The Taxing Wealth Report 2024

Every politician's guide to "How to pay for it"[1]

Reforming the organisation, goals, and funding of HM Revenue & Customs

Brief Summary

This note suggests that:

- HM Revenue & Customs governance structures are no longer fit for purpose. They are based on the ethos of a public company and are focused almost entirely on meeting the needs of large companies and the wealthy. Both sectors are well represented amongst its non-executive directors; no other group in society is. That is no longer acceptable.

- HM Revenue & Customs has for too long emphasised cost control as its focus of concern rather than serving taxpayers or raising all the revenue owed to it. This has been inappropriate and has prevented the creation of a tax system suited to the needs of society in the UK.

- HM Revenue & Customs' drive to reduce the cost of collection of tax in the UK has largely failed but has as a consequence:
    - Seriously reduced the quality of service that it supplies to taxpayers in the UK, with the quality of everything, from face-to-face services to the answering of telephone calls, to the time taken to reply to letters, all deteriorating significantly leaving many taxpayers without any of the help that they need to pay the right amount of tax that they owe.

[1] 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.

- Seriously reduced the number of staff at HM Revenue & Customs.
- Reduced the average real pay of staff at HM Revenue & Customs.
- Considerably reduced the number of tax investigations undertaken each year.
- Lost control of some major parts of the tax gap, which is the difference between the tax that should be paid and the tax that is actually paid in a year.

- Tax gap measurement has been used by HM Revenue & Customs' management as the indicator of its success, but as has been explored in other parts of the Taxing Wealth Report 2024, the claims made with regard to the tax gap in general are open to question.

- One of the two tax gaps where it is very apparent that matters have got out of control is that for small companies, where around 30 per cent of corporation taxes owing now go unpaid each year, which is way in excess of any reasonable level of loss. The likely annual cost of this loss is now £5.9 billion per annum.

- Another tax gap that is likely to be out of control is that for the 5 million small businesses that pay their taxes via the income tax system. HMRC say this tax gap has fallen from around 32.5 per cent of these taxes owing going unpaid in 2014 to only 18.5 per cent being unpaid now. They have not, however, provided any convincing reason for this improvement in taxpayer compliance which is not matched by improvements in equivalent rates for small companies or in the overall rate of timely tax return submission, half of which returns come from self-employed business owners. The claimed current rate of loss is unlikely to be realistic in that case and an excess loss of maybe £3.4 billion is likely to arise as a result in this area, largely because HMRC has withdrawn from local tax offices that previously supported these taxpayers and from active monitoring of their onsite activities through their now largely abandoned programme of business compliance visits.

- In combination the losses from just these two tax gaps amount to maybe £9.3 billion and can be attributed to HM Revenue & Customs mismanagement of its activities in the community, whether that be through maintaining local offices where face-to-face help is available or by visiting businesses at their own premises.

- It also seems that HM Revenue & Customs' claims for the benefits of its Making Tax Digital programme seem to be seriously overstated, which is a fact repeatedly noted by the House of Commons Public Accounts Committee. The costs of creating this programme appear to be out of control. The costs it imposes on business taxpayers are excessive. Worst of all, it is likely to alienate millions of people from the tax system and most likely increase the tax gap as a result, rather than reduce it. It also makes the UK a significantly worse place in which to run a business, which is likely to impose serious costs on society at large.

- As a result, this report recommends that:
    - That HMRC reforms its governance structures and objectives.
    - HMRC restore its local office help centre presence in towns and cities across the UK, and widely advertise the availability of this support service.
    - HMRC's should restore its programme of site visits of businesses to monitor their tax compliance to cover checking both PAYE and VAT records.
    - HMRC should stop the rollout of its Making Tax Digital programme so that no business that is not VAT registered will never be enrolled in this programme.

- The cost of restoring these services will be very much less than the sums that might be raised by reducing the two gaps that have been noted to reasonable levels (i.e. those that were maintained during periods when HMRC was better resourced in the past) but since some of those sums capable of recovery have already been noted elsewhere in the Taxing Wealth Report 2024 no additional account of such recovery is made here. That said, because other tax gaps would also undoubtedly improve if HM Revenue & Customs were to re-establish its presence in UK towns and cities the likely cost of this programme – which might be £1 billion a year, or twenty per cent of the current cost of running HMRC - is not taken into account either. Nor is the likely significant gain from reducing taxpayer strain taken into consideration, or the gain from making the UK a more tax-friendly environment, to which considerable harm has been done since 2010.

<table>
<tr><td>The proposal</td><td>To reform the governance structure of HMRC and to restore the proper funding of HMRC so that it might:
Restore its tax office presence in the community with the specific goal of assisting those requiring help with their tax affairs.
Restoring its programme of on-site inspections of smaller business with the aim of improving tax compliance.
Abandoning its Making Tax Digital programme for all non-VAT registered businesses to reduce the considerable cost and strain that this will impose on those taxpayers which will likely increase the tax gap.</td></tr>
<tr><td>Reason for the proposal</td><td>This proposal is intended to:</td></tr>
</table>

	• Improve relationships between HM Revenue & Customs and taxpayers, which are very strained. • Reduce the tax gap. • Make the UK a more tax friendly environment in which smaller business can operate. • Improve taxpayer morale.
Estimated tax that might be raised as a result of the recommendation made	This recommendation might raise more than £9 billion in tax revenue from just two groups of taxpayers but to avoid risk of double counting gains no account of this is taken in overall Taxing Wealth Report 2024 totals. The cost of the recreation of an HMRC presence in the community might be £1 billion per annum. This is, again, not accounted for in Taxing Wealth Report 2024 totals because it should be more than covered by the additional sums noted in the previous paragraph.
Ease of implementation	It would take a major change of strategy on the part of HM Revenue & Customs to make this change. That might also require a change its senior personnel. Combined with the necessary recruitment and training programmes for the many additional staff that this programme will require and the need to find suitable premises, the likelihood is that this programme would take longer than the life of a single parliament to implement.
Likely difficulties that might result from implementation	The impediments to this programme will be internal within HMRC and amongst ministers who still cannot see our tax authority as a service agency that should create the public good that a well-functioning tax system represents.
Likely time required to implement the change	At least five years, and maybe longer.
Consultation period required.	Short. This is a matter for ministers and HMRC to decide upon and wide consultation would not be required.

Background

HM Revenue & Customs is a relatively new government organisation. It was created in 2005 as a result of the merger of the Inland Revenue, which previously dealt with most direct taxes, such as income tax, corporation tax, and national insurance, with HM Customs and Excise, which previously dealt with most indirect taxes, such as VAT and excise duties.

HMRC was created with the aim of breaking down the divisions between tax collection authorities and so improve the coordination in their methods of working. It was also created with the intention of delivering operational efficiencies. It is suggested that this has been an inappropriate focus for its concern. There has also been too little focus on collecting all tax owing and on assisting those taxpayers who need assistance to make proper payments of tax whoever and wherever they might be in the community. These issues can only be addressed by changing the governance structures of HM Revenue & Customs.

Reforming the governance structures of HM Revenue & Customs

HMRC's governance structures are failing because it is, at least in part, beyond ministerial control (because of the old fiction that it reports to the Crown and not parliament, which is implicit in its name) whilst simultaneously modelling itself on the structure of a public limited company that is seemingly intent on meeting the needs of its most valuable customers (as it anachronistically and annoyingly insists on describing taxpayers as). The result is an organisation without a focus on delivering a service to all in society. To address this the Taxing Wealth Report 2024 recommends:

- Reforming the governance of HM Revenue & Customs and making it subject to properly funded independent scrutiny by an Office for Tax Responsibility.

- That governance structure should reflect the whole taxpayer community of the UK rather than the wealthy and large business community as it does at present. That means representation should be added from:
    - The small business community.
    - Trade unions.
    - Pensioners.
    - Charities.
    - Consume groups.
    - Civil society.

- Changing the ethos of HM Revenue & Customs so that it:
    - Seeks to maximise tax revenues collected within available law.
    - Assists honest taxpayers to be tax compliant to the greatest of its ability.
    - Seeks to serve people in the community – and not just those online.

  - Is honest about its successes and failures – which its current tax gap reporting is not.
  - Represents all taxpayers and not just the interests of the wealthy and big business.

Because cost cutting, and not these issues, have been the focus of concern of HM Revenue & Customs' management to date the following have happened:

- A significant reduction in staff numbers at HM Revenue & Customs.
- The closure of almost all HMRC offices in the towns and cities of the UK, so that face-to-face advice is now virtually unavailable from HMRC.
- The subsequent closure of many of the helpline facilities that were meant to replace the local office network.

Simultaneously, HMRC has developed a belief that the UK's tax system tax can be digitally managed, largely by imposing considerable administrative and IT demands on UK taxpayers.

HMRC also seems to believe that almost all queries that a person might have when trying to manage their tax affairs can be reasonably answered by online help facilities. This, in the experience of millions of taxpayers, is wrong. The UK's tax practitioner community agrees with taxpayers on this issue.

Those taxpayers are, as a result of this approach, bewildered by what is asked of them, unsure of what to do, are without help, and in far too many cases, are terrified of the consequences.

What HMRC fails to understand is that taxpayers making enquiry of it are not necessarily seeking facts when making a telephone call. What they are seeking is reassurance, and no online help facility will provide that. People need to speak to another human being, either face-to-face or on the end of a telephone, to alleviate the concerns and stresses that they have which a necessarily complex tax system create. Only when HM Revenue & Customs appreciates this fact will they supply the support that people really need from them.

Without a change to its governance structures to reflect the wider interests of all communities in the UK it is thought unlikely that the necessary changes to HM Revenue & Customs' culture to make good these changes will happen. The recommendations made in. the rest of this note are likely to be conditional on this change happening.

