

HMRC:

The Statistical Jigsaw



The final pieces of the statistical jigsaw are being pressed into place by HM Revenue & Customs (HMRC), in advance of the publication of the Department's quarterly compliance data later this month.

After conducting its own research, our ReSource Consultancy Team can give an early indication of the statistics likely to come under particular contentious scrutiny.

Background

Following the outcome of the 2010 Spending Review, HMRC was targeted to raise additional revenue from increased compliance activity into tax evasion, avoidance and criminal activity.

The Department was given the go ahead to reinvest £917 million of cost efficiency savings and, in return, pledged to collect £2 billion of additional revenue by April 2012, on the way to delivering an extra £7 billion a year by 2014/2015.

Treasury Committee

The Treasury Committee has been closely monitoring events and considering the administration and effectiveness of HMRC. It has continued to collect oral and written evidence, as it investigates the tax gap and the plans HMRC has in place to reduce it.

In written evidence to the Committee, HMRC has advised that it analyses the tax gap by '*head of duty, customer segment and behaviour.*' It has defined the tax gap as the difference between the amount of tax collected compared to the amount HMRC estimates is due.

HMRC believes the biggest share of the tax gap, 50% of the total, is attributable to the small and medium enterprise sector. The second largest culprit with 25% is the large business sector, followed by 12.5% each to individuals and losses from criminal activity, such as repayment frauds and large scale excise smuggling.

Using these percentages as a guide, HMRC has advised the Committee that it intends to generate the extra £7 billion a year as follows :

- £4 billion from the four and a half million small and medium enterprises, through improved risk assessments of potential evasion leading to amnesty campaigns and increased prosecutions.
- £1 billion from the large business sector and the UK's wealthiest individuals by clamping down on tax avoidance and working in 'real time' with companies.

- £1 billion from tackling organised criminals by reducing alcohol, tobacco and tax repayment fraud.
- £1 billion from improved debt collection with the use of external debt collection agencies and debt being collected through PAYE tax codes.

Contentious issues

The 'baseline'

According to HMRC's own accounts, it brought in an extra £12.6 billion in 2009/2010 from tackling non compliance work and a further £13.9 billion in 2010/2011 from the same activity.

However, HMRC is applying a baseline of just £13 billion for 2011/2012 through to 2014/2015 and is intending to count anything above that figure as additional revenue generated through its reinvestment of the £917 million of cutbacks.

In response to a Freedom of Information (FOI) request made by our ReSource Consultancy Team, HMRC advised the following :

' Please bear in mind that we will publish the additional revenue raised by HMRC from its compliance activities in its totality against the additional £15 billion revenue target and not split by the £2 billion additional revenue and £13 billion baseline figures.'

The first question then is why is the baseline only £13 billion ?

When prompted for clarity in response to the FOI request and asked why the baseline was going to be lower than the result achieved last year, HMRC responded by saying the £13.9 billion achieved contained one off exceptional items, which reduced the baseline to £13 billion.

According to the HMRC Annual Report, the exceptional items totalled £674 million in 2010/2011, so on that basis the baseline should be around £13.2 billion.

But there were also exceptional items of £1.5 billion included in the 2009/2010 result and they are not unusual. There is little doubt HMRC will be including the early results of its activity into the medical profession in the 2011/2012 figures. This follows the Tax Health Plan campaign, which began prior to 6 April 2011 and which could be classed as an exceptional item.

The suspicion remains that HMRC has deliberately set a baseline of £13 billion to favourably inflate its results.

The £917 million reinvestment funds

Under the reporting regime being used by HMRC, it is going to be impossible to extrapolate the additional revenue arising from the huge reinvestment.

Apart from the compliance total being declared as a total sum, HMRC has also changed the manner in which it is recording results.

In a further extract from the FOI request, HMRC state :

' We have made a commitment to publish details of the total revenue raised broken down by a) Cash Collected and b) Revenue Protected.'

The second question then is why can the £917 million not be matched to measurable compliance improvement ?

Again, when asked for clarification, our Team was told that apart from the new recording system hindering measurement, it was also impossible to follow the £917 million to match revenue generation.

