

# The Taxing Wealth Report 2024

Every politician's guide to  
"How to pay for it".

## Reforming tax administration: Creating an Office for Tax Responsibility

### Brief Summary

This note suggests that:

- The UK should create an Office for Tax Responsibility (OTR).
- This OTR should report to the House of Commons Public Accounts Committee so that it might hold HM Revenue & Customs, HM Treasury and the Chancellor of the Exchequer to account for their management of the UK tax system.
- The Office for Tax Responsibility should be responsible for preparing annual assessments of the UK tax gap<sup>2</sup> and tax spillovers<sup>3</sup>.
- The OTR should also be responsible for recommending ways to address tax gaps and tax spillovers and for appraising HM Revenue & Customs' progress in doing so each year.
- The benefits of having an Office for Tax Responsibility are that there would be:

<sup>1</sup> This note forms a part of 'The Taxing Wealth Report 2024' published by Finance for the Future LLP, which is UK LLP number OC329502, registered at 33 Kingsley Walk, Ely, Cambridgeshire, CB6 3BZ. See <https://www.financeforthefuture.com/taxing-wealth/>. This note was written by Richard Murphy FAcSS FCA FAIA (Hon), Professor of Accounting Practice, Sheffield University Management School, who is a director of Finance for the Future LLP.

<sup>2</sup> <https://academic.oup.com/book/39754/chapter/339816709>

<sup>3</sup> <https://onlinelibrary.wiley.com/doi/abs/10.1111/1758-5899.12655>

The Taxing Wealth Report 2024 is a joint project between:

**Finance for the Future**

and



Sheffield  
University  
Management  
School.

- Better governance of tax in the UK.
  - Better tax decision making in the UK.
  - An improvement in the quality of the data available to all parties on the management of tax in the UK.
  - Better use of HM Revenue & Customs’ resources that should follow as a result.
  - Increased pressure arising to close tax gaps, many of which favour the wealthiest in society at present.
  - The creation of improved taxpayer morale as a result of the closure of loopholes resulting from work on tax spillovers. This should result in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant.
- All this being noted, it will be difficult to prove a direct causal link between tax revenues generated and the creation of an Office for Tax Responsibility and no estimate of additional tax revenues to be raised is made as a result.

<p><b>The proposal</b></p>	<p>To create an Office for Tax Responsibility that would act independently of HM Revenue &amp; Customs and be tasked with preparing annual tax gap<sup>4</sup> estimates and tax spillover analyses<sup>5</sup>. It might also be given responsibility for proposing tax legislation to address issues arising from these analyses.</p>
<p><b>Reason for the proposal</b></p>	<ol style="list-style-type: none"> <li>1. To improve the quality of tax governance in the UK by creating an independent agency responsible for monitoring the effectiveness of the work undertaken by HM Revenue &amp; Customs.</li> <li>2. To improve the support made available to parliament to investigate the work undertaken by HM Revenue &amp;</li> </ol>

<sup>4</sup> <https://taxingwealth.uk/2023/09/19/the-taxing-wealth-report-2024-the-uk-needs-better-estimation-of-its-tax-gap-to-prevent-the-illicit-accumulation-of-wealth-2/>

<sup>5</sup> <https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/>

	<p>Customs by making this office jointly responsible to both the Chancellor of the Exchequer and the Treasury and Public Accounts Committees of the House of Commons so that the latter might request that audits be undertaken on their behalf.</p> <ol style="list-style-type: none"> <li>3. To improve the horizontal equity of taxation by ensuring that tax gaps estimates and tax spillover assessments are properly undertaken in the UK, with both of these being undertaken to, at least in part, address this issue.</li> <li>4. To improve the vertical equity of taxation by ensuring that tax gaps estimates and tax spillover assessments are properly undertaken in the UK, with both of these being undertaken to, at least in part, address this issue.</li> <li>5. To improve the quality of independent advice to the government on the creation of new tax legislation required to address weaknesses identified by tax gap appraisal and tax spillover assessments.</li> <li>6. To reduce the rate of tax avoidance and tax evasion in the UK.</li> <li>7. To consequently improve the rate of tax compliance in the UK.</li> <li>8. To raise additional tax revenues.</li> </ol>
<p><b>Estimated tax that might be raised as a result of the recommendation made</b></p>	<p>The behavioural response to this recommendation cannot be known because there is unlikely to be a direct link between the creation of an Office for Tax Responsibility and taxpayer behaviour could be established.</p> <p>The gain comes from:</p> <ul style="list-style-type: none"> <li>• Better governance of tax in the UK.</li> </ul>

	<ul style="list-style-type: none"> <li>• An improvement in the quality of the data available to all parties on the management of tax in the UK.</li> <li>• The likely better use of HM Revenue &amp; Customs' resources that should follow as a result.</li> <li>• Increased pressure arising to close tax gaps, many of which favour the wealthiest in society at present.</li> <li>• The creation of improved taxpayer morale as a result of the closure of loopholes resulting from work on tax spillovers. This should result in a more level tax playing field, increasing the inclination on the part of taxpayers to be tax compliant.</li> </ul> <p>All this being noted, it will be difficult to prove a direct causal link between tax revenues generated and the creation of an Office for Tax Responsibility and no estimate of additional tax revenues to be raised is made as a result.</p>
<b>Ease of implementation</b>	Relatively straightforward, although the recruitment of suitable personnel to staff this Office for Tax Responsibility will be an issue. Considerable care will need to be given to this issue if the OTR is to achieve the required independent status that will be vital to its work.
<b>Likely difficulties that might result from implementation</b>	Few, although political accountability for failure to address the reports of the Office for Tax Responsibility might be embarrassing if not undertaken.
<b>Likely time required to implement the change</b>	Two or three years to create due processes, recruit staff and start work.
<b>Consultation period required.</b>	Short.