The failings of HM Revenue & Customs

It has been widely acknowledged, by the House of Commons Public Accounts Committee[2] and many others, such as professional accounting and tax institutes, that the quality of service supplied by HM Revenue & Customs to UK taxpayer has fallen significantly since about 2010. This has been the consequence of a deliberate policy of seeking to cut costs in that organisation. As a result, the following have happened, although this list should be considered representative of the issues that have arisen rather than being comprehensive:

- Almost all local tax offices in the UK have been closed, denying taxpayers access to face-to-face support with their tax affairs[3].

- On-site VAT inspections of the books and records of almost UK registered traders has ceased.

- On-site inspection of PAYE records of UK registered traders has very largely ceased.

- The telephone helplines that were meant to replace local tax office support have largely closed[4], and were almost unavailable during the autumn of 2023 and January 2024, during which period demand was at its peak amongst those seeking help with their tax returns[5].

- Delays in answering the telephone at HMRC have increased dramatically and the number of people getting through at all has fallen[6].

- Delays in correspondence with HMRC have increased considerably, particularly with regard to any issue involving complexity[7].

- The number of tax investigations has fallen[8].

- HMRC has considerably increased the burden of tax compliance on taxpayers through the introduction of their Making Tax Digital programme, which requires many more interactions between a self-employed person, landlord, or company and

[2] https://publications.parliament.uk/pa/cm5804/cmselect/cmpubacc/76/summary.html
[3] http://data.parliament.uk/DepositedPapers/Files/DEP2020-0609/HMRC_Office_closures_and_regional_centre_opening_dates.pdf
[4] https://taxaid.org.uk/hmrc-announces-temporary-closure-of-its-self-assessment-helpline
[5] https://www.gov.uk/government/news/self-assessment-helplineto-focus-on-priority-queries
[6] https://publications.parliament.uk/pa/cm5803/cmselect/cmpubacc/686/report.html
[7] Ibid
[8] https://www.thebureauinvestigates.com/stories/2024-02-18/hmrc-fraud-teams-civil-inquiries-fall-by-half-over-five-years/

HMRC a year than was the case prior to its introduction. The introduction of this programme is continuing despite it being admitted that HMRC's costings of taxpayer benefits from this programme were always wrong[9] and the programme itself costing much more to deliver than was ever forecast.

- HMRC operating costs have risen despite the above noted facts[10].

The above facts are referenced where appropriate, but attention is also drawn to the ongoing scrutiny of HMRC's performance by the House of Commons Public Accounts Committee, who have regularly documented over a period of more than a decade the failings of HMRC to meet any reasonable customer service standards. Their work in this area is comprehensive and as such it has not been felt necessary to repeat it here.

Focus of this work

The focus of this note is, instead, different from that undertaken by the Public Accounts Committee and has been to highlight that:

- HMRC costs have not been controlled, despite declining public service, and despite the considerable difficulties that HMRC have created for the long-term analysis of its performance because of the opacity of the accounting information that it publishes on an annual basis.

- HMRC's claim that it has improved its efficiency in managing the UK tax system as evidenced by a falling tax gap[11] is open to serious doubt when evidence from within their own tax gap reports suggests that the data that they publish is potentially unreliable whilst also being deeply contradictory. That data also suggests implausible changes in the behaviour of some groups of taxpayers that are unlikely to be true. This is most especially the case when other sources of data suggest the changes in behaviour that HM Revenue & Customs suggest have taken place have not occurred.

- HMRC has lost control of the small business corporation tax gap and is most likely to have done the same with regard to the self-employed business income tax gap, although their data suggests otherwise in the latter case. This loss of control can be specifically stated to have begun in the case of the small business corporation tax scam in 2012, when the process of closing HMRC local tax offices in communities

[9] https://publications.parliament.uk/pa/cm5803/cmselect/cmpubacc/1333/summary.html
[10] HMRC accounts, noted below.
[11] See notes below on what the tax gap is.

across the UK, and of winding down HMRC VAT and PAYE[12] compliance visits to smaller UK trading entities, meaning that an essential level of scrutiny of their trading records disappeared, most especially when the independent audit requirement of smaller companies had been withdrawn from the 1990s onwards.

In this note evidence is drawn from the accounts of HMRC from 2006 onwards[13], with those that represented the combined organisations for 2005 also being included for the sake of comparison. The data secured from these accounts is then compared with data from:

- HM Revenue & Customs' own published tax gap data;
- Reports by the House of Commons Public Accounts Committee;
- Other sources with concern about the performance of HM Revenue & Customs.

The intention is to determine whether the supposed benefits of cost saving at HM Revenue & Customs have really delivered benefits for society or whether greater investment in the organisation might yield dividends in terms of more tax recovered and greater well-being in society, and most especially in those parts of it that have, perforce, to engage with HM Revenue & Customs on a regular basis. The overall intention is to review the suggestion that the UK has seriously under invested in tax collection.

Summary of findings

On the basis of the review undertaken it is suggested that if appropriate investment had been made from 2011 onwards in HMRC's continued presence in the community and in undertaking onsite inspections of taxpayer records it is likely that significantly more tax would have been collected from those with wealth in the UK over this period.

The focus of the research in this note has been on the small company tax gap and self-employed business tax gap as declared for income tax purposes. That has been the case to keep the work within reasonable scope. Even so, it is suggested that HM Revenue & Customs has lost control of the small company tax gap at an annual cost of at least £5.9 billion per annum.

It is also suggested that it has almost certainly lost control of the small business tax gap as declared for income tax purposes, where the cost of doing so is likely to be £3.4 billion per annum.

[12] PAYE is the Pay as You Earn system of tax deduction from the wages of employees in the UK.

[13] Thanks are due to Christopher Lunt for assistance with data collection for this note.

In combination the annual cost is £9.3 billion per annum. This can be compared with a total cost of running HMRC of £5 billion per annum, based on its most recent accounts.

If it cost £1 billion per annum to restore HM Revenue & Customs' presence in the UK's towns and cities and to revive its programme of onsite inspection io taxpayer books and records, the yield would still exceed £9 for every additional £1 spent.

If this programme was also associated with abandonment of much of the Making Tax Digital programme, which is widely thought to be failing whilst incurring significant cost over-runs, morale amongst UK taxpayers could be significantly increased. Tax compliance might also rise as that onerous programme encourages evasion. The UK might also become a significantly more tax-friendly place in which to do business, boosting the economy as a result.

The additional resources that might have been collected from these sectors with particularly high tax gaps that could have been collected if greater resources were available to HM Revenue & Customs would also have assisted:

- Control of the rate of increase in income and wealth disparities in the UK, which disparities are increased at present by the failure to collect taxes owing by those who evade their obligations.

- The retention of HM Revenue & Customs offices in the communities of the UK so that those needing face-to-face help with other aspects of their tax affairs might have been able to secure it.

- The provision of sufficient well-trained staff so that back logs in correspondence with HM Revenue & Customs need not have arisen, which would have considerably reduced the stress of many people in the UK and greatly assisted the smooth operation of the UK's tax system whilst reducing cost for all who have to engage with HM Revenue & Customs.

- The provision of sufficient well-trained staff so that telephone help lines could both operate and do so without undue delays for callers being suffered.

Methodological approach and data sources

a. HMRC accounts

The approach adopted here is not intended to be a comprehensive review of the operating costs of HMRC, largely because changes in its accounting methodologies over the years reviewed makes preparing such data a little too subjective to be useful. Instead, tax collection data as published by HMRC (which does not necessarily always agree with that published by other UK authorities) is compared in the first instance with the staff cost of collection of that tax noted in HMRC's accounts. This is considered an initially appropriate proxy for total costs when staff are the primary resource used by HMRC to manage the collection of tax owing. These staff are also the critical personnel who interact between the taxpayer and the tax authority to assist the correct payment of tax at the right time. HMRC data on their staff numbers and the cost of employing them is consistently available within their accounts unlike comparable total cost data[14].

In many cases this data can be expressed in percentage terms because costs in a year are being compared with revenues in that year. However, where appropriate other approaches are adopted. Where this is the case, this is clearly indicated in the notes that follow.

On occasion data is also necessarily restated into current prices. When doing so the consumer prices index has been used because most restatements relate to employee costs and employee costs are microeconomic information rather than macroeconomic data, and so the use of a GDP deflator for restatement purposes would be inappropriate.

Data is also, on occasion, restated on the basis of cost per head of population. Where that is the case annual population figures supplied by the Office for National Statistics have been used. These have not been adjusted to reflect the fact that not everyone is a taxpayer because whilst not everyone is a taxpayer, everyone in society benefits from the payment tax.

HM Revenue & Customs' annual published accounts are all available on government websites for the period reviewed although some persistence is required to find them all. Individual references are not noted excepting for 2022/23[15].

b. Tax gap data

Tax gap data has been based on that published in 2023 by HM Revenue & Customs. However, note has been taken of revisions to data from earlier years, many of which are

[14] The assistance of Christopher Lunt in undertaking reviews of HMRC's accounting data is gratefully acknowledged. We both came to the conclusion that much of it is opaque and seriously lacking in comparability over time.

[15] https://www.gov.uk/government/publications/hmrc-annual-report-and-accounts-2022-to-2023

material. The data is mainly extracted from the spreadsheet files that HM Revenue & Customs have made available[16].