The example given by HMRC concerned overtime. If an Inspector is provided with overtime, he/she will invariably work on their enquiry work, which will show up in the baseline compliance figure, rather than the additional revenue figure.

Our Team was told HMRC had looked at numerous ways of trying to measure the success of the £917 million, but had been unable to come up with a satisfactory system.

The new HMRC Measurement Template

The new HMRC Measurement Template contains a whole series of measurement indexes including those called **Cash Collected from Compliance Intervention** and **Revenue Protected**.

Cash Collected from Compliance Intervention – Under this category, HMRC intends to *'reflect the actual money that will eventually go to the Exchequer as a result of compliance activities.'* So far so good, but the index then goes on to say that *'we will estimate the amount of debt (as a result of a compliance intervention) that is collected after debt management activities.'*

In other words, the index will contain some actual and estimated figures, so will not be entirely accurate.

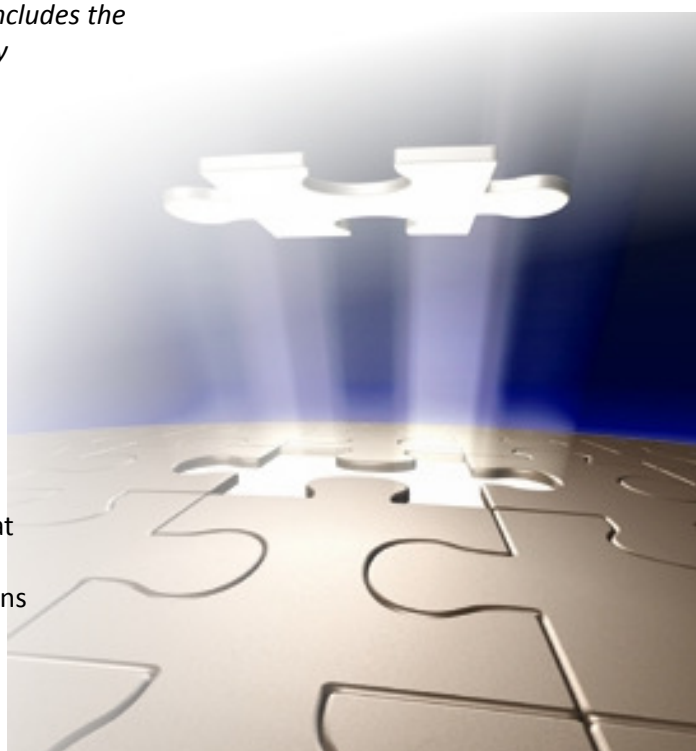
Revenue Protected – HMRC draws a distinction with this category, by stating its intention to measure activity that either *'prevents non compliance from happening or prevents attempted non compliance leading to a loss of revenue. This includes the value of tax revenue protected as a result of UK Border Agency activities.'*

HMRC goes on to state the measurements will be from *'data obtained and quality assured using robust internal processes.'*

In other words, the index will contain a complete set of estimated figures.

Summary

If you are a business preparing a Profit and Loss Account and Balance Sheet at your year end, the underlying principle is that income must be matched to expenditure. This is a principle HMRC is incapable of fulfilling itself, judging by the explanations given to date and its intended range of measurements.



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Why can HMRC simply not say -

'We spent £1 million setting up a new dedicated team of inspectors to tackle offshore evasion. The team brought in £xx million during its first quarter.'

or

'We spent an extra £1 million on our criminal prosecution team. This additional funding enabled our team to increase their caseloads by xx and brought in an extra £xx million.'

It is unknown what the Treasury Committee will make of HMRC's compliance activity and measurement tools, although it will presumably be frustrated that HMRC can not demonstrate a measurable return on the £917 million; itself underpinned by a disreputable baseline figure. The Treasury Committee is also likely to be unhappy that figures from the UK Border Agency are going to be introduced into the results, further confusing matters.

Small and medium enterprises (SMEs) will no doubt continue to wilt under the dark oppression of HMRC's hands on their shoulders, at a time when the UK economy needs them to build and drive growth.

The Abbey Tax ReSource Consultancy Team will continue to monitor developments and make further comment once the quarterly results have been published. Please contact our marketing team on **0870 166 6270 or e mail **marketing@abbeytax.co.uk** for more information.**



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