## Background

HM Revenue & Customs is currently responsible for preparing annual tax gap estimates<sup>6</sup>. A separate note in this series of proposals has been prepared that explains the deficiencies in those existing tax gap estimates and makes recommendations for their improvement.

At present, the UK has never undertaken a formal tax spillover assessment<sup>7</sup> and HM Revenue & Customs has not indicated its willingness to do so. Again, a separate note in this series of proposals has been prepared that explains the reasons why the preparation of tax spillover assessments for the UK would be desirable.

Whether or not tax spillover assessments are prepared, tax gap data is published and it is considered to be poor governance practice for any organisation to audit its own work, but that is what HM Revenue & Customs does at present with regard to this issue, giving rise to doubts as to the validity of some of the reported data<sup>8</sup>.

The creation of an Office for Tax Responsibility (OTR) might address this concern.

### Recommendation

1. The OTR should report to the Public Accounts Committees (PAC) of the House of Commons. This would be required to indicate its independence from:
  - The Chancellor of the Exchequer.
  - HM Treasury.
  - HM Revenue & Customs.

The PAC should be responsible for:

- Appointing the senior staff of the Office for Tax Responsibility (see below).
  - Ensuring its work holds HMRC to account.
  - That proper recommendations arising from its work are submitted to the Chancellor, Treasury and HMRC.
2. The OTR should be managed by a Director for Tax Responsibility, who should be supported in their work by not less than two and not more than four Commissioners for

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<sup>6</sup> <https://www.gov.uk/government/statistics/measuring-tax-gaps/1-tax-gaps-summary>

<sup>7</sup> A tax spillover is the impact that one part of a tax system has on another part of a tax system, whether in the same tax jurisdiction or in another one. Tax spillover assessments are explained here <https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/>

<sup>8</sup> See, for example, <https://lordslibrary.parliament.uk/unpaid-taxes-the-tax-gap/>

Tax Responsibility who should, with the Director of Tax Responsibility, constitute the Board of the Office for Tax Responsibility.

Due care to prevent conflicts of interest in the appointment of these persons should be taken. Within the limits of their number and the requirement for relevant experience due consideration should be given to them being representative of the wider interests of taxpayers within the UK as a whole.

3. The Office for Tax Responsibility should:

- a. Be given a sufficient budget to undertake its duties as laid down in law.
- b. Be given the right to access all information held by government departments, agencies, local authorities and other authorities established under statute that it, in its sole discretion, decides is required to fulfil its duties laid down by law, subject to the sole requirement that all obligations to respect the confidentiality of those with whom those other agents of government engage shall be also be respected by the Office for Tax Responsibility when using that data.
- c. Engage such staff (including the Director and Commissioners) as it needs to fulfil its duties, subject to the condition that those staff shall not be seconded from other government departments, agencies, local authorities or authorities established under such statute and such staff shall not to be seconded to it by any entity registered which, at the time that the secondment shall take place, is registered as a tax agent by H M Revenue & Customs.
- d. Report annually on its best estimate of the UK tax gap. In so doing it shall calculate the tax gap separately for each actual tax and each ignored tax base within the UK but with specific requirement being made that the interaction of the tax gap calculated for any one tax be specifically considered when estimating the tax gap for any other tax before preparing and publishing an estimate of the total annual UK tax gap.
- e. Use a five-tier methodology for calculating the tax gap<sup>9</sup> that estimates:
  - Tax base gaps.
  - Tax spend gaps.

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<sup>9</sup> <https://taxingwealth.uk/2023/09/19/the-taxing-wealth-report-2024-the-uk-needs-better-estimation-of-its-tax-gap-to-prevent-the-illicit-accumulation-of-wealth-2/>

- Tax evasion.
  - Tax avoidance.
  - Tax known to be owing but not settled i.e. unpaid tax.
- f. Publish its methodology and workings with regard to the calculation of each component of the tax gap subject only to withholding such information as is required to prevent any breach of taxpayer confidentiality.
- g. Publish an annual tax spillover assessment for the UK<sup>10</sup>, complete with a risk appraisal on the issues arising from that assessment.
- h. Report on progress made by H M Revenue & Customs in closing the tax gap.
- i. Suggest the methods it would propose H M Revenue & Customs and other agencies, if appropriate, should adopt to better tackle the tax gap, linking those suggestions to tax spillover assessments as appropriate.
- j. Suggest those legislative changes required, in its opinion, to close the tax gap.
- k. Suggest the budget resources that, in its opinion, H M Revenue & Customs and those other agencies addressing this issue will require to address the tax gap it identifies.
- l. Prepare annual forecasts of the taxation and other benefits that might arise from allocating the resources it proposes be used to close the tax gap.
- m. Engage with those persons who wish to make representations on matters relating to the tax gap.

### The major benefits arising from the creation of an Office for Tax Responsibility

It is anticipated that the benefits resulting from the creation of an Office for Tax Responsibility might include:

- Better governance of tax in the UK.
- Better tax decision making in the UK.

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<sup>10</sup> <https://taxingwealth.uk/2023/09/29/the-uk-needs-to-undertake-tax-spillover-assessments-if-tax-abuse-is-to-be-beaten/>

- An improvement in the quality of the data available to all parties on the management of tax in the UK.
- The likely better use of HM Revenue & Customs' resources that should follow as a result.
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