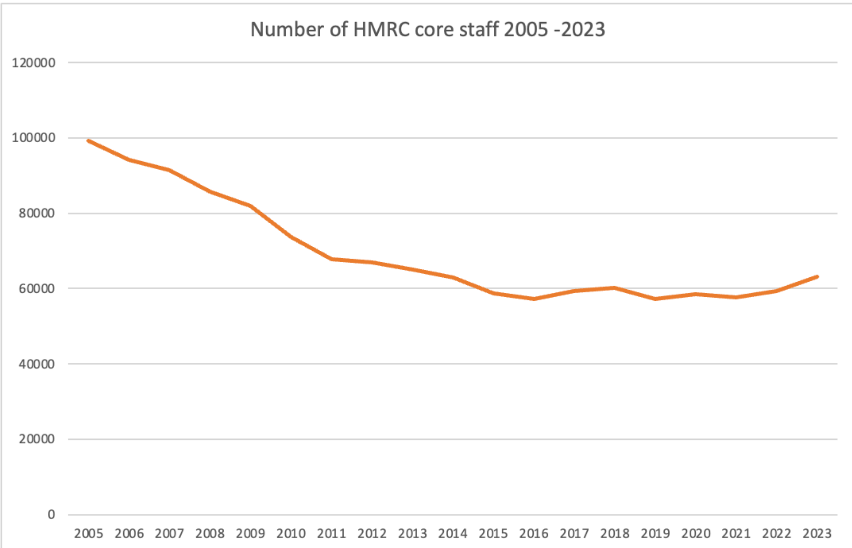
c. Other sources

Other sources are noted to when referred to and have been used to highlight the decline in HM Revenue & Customs' service delivery over the years reviewed.

Data findings

a. HMRC costs and employee related data

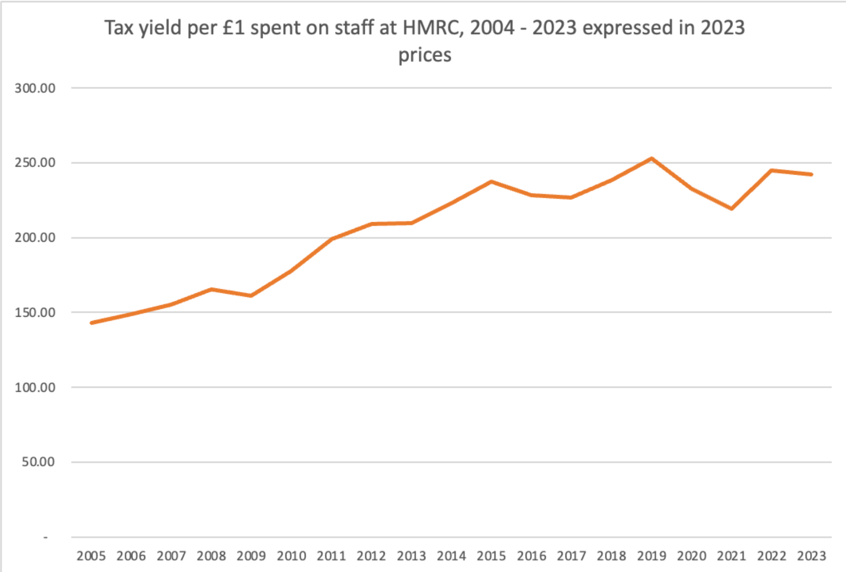
The number of staff engaged by HMRC between 2005 and 2023, excluding those employed in non-core operations such as the valuations office was as follows:



As is apparent, the core HMRC management objective of cutting the number of employees engaged in tax collection during this period was achieved, with staff numbers being cut heavily between 2005 and 2014. Since then they have stabilised at around 60,000 with a slight upturn post-Covid.

As a result of cutting the number of staff that it employed, HMRC also succeed in cutting the cost of tax collected when expressed as a ratio to total staff costs. The following data compares tax collected per pound spent on staff costs by HMRC from 2005 to 2023:

16 https://assets.publishing.service.gov.uk/media/6491bef6103ca6000c03a248/Measuring_tax_gap_online_tables_2023.xlsx



The impression gained is of considerable increases in productivity.

This impression is quite misleading. HM Revenue & Customs' accounts are deeply opaque, subject to frequent restatement and reclassification of data, and are clearly designed to discourage any form of long term analysis, but the following data has been extracted from two tables that they have themselves published that appear to share broadly common descriptions of HMRC's costs. They come from the accounts for 2020/21[17] and 2022/23[18]. The data from the earlier accounts is highlighted in blue and that from later accounts in yellow. The years 2018/19, 2019/20 and 2020/21 were common to both tables. Data from the later period was used for the overlap as the data published in the two sets of accounts is not consistent. Presuming the earlier table excludes depreciation costs the differences were £9 million in 2018/19, with the later statement of cost exceeding the earlier one, with the differences being £215 million and £161 million in the next two years. However, the direction of difference changed: in 2019/20 costs were later restated downward but for 2020/21 they went up. Subject to these inconsistencies in HM Revenue & Customs' own data, this is the relevant information:

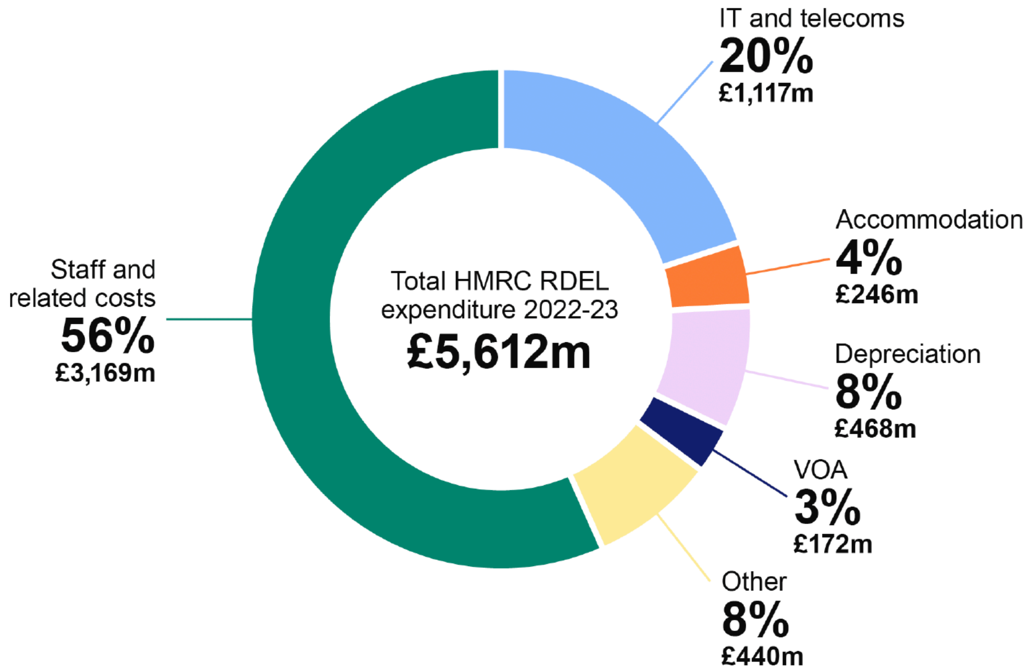
[17] Page 32
[18] Page 75

HMRC operating costs 2015/16 to 2022/23 in original prices

	2015/16 £'m	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m	2020/21 £'m	2021/22 £'m	2022/23 £'m
Base cost	3,541	3,277	3,122	3,032	2,705	3,141	2,977	3,214
Additional funding	36	104	345	263	106	135	373	342
Transformation		360	265	235	177	155	367	373
Avoidance and evasion		94	177	247	285	339	369	450
Brexit funding			36	193	423	715	761	648
Other	3	5	5	(1)		(1)		1
Total costs pre-dep'n	3,580	3,840	3,950	3,969	3,696	4,484	4,847	5,028
Cost of living payments								724
Covid funding						95	843	107
Depreciation				401	379	382	334	541
Total costs incl dep'n				4,370	4,075	4,961	6,024	6,400

It will be noted that HMRC categorise their spending between base costs and additional funding that appeared to be a feature of its activities within its accounting from 2015/16 onwards. Depreciation has been excluded in all cases as it is a non-cash cost. Exceptional costs relating to Covid and Cost of Living payouts managed by HM Revenue & Customs are excluded from total costs used for analysis in this table although they are included in the table in the 2022/23 accounts, quite misleadingly as HMRC was only a paying agent in these cases.

Even more misleadingly, in 2022/23 HMRC said in its accounts that its operating costs were as follows:[19]:



[19] Page 79

The figures, as is normal for HM Revenue & Customs, even within the same set of accounts, do not reconcile. They did add this table after the above noted one:

Table 3: 5-year trend on our spending[1]

	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m
RDEL	3,956	4,287	4,796	5,717	6,329
CDEL	362	337	538	665	556
Total DEL	**4,318**	**4,624**	**5,334**	**6,382**	**6,885[2]**

1 Numbers may appear not to sum due to rounding.
2 2022-23 RDEL includes Cost of Living spend of £718m, this is not part of our running costs in figure 34 above.

Note the additional note 2 in this second table: for reasons that make no sense £714 million of costs relating to Cost-of-Living Payments made are excluded from the chart but those relating to Covid payments are not. Even so, the figures still do not reconcile with the data in the table noted above extracted from page 75 of the same accounts. If data this poor was sent to HM Revenue & Customs to support a tax liability it is likely that serious penalties might be payable by the taxpayer.

