

## **About AAT**

The Association of Accounting Technicians (AAT) awards around 90% of all technical qualifications in accounting and has over 135,000 members. These members include over 4,250 AAT licensed accountants who provide accountancy services to more than 400,000 British businesses.

**What levels of trust and confidence do the public have in the capability of HMRC to collect tax in an effective and efficient way that a) preserves and encourages fairness and equity? b) is an efficient use of resources? c) provides a first rate customer service?**

There is a good degree of trust and confidence in HMRC despite media and political attention suggesting otherwise.

There have certainly been issues which are cause for concern. For instance, HMRC has wasted time and money on the £10bn Capgemini-run Aspire project – an issue that has been comprehensively covered by the media and examined by policymakers. HMRC has dealt with the problem effectively, making better use of taxpayers' money by issuing technology supply contracts to 400 smaller businesses which is likely to save around £200m a year by 2021. HMRC is also bringing 300 Capgemini and Fujitsu staff in-house via its privately owned, HMRC-run limited company.

Another high profile case of HMRC mismanagement and waste relates to their contract with Concentrix for dealing with tax credit recipients. HMRC was required to regularly review Concentrix's performance delivery with regard to all aspects of the contract but given recent revelations it would appear that such reviews were not sufficiently robust.

HMRC subsequently took responsibility for the contract, resolved all the outstanding cases and speedily finalised each of the 181,000 cases - issuing a response to every individual complaint received and, where appropriate, an apology if the standard of service was found to have been unacceptable.

Both these examples demonstrate that HMRC may not always be very good at managing large contracts or ensuring the efficient use of resources. However, they also demonstrate that when significant problems arise the department is good at taking action to address them in a prompt and efficient manner (neither of which is covered by the media or policymakers). Of course, it should also be acknowledged that they should not have been allowed to occur in the first place.

With regard to fairness and equity, much of the problem relates to perception rather than reality. Take for instance October's headlines which suggested that at least 100 BBC presenters are being investigated over alleged tax avoidance or November's media focus on the eclipse arrangement, where those involved with film industry tax avoidance schemes are left facing multi-million pound tax-bills. HMRC can be perceived in a positive light as they are cracking down on wrongdoers or in a negative light as they had not sufficiently managed to prevent this activity occurring in the first place.

With regard to customer service, the example of unacceptable call waiting times will doubtless be raised by others, but it should be noted this issue is now largely historic.

In 2014/5 HMRC let significant numbers of call handling staff go as it felt that its new digital approach would render the need for so many call centre staff unnecessary. There was a subsequent collapse in service quality which forced HMRC to recruit an additional 2,400 call centre staff.

It is vital that lessons are learned from such situations in order to ensure they are not repeated, especially as HMRC implements its Making Tax Digital programme between now and 2020.

**How effective is HMRC in dealing with a) aggressive tax avoidance? b) tax evasion?**

Given more than 93% of tax due was paid in the tax year 2014 to 2015, with only a small minority choosing to bend or break the rules, it could be argued that HMRC is very effective in dealing with avoidance and evasion.

It should be noted that HMRC is also working with professional bodies to address the small element of evasion and avoidance that has been facilitated by agents. Most notably, AAT together with the six other leading UK accountancy and tax bodies, recently published updated guidance on the standards expected of tax advisers and agents (November 2016). The guidance has been endorsed by HMRC and sets out clear professional standards in relation to the facilitation and promotion of tax avoidance.

In fact, it could be argued that HMRC is seeking to go too far in endeavouring to deal with this issue. For example, their proposals on sanctions against promoters and other intermediaries who design, market or facilitate the use of tax avoidance arrangements that are defeated by HMRC.

In response to HMRC's recent consultation "Strengthening Tax Avoidance Sanctions and Deterrents" AAT made it clear that it did not agree with proposals to restrict legal interpretations which have been general law since the mid-nineteenth century and that would enable HMRC to more easily win at tribunals in certain cases which do not involve serial avoiders. Instead, AAT argued that HMRC should rely on more robust arguments and evidence to win. AAT also opposed the proposal to switch the onus of proof from HMRC to the taxpayers in certain appeals to the Tribunal. Full details can be found in our consultation response available at <https://www.aat.org.uk/about-aat/aat-policy-work>

### **What legislative, resourcing or other measures would help to narrow the tax gap?**

Many commentators have suggested that figures for the tax gap are unreliable. There is some justification in this given almost half of the figure relies on "*experimental methodologies*" which are used to "*...produce illustrative estimates where there is no direct measurement data.*"

However, much of the criticism is overdone e.g. in relation to profit shifting by multi-nationals which can hardly be considered tax that could be collected in the UK given it is perfectly permissible under current legislation.

Irrespective of what the tax gap actually is, the need to reduce it is obvious. HMRC has had some success here, investing almost £2bn in improved compliance capabilities since 2010 to ensure the UK has one of the lowest tax gaps in the world.

Furthermore, HMRC argues that slightly more than 50% of the tax-gap attributable to SMEs can be further reduced through the introduction of its Making Tax Digital programme. Whilst there is some merit in this belief, the numbers are likely to be much smaller than anticipated.

Indeed, if they proceed with the current timescales and exemption thresholds, there is a very real risk that any savings will be wiped out by significant non-compliance either because micro-companies will enter the black economy or simply cease trading.

### **Does HMRC make appropriate use of all the powers and opportunities in its toolkit?**

There are some good examples of effective use of existing powers, for example in reducing tax avoidance and tax evasion (APN). However there are other examples of apparent failure in the same area, for example Conduct Notices which were introduced with the intention of being powerful weapons in the fight against evasion but have been widely derided due to