third, I would make IT a priority. HMRC claims that it is making progress in this area. I am not convinced it really has effective databases that talk to each other and believe the taxpayer does suffer as a result. The aim should be to make tax digital, but the absurd approach of demanding five tax returns a year from the self employed is not part of that, at all. The aim should be to reduce taxpayer time expended in most cases, and not increase it.

Fourth, I would want to increase the number of staff to in turn increase the number of audits. Light touch approaches to compliance for most have to be backed up by significant audit risk, including VAT compliance visits for all significant businesses at least every three years (and always in the first twelve months when significant activity is identified); Customs officers in ports; regular PAYE checks and detailed tax return audits on cases where information exchange indicated non-compliance. Most people would still never have a tax enquiry in their life. Those who create risk should expect to be audited.

Fifth, for now, I would want HMRC to help taxpayers, who would never, ever, be referred to as customers. Those who want to reduce risk by asking for tax clearances on uncertain situations would be encouraged to seek them, but they would be charged, just as a professional adviser would. Those who want help would be encouraged to get it, on line, by speedily answered phone call and from direct contact. In the latter, I think HMRC should have a presence on main High Streets to achieve this. Help should not be a million miles away. It should be where the taxpayer is. And help also means pointing out where a taxpayer could save.

How would it pay? I believe that HMRC allocates resources poorly now, and in the process fails to find large parts of the tax base. The tax gap cannot be eliminated but it

is vastly bigger than HMRC estimate and they are denied the resources to address it. That has to change. If part of the yield goes into making tax easier for the compliant, then all to the good. But that does not mean giving them an app but actually reducing the stress of tax uncertainty, which is why I would want a focus on service. This would I think signal a real change in the relationship between the government and the people of this country with real yield resulting. There would also be a more level playing field for business, a better competitive environment and support for growth. The yield would be direct and indirect. And we'd have a Revenue to be proud of, which is something no one can claim has existed since the merger of the Inland Revenue and HM Customs and Excise in 2005.