Using the above noted data for 2015/16 to 2022/23 (with caveats on data quality being noted) the following data on wages cost and tax recovered for expenditure incurred can be created:

HMRC staff cost data 2015/16 to 2022/23

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total staff costs original prices £'m	2,348	2,532	2,540	2,482	2,735	2,778	2,982	3,356
Total staff costs 2023 prices	3,021	3,184	3,117	2,989	3,245	3,272	3,282	3,356
% of base cost relating to staff	66.3%	77.3%	81.3%	81.9%	101.1%	88.5%	100.2%	104.4%
% of total cost excl depreciation relating to staff	65.6%	65.9%	64.3%	62.5%	74.0%	62.0%	61.5%	66.8%
Number of staff	60,914	63,074	64,228	61,456	62,651	61,867	63,852	67,621
Average pay current prices £ 2023 prices	37,591	37,403	36,246	36,486	37,144	39,313	37,958	36,222
% real rate of pay change		-0.5%	-3.1%	0.7%	1.8%	5.8%	-3.4%	-4.6%

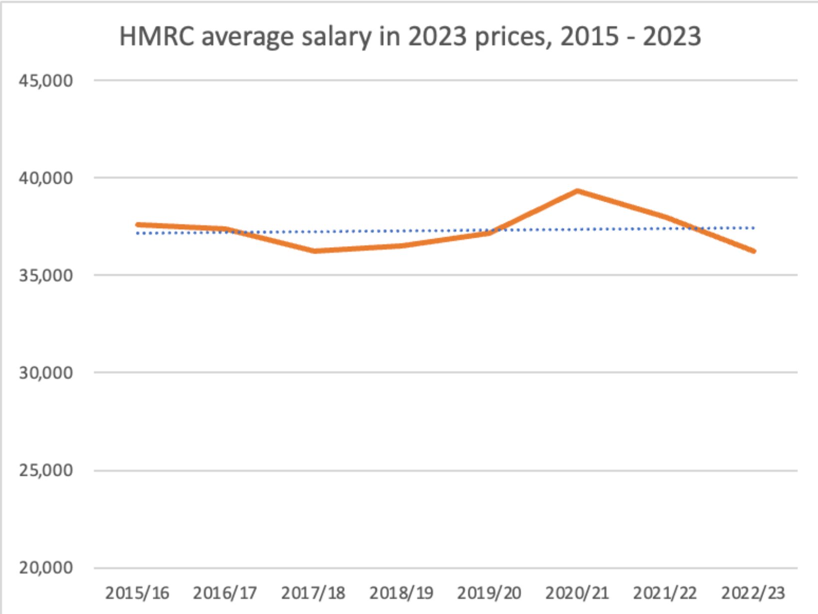
The number of staff at HMRC has been surprisingly stable over this period, the last year or so apart. Real costs of staff were also remarkably stable, reflecting the absence of real pay rises pay rises over this period, and an actual fall by 2022/23. An aberration in total costs in 2018/19 appear to relate to pension costs. What is clear as a result is that as a proportion of what HMRC calls its base cost, staff costs have risen.

That said, so too, however, have overall costs stated in current prices, with tax collected also being stated in those terms in this table:

HMRC revenues compared to costs in 2023 prices, 2015 - 2023

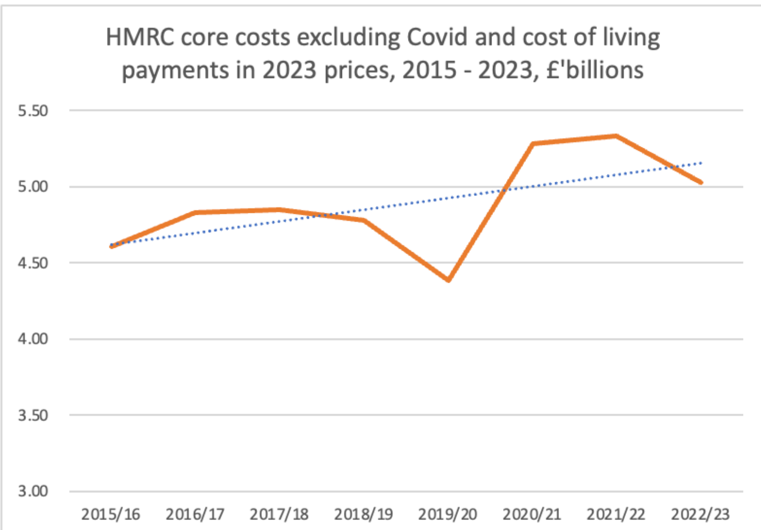
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total tax collected, current prices (billions)	690.66	722.93	743.51	756.21	755.30	717.08	804.63	814.00
Total HMRC spend in current prices (billions)	4.61	4.83	4.85	4.78	4.38	5.28	5.33	5.03
Tax collected per pound spent - pounds	149.94	149.71	153.37	158.20	172.27	135.77	150.84	161.89

This data makes clear that in real terms HMRC salaries are now falling, presumably pursuant to its management's policy of cutting staff costs:

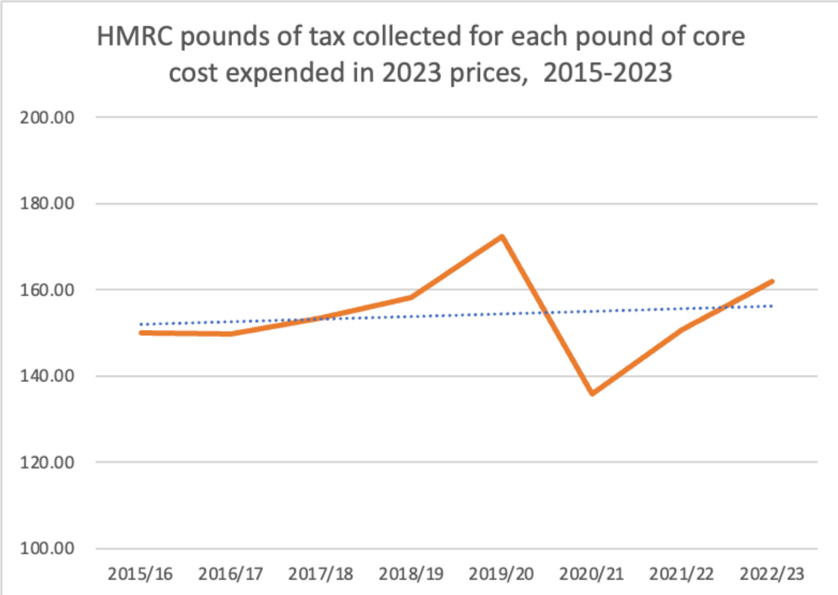


A dashed trend line has been added to this and the following charts to aid interpretation. In this case the trend line if almost flat, but current salaries are now falling markedly in real terms.

However, core costs are clearly rising when exceptional items are excluded from HMRC's own data:



In combination, the result is that costs of tax collected have risen in real terms since 2015:



The consequence is that HMRC's goal of delivering greater efficiency has, over much of the last decade, hardly been achieved. What is also clear is that HM Revenue & Customs' staff are now bearing the cost of its management trying to meet this goal.

b. Tax gaps

HMRC bases a great deal of its claim to be successfully managed on the tax gap data that it published annually[20]. Tax gaps represent the difference between the tax revenues that a jurisdiction might be able to collect and the tax revenues it actually recovers during the course of a period[21].

[20] https://www.gov.uk/government/collections/measuring-tax-gaps

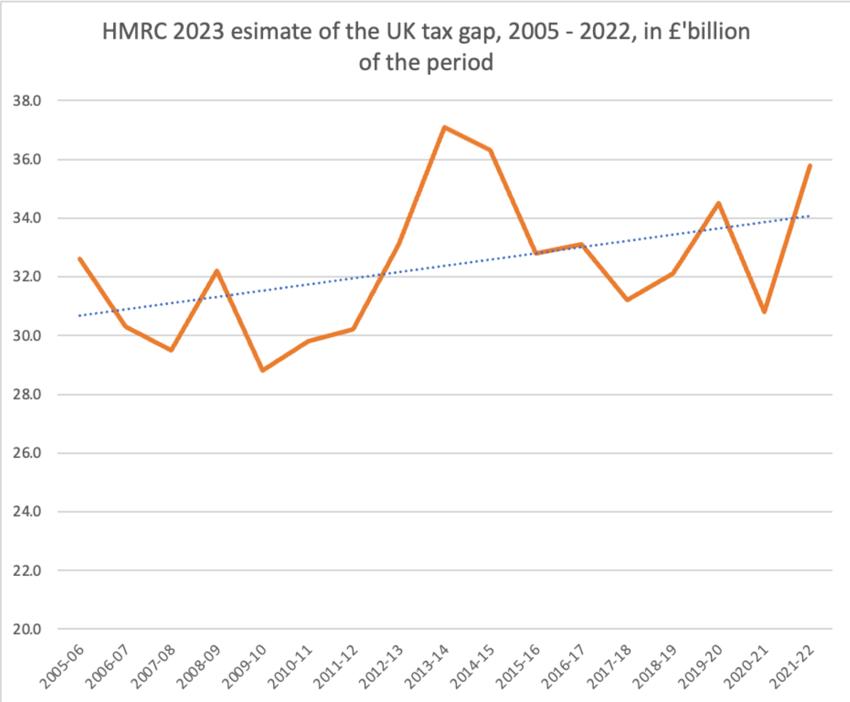
[21] The tax gap is the difference between the tax revenues that a jurisdiction might be able to collect and the tax revenues it actually recovers during the course of a period.

There are five tax gaps that can be measured:

- Tax base gaps;
- Tax spend gaps;
- Tax evasion;
- Tax avoidance;
- Tax known to be owing but not settled i.e. unpaid tax.

Tax base gaps represent the cost of tax bases that a jurisdiction decides for its own reasons not to tax. Wealth is a common tax base that is not taxed, but there are many other examples.

HMRC has published tax gap data since 2009, covering years since 2005. The latest version suggests that the tax gap expressed in currency of the period was:



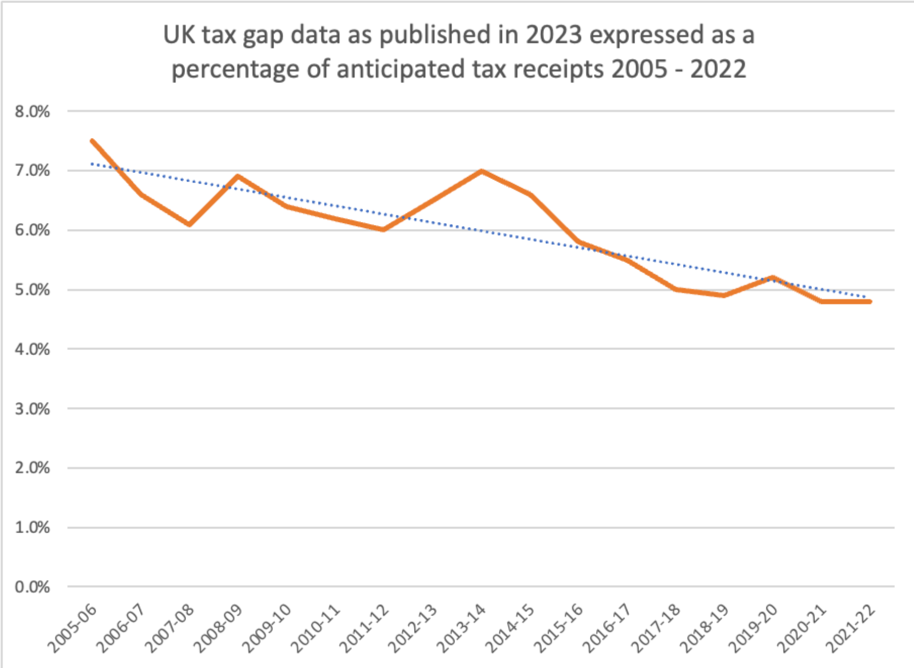
It will be noted that the tax gap can be almost any figure that you like so long as it is remarkably close to £32 billion.

In terms of the percentage of total revenues not recovered, which HM Revenue & Customs suggest to be the true performance indicator to consider, this data was reported in the 2023 version of the tax gap report to be as follows:

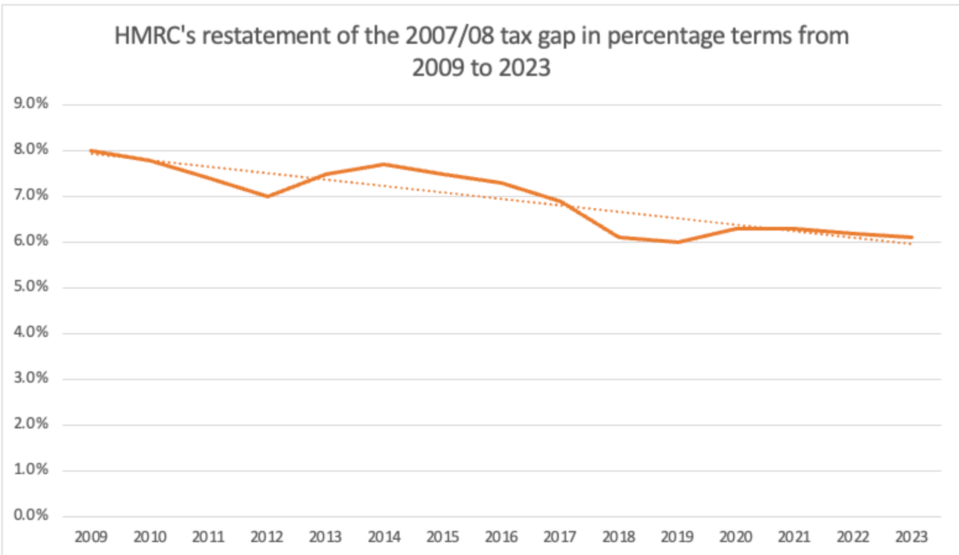
Tax spend gaps represent the cost of the exemptions, allowances and reliefs granted within tax bases that are otherwise subject to tax.

The tax evasion gap is the tax cost of the illegal non-declaration of income, that should be taxed, by a taxpayer or the tax cost of their illegal claim for a tax exemption, allowance or relief to which they are not entitled.
The tax avoidance gap is the tax cost arising from a taxpayer arranging their affairs in such a way that they pay less tax as a result of their manipulation of the tax laws of a jurisdiction in a way that the tax authority of that jurisdiction thinks is contrary to the spirit of the laws in place.

The unpaid tax gap is the tax cost of sums known to be owing to the tax authority that is not paid e.g. due to the insolvency of a taxpayer before payment can be collected.

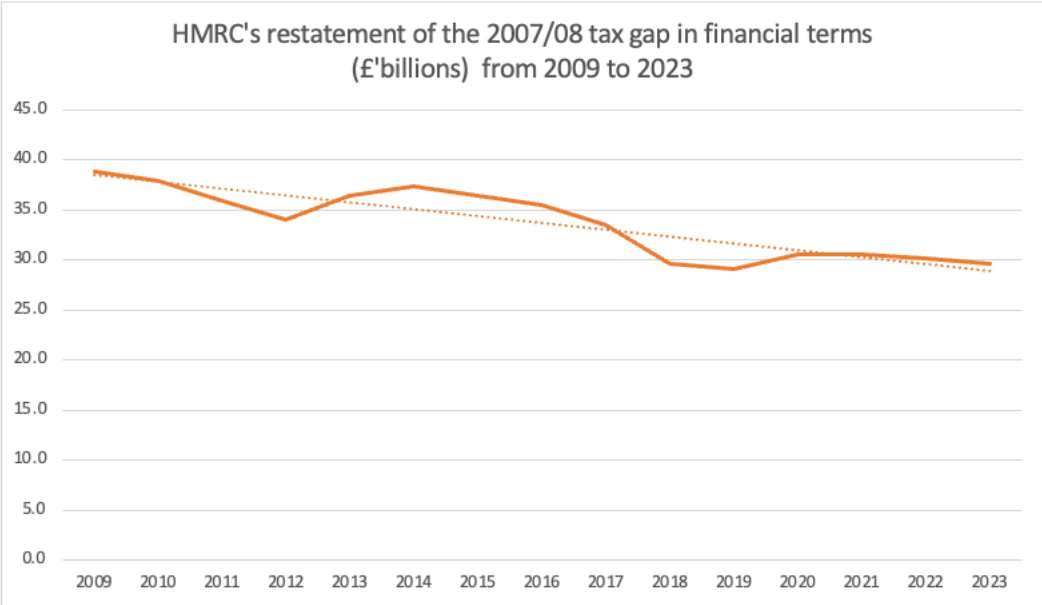


HMRC are suggesting that the tax gap has fallen significantly and that its management's policy is a success as a result. It should, however, be noted that these figures published in 2023 include many restatements of earlier years data that are very often of significant amount, meaning that they are material, as an accountant might describe them. For example, HMRC has re-stated the tax gap figure for the year 2007/08, every year since it was first published, with the percentage of total tax revenues lost since then being stated as follows[22]:



[22] HMRC 2023 tax gap data table 1.6.

In cash terms the restatement was as follows:



1.9 per cent of the tax gap for 2007/08 has disappeared since 2009. That is 23.8 per cent of the total for that year. In cash terms the restated sum in question is £9.2 billion lower in 2023 than it was in 2009.

That would be good news if it was true. Actually, most of it is down to changes in calculation methodology since then. What is stated to be the case now is not what was thought in 2009 when this data was first published. The consequence is that the 2023 data is deeply misleading: it claims to be a time series but in any real sense it is not because it does not show what has actually happened over time, but is instead a retrospective reworking of that view.

In itself this gives rise to doubts about the quality of the data in the tax gap reports. If a commercial organisation revised its reporting accounting information for a year fourteen times over the fourteen years subsequent to is first publication serious questions about the underlying quality of the accounting information of that reporting entity would arise and its auditors would become subject to intense scrutiny, but this is what HMRC has done. This is what HM Revenue & Customs has done, justifying this by saying[23]:

> *The methodologies used to estimate tax gaps are subject to regular review and can change from year to year due to improvements in methodologies and data updates.*

[23] https://www.gov.uk/government/statistics/measuring-tax-gaps/methodological-annex

> *These can result in revisions to any of the published estimates. Estimates are made on a like-for-like basis each year to enable users to interpret trends.*

This is misleading: interpreting trends requires that what was known at the time be compared with what is known now. Each year's tax gap data is now inherently uncertain precisely because it does not let us appraise performance in past periods against knowledge as it was then understood, but instead appraises it against knowledge as it is now understood, which is almost meaningless as a consequence.

If this was the only obvious statistical problem inherent within the tax gap, reports issued by HM Revenue & Customs it could be adjusted for. In fairness, HMRC does provide data on some original and revised estimates, even if no one pays them much attention, and they never highlight them in their publications. However, there are very many other very good reasons for concern about the quality of the information that HMRC supply that are not referred to in the methodology notes, or in the analysis of the data that they publish, year by year.

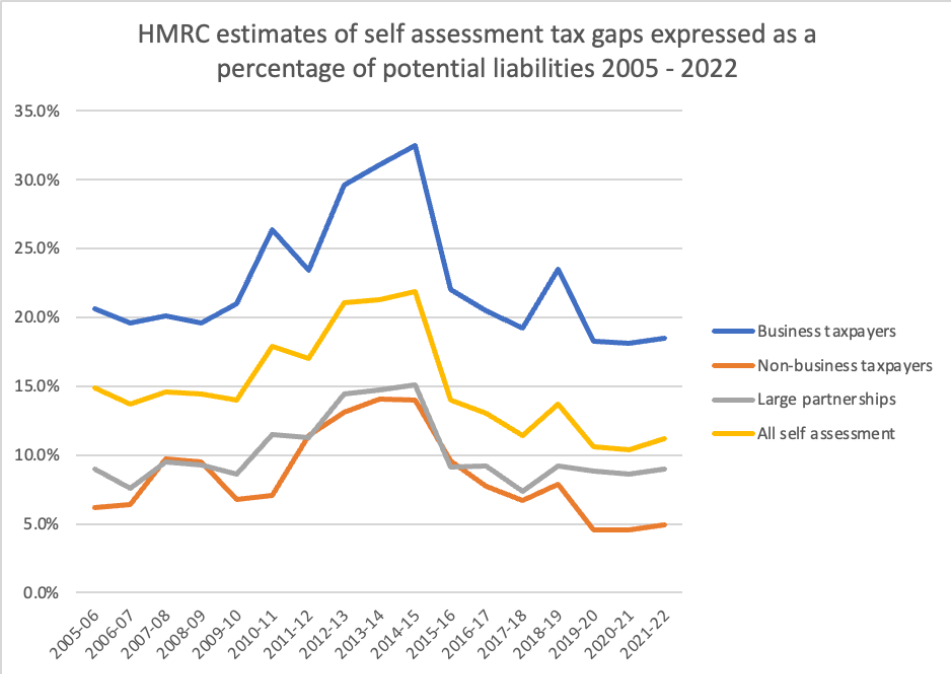
The very clear evidence from the data that they produce in percentage terms is that, in their opinion, there is a strong downward underlying trend in the tax gap. Their suggestion is that the overall tax gap (measured using updated source data) has fallen from 7.5 per cent in 2005 to 4.9 per cent in 2022, or a decline of 36 per cent. However, within the underlying data that HMRC publish there are very strong indicators to suggest that in those areas where HMRC engagement with taxpayers has a significant impact on compliance rates (for example, with business, in particular) a reverse trend is highly likely to be true.

In addition, the overall suggestion implicit within the the noted tax gap data that the UK is becoming significantly more compliant, and that HMRC's approach to management of the tax system is, as a consequence working, is strongly contradicted by evidence on rates of compliance with the requirement to submit tax returns on time, where no such trend is seen. Given that the tax return data in question is not based upon a very small sample sized estimate, which most tax gap data is, but is instead based upon populations of 10 million or more, it is highly likely that tax return submission data provides a much stronger indication of behavioural trends than any HMRC tax gap data does. These issues are considered in the sections that follow.

c. The trends in business tax compliance

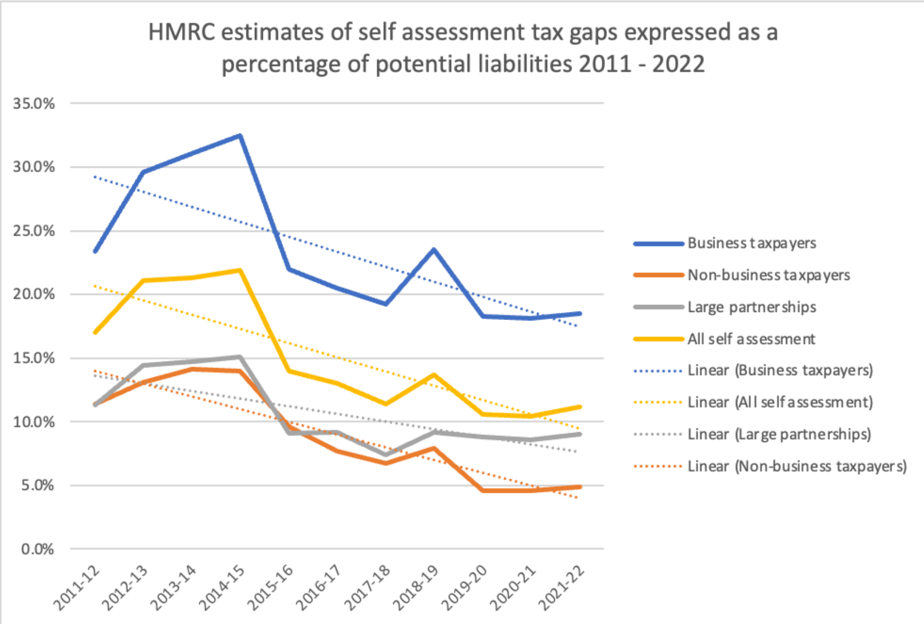
Changing trends in business tax compliance can be seen in three areas. These are corporation tax compliance, income tax self-assessment compliance, particularly as it relates to business taxation, and VAT compliance. The last is not considered here in the interests of brevity.

HMRC suggest that income tax self-assessment tax gaps, split between business, non-business and large partnership tax gaps, together with the overall rate of tax gap in this area between 2005 and 2022, are as shown in this chart[24]:



Restating, this chart for periods from 2011 onwards, for which period tax return submission data is available as noted below, and over which period HMRC appear to imply that their methodologies were maturing, results in the following chart:

[24] HMTC 2023 tax gap data table 4.2

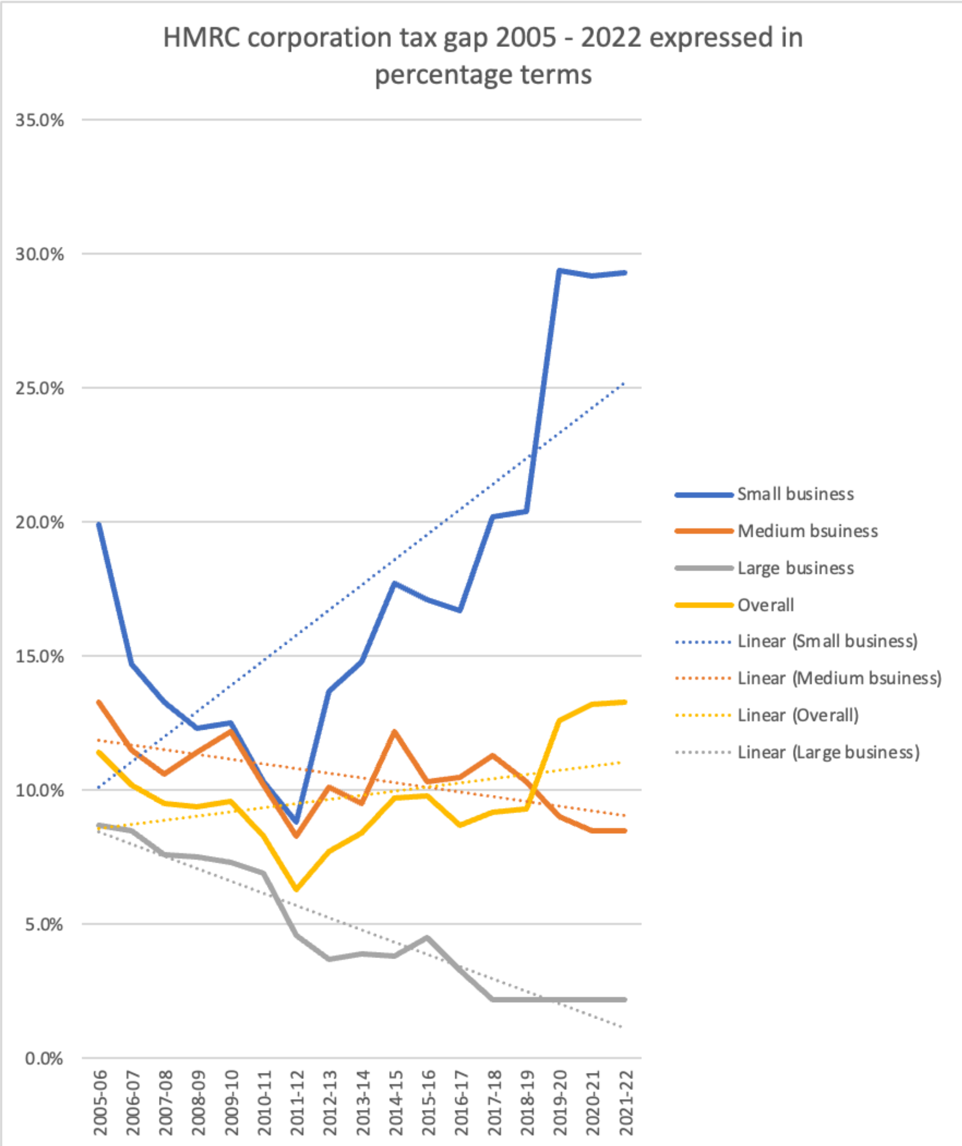


Trend lines have been added to show how marked is HM Revenue & Customs' suggestion of a behavioural change by all income tax self-assessment payers over this period.

Doubts about that claim might be implicit in the erratic nature of the changes in data. The reversal from marked increases in non-compliance to 2015/16 to rapid falls thereafter is most notable in this regard.

These patterns of behaviour amongst small business taxpayers look to be particularly improbable. One reason for suggesting this to be the case is that, unusually, there are in effect two sets of data produced by HMRC with regards to small business tax compliance rates. One is this data within income tax self-assessment, and the other is the data that HMRC produces on rates of compliance, and so tax gaps, amongst smaller companies subject to corporation tax charges.

Percentage rates of non-compliance amongst corporation taxpayers over the period from 2011 to 2022 has been as follows, expressed in value terms:



These patterns require broader analysis that will not be undertaken here, but within the context of the matter being discussed in this report, the important point to note is that the population of people submitting self-assessment business returns is remarkably similar to the population of those who are also responsible for submitting the corporation tax returns of small companies. There is no obvious reason why these populations should behave differently when it comes to tax compliance, not least because they will very often be competing with each other in similar business areas. Many will also swap between these populations, or might even be in both, as the author of this report is. This being noted, the two charts present remarkably different impressions of the tax behaviour of these two groups.

According to HM Revenue & Customs, the small business self-assessment income tax gap has fallen from 32.5 per cent in 2014/15 to 22 per cent just a year later and 18.5 per cent now. This tax gap has fallen by 14 per cent from its peak.

In contrast, the small company corporation tax gap has grown from 8.8 per cent in 2011/12 to 29.3 per cent now. This tax gap has grown by 20.5 per cent.

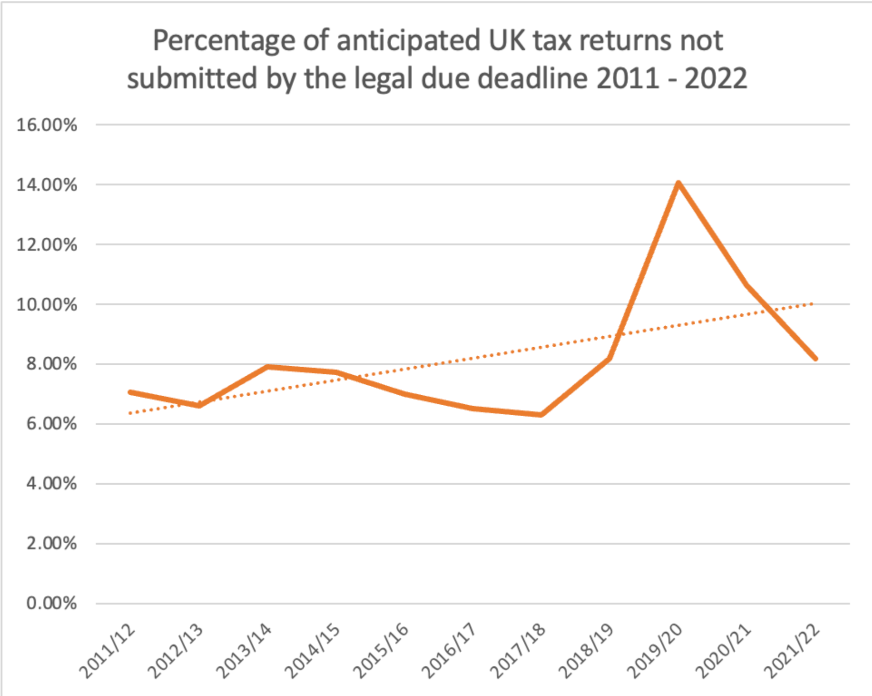
These tax gaps have moved in totally different directions. It would appear to be very unlikely that this is really the case. As already noted, there is no obvious reason, why these groups should behave differently, let alone so differently.

Presuming that the small company corporation tax gap is right (and the fact that it varies so considerably from the other corporation tax gaps suggests that it has some credibility, albeit that it might still be understated for reasons already noted elsewhere in the Taxing Wealth Report 2024[25]) then it is very unlikely that the extraordinary behavioural trends supposedly noted by HM Revenue & Customs with regard to small businesses paying their tax via income tax self-assessment systems can be correct.

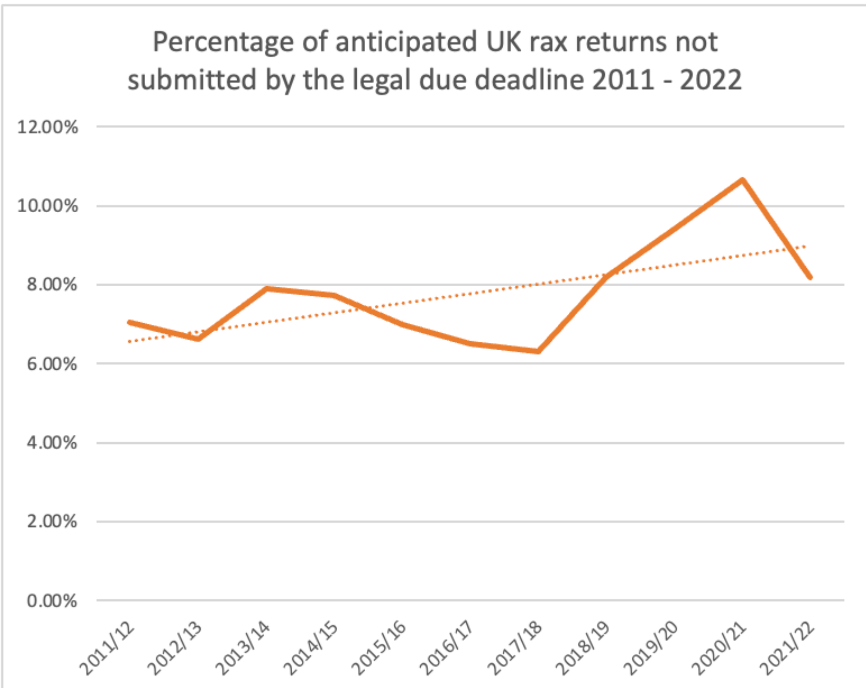
d. Tax return compliance data

To test this hypothesis another source of data has been used. Data on the submission of self-assessment tax returns has been collected for the years from 2011/12 onwards using a wide variety of sources, including HMRC press releases, HMRC annual accounts, and news media report when original HMRC data could not be located on its website. Data suggests that the trend in compliance with regard to the submission of self-assessment tax returns on time (i.e., by 31 January following the end of a tax year) has, since 2011, been as follows, with the number indicated being the percentage of anticipated returns not submitted on time:

[25] See sections on HMRC management of corporation tax and the management of Companies House as well as the need to improve measurement of the tax gap and to measure tax spillovers within the Taxing Wealth Report 2024.

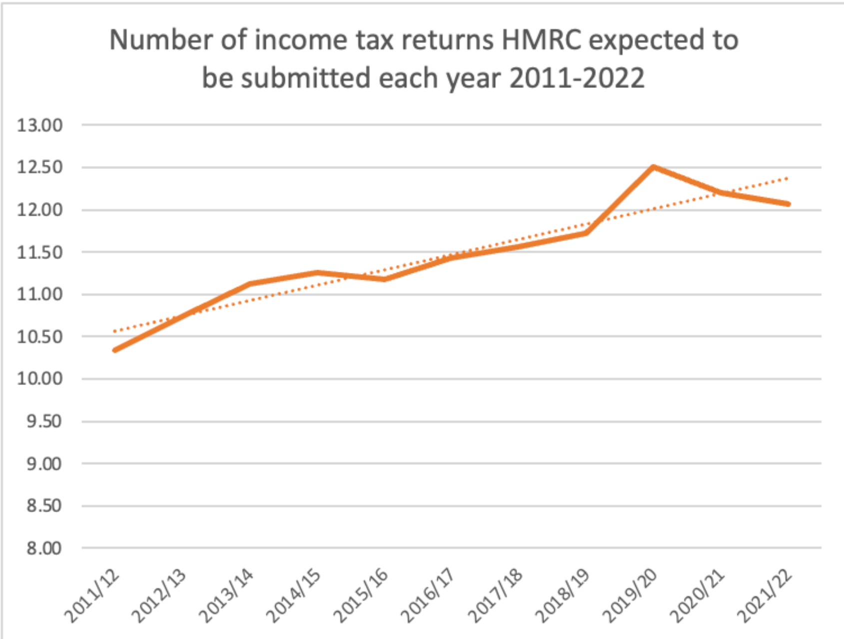


The data for 2019/20 is aberrational. This deadline was not changed in law, but in practice the deadline was extended by a month because of Covid and people took advantage of this fact to submit their tax returns late. HMRC do not appear to have published data for submissions to the extended deadline, only doing so for the legal one. If it is assumed that the figure for that year was the average of that for the year before and after it, then the chart might be restated as follows:



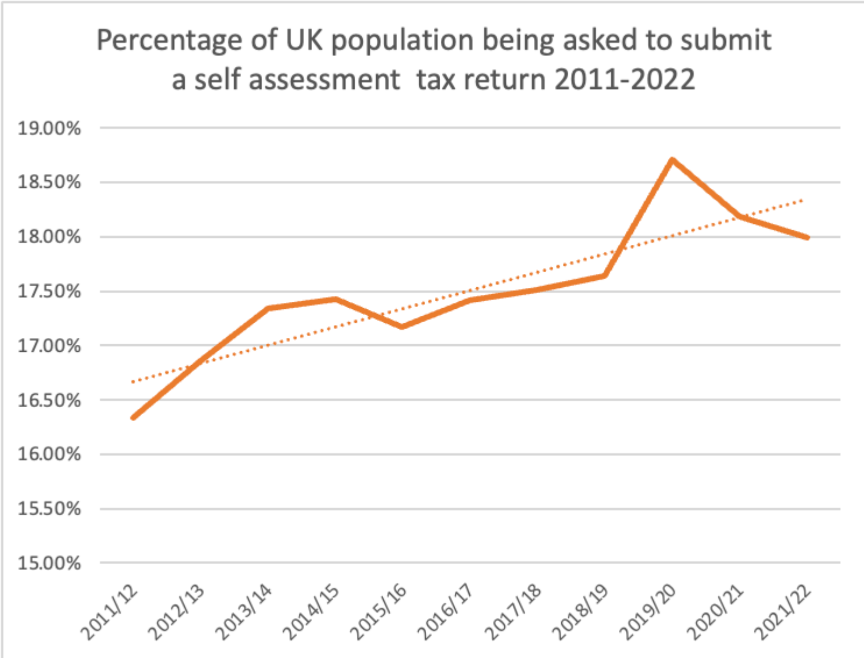
Making this reasonable assumption, it is still clear that there was an upward trend in non-compliance over this period. That was also true, although less obviously so, from 2011/12 until 2018/19, during which period data was unaffected by Covid. When this information, which is based on the collection of data from more than ten million people in each year and suggests that compliance rates did not improve over this period, and overall got worse, it seems very unlikely that that the compliance behaviour of the near five million[26] small business people paying their taxes through the income tax self-assessment tax system improved radically, which is what HMRC claim in their data on that issue.

There is another reason for thinking this. The number of tax returns requested from people in the UK is rising. Over this period the number requested has been as follows:



As is apparent this number is increasing. This is not particularly because population is growing (although it is). It is instead that the proportion of the population being asked to submit tax returns has grown over this period:

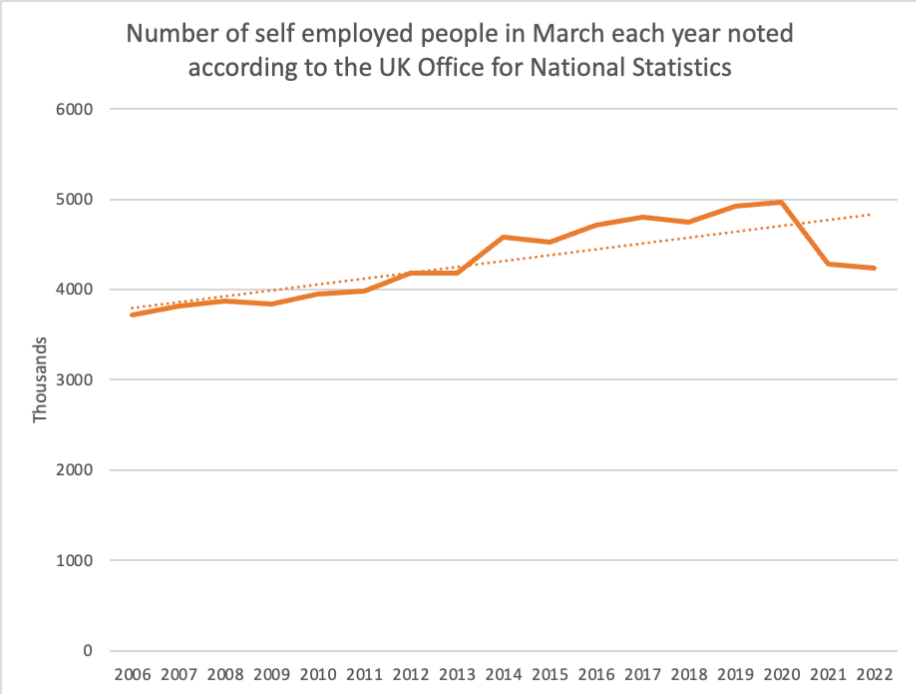
[26] See Office for National Statistics data noted below



It will be apparent that the pattern of change in the two graphs is similar. The significant point is that when the number of people being asked to submit tax returns is growing the likelihood that compliance rates are growing is small, simply because of new submitters' inexperience of the tax system.

That inexperience is also likely to be a factor that might increase rather than decrease non-compliance is also apparent from the trend in the number of self-employed people in the UK, based on Office for National Statistics data[27]. Over the period from 2005/06 to 2021/22 that trend has been as follows:

27 https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/understandingchangesinselfemploymentintheuk/january2019tomarch2022



A trend line has been added.

As is apparent, until the Covid crisis emerged the number of self-employed people in the UK rose steadily, reaching a peak of almost 5 million just before that crisis erupted in 2020. Particularly noticeable though was that this growth was above average during the period from 2014 to 2018, which was the precise period during which HMRC has suggested that compliance rates by self-employed people increased significantly. This is very unlikely. With many new self-employed people needing to report their incomes compliance rates are likely to fall, not rise.

What is most especially surprising is that HM Revenue & Customs has claimed an increase in compliance rates when their own research on the shadow economy suggests that is very likely. In a report on research that they had undertaken on involvement in the shadow economy that they published in 2022 they said[28]:

> *An estimated 8.8% of the UK adult population were identified as participating in the Hidden Economy. When compared with the figure from [2016] (4.9%), there appears to have been an increase in the prevalence of those involved in the Hidden Economy.*

[28] https://www.gov.uk/government/publications/the-hidden-economy-in-the-united-kingdom-wave-2-2022/executive-summary

The suggestion made in this note that the tax gap for small businesses paying income has remained at the levels seen in 2014/15 does appear to be generous in that case.

Conclusions from this review.

A number of conclusions can be drawn from this extensive review of HMRC's accounts, the tax gap and related data.

Firstly, HM Revenue & Customs' accounts do not suggest that the economy measures it has imposed on the UK's tax collection system have reduced the cost of tax collection in any significant way, whilst the evidence of failing performance on a wide range of issues suggests that taxpayers are getting a very much worse service from the organisation. Runaway IT costs have played a major role in keeping costs high, although it has to be recognised that the costs of Brexit have also not helped.

The second is that HMRC did lose control of the small company corporation tax system from 2011/12 onwards, with almost 30% of tax liabilities now owing by this taxpayer group now going unpaid according to their own data, with the Taxing Wealth Report 2024 suggesting that this figure is likely to be understated[29].

The evidence presented also suggests that HMRC's claims on the tax gap amongst self-employed people making declaration of their earnings via the income tax system is very unlikely to be correct. Their rates of non-compliance are likely to be at least as high as those found amongst small companies. In reaching this conclusion it is important to note that their rate of non-compliance grew from 2011/12 until 2014/15, as was also the case for small companies. It was only thereafter that HMRC's claims on these rates diverged, for reasons that are inexplicable. It is suggested that it is in fact much more likely that the tax gap amongst small business making self-assessment income tax returns remained at rates broadly consistent with those seen in 2014/15, thereafter, just as the small company corporation tax has remained at a broadly consistent rate over the last three years for which data is available.

It is suggested that HM Revenue & Customs has lost control of both these tax gaps for similar reasons. These are that they have withdrawn their support within the community to millions of small business and company taxpayers. HMRC has now even denied them telephone support. Simultaneously HMRC has actively withdrawn from active monitoring of

[29] See sections on HMRC management of corporation tax and the management of Companies House as well as the need to improve measurement of the tax gap and to measure tax spillovers within the Taxing Wealth Report 2024.

the activities of these concerns within the community and, as a consequence, non-compliance rates have increased considerably.

If the small company corporation tax gap had remained at the same percentage rate achieved in 2011/12 thereafter, which might have been possible if investment has been continued by HMRC in tax compliance in the sector, then an additional £24.7 billion of tax would have been raised over the period since then. In the tax year 2021/22, which is the most recent for which data is available, that increase in tax collected would have been £5.9 billion, which by coincidence is almost exactly the sum suggested that might be raised by HMRC if it was to appropriately focus its resources on collection of tax from small companies in another note included within the Taxing Wealth Report 2024[30].

If the small business income tax gap had also been maintained at the average rate recorded over the period from 2005/06 to 2009/10, which was 20.2 per cent (with remarkably little variation), and presuming that the actual tax gap suffered from 2015/16 onwards was at the rate actually suffered on average during the period from 2012/13 to 2014/15, which was 31.1 per cent, then the tax lost due to HM Revenue & Customs as a result of losing control of this tax gap since 2015 will have exceeded £15 billion, with the cost being £3.4 billion in the year 2021/22, which is the most recent for which data is available.

What follows from these observations is the suggestion that, taking into consideration only these two tax gaps, and having allowed for a continuing base level of tax gap of the level suffered during the periods when HMRC invested in a presence in the community, then a similar investment now might have raised an additional £9.3 billion of tax revenue in 2021/22.

It is also stressed, particularly in the case of corporation tax gap, that it is highly likely that the VAT and PAYE tax gaps would also have fallen significantly if this policy of maintaining an active HMRC presence in the community had continued. No estimate of this additional revenue that might have been raised as a result of an increased HMRC presence in the community has been made.

Comparing these potential additional revenues with the cost of running HM Revenue & Customs which, as noted above, only just exceeds £5 billion per annum, makes it clear that the additional sums that might be raised as a consequence of investing in an HMRC presence in the community with the aim of reducing the tax gap, both by helping taxpayers to be compliant and by actively checking that they are, might raise sums considerably in excess of the total annual cost of running HMRC. The marginal cost of supplying this

[30] https://taxingwealth.uk/2023/09/22/reforming-the-administration-of-corporation-tax-in-the-uk-might-raise-at-least-6-billion-of-tax-a-year/

additional support within the community by reopening local tax offices and by undertaking programmes of compliance checks might be significant but would most likely be offset by reduced costs of employing staff in call centres. Those additional costs would also be offset by increased rates of tax compliance in other areas. Presuming that the programme of restoring HMRC's presence in the local and business communities might have an annual cost of £1 billion per annum the above noted data suggests that the rate of return on this investment might be at least £9 recovered for every £1 spent, with this likely to be a cautious estimate.

It is also appropriate to note the potential external benefits within the economy of this suggested programme, particularly if it was matched by a cancelling of much of HMRC's Making Tax Digital programme, which has proved to be exceptionally expensive in terms of IT costs, delays, and stress imposed upon taxpayers way above the levels that HMRC predicted. HMRC's policy of externalising its cost by imposing them on taxpayers has failed, making the UK a considerably less attractive place for a person to undertake business . If HMRC instead pursued a policy of making life easier, rather than harder, for taxpayers by providing proactive local, face-to-face, support, and by eliminating cheating within the tax system that undermines the endeavours of honest taxpayers, then the prospects for growth within the UK economy would be considerably enhanced. In that case, the potential savings from such a programme would be considerably in excess of those noted above.

In addition, it is suggested that this programme would also provide the funding so that HMRC might spend sufficient to ensure that:

- All telephone calls to it are answered promptly;
- Those answering those calls are properly trained;
- Letters to HMRC are replied to promptly;
- Sufficient numbers of tax enquiries are undertaken;
- The tax gap is properly estimated;
- The Making Tax Digital programme that risks alienating taxpayers from the UK tax authority can be abandoned and instead focus might be placed upon providing support to those who need to, no more than once a year, declare details of their affairs to HMRC on a timely and accurate basis so that their taxation liabilities might be settled.

This would require a whole change in the management strategy of HMRC, but given that the current strategy has been both inappropriate and failing for some time the need for that change in approach is a necessary conclusion of this work.

Finally, to place this work within the context of the Taxing Wealth Report 2024, it should be noted that closing tax gaps is a significant goal if greater equality is to be achieved within the UK. Tax gaps undermine horizontal tax equity because some people pay tax on their income, and others do not. That is clearly inequitable. In addition, those who accumulate wealth on an untaxed basis disrupt the vertical tax equity of society. It is, therefore, necessary for the programmes noted to be undertaken if progress is to be made towards both horizontal and vertical tax equity within the UK, both of which are increasing at present because HMRC has lost control of key elements of the UK tax system at cost to UK society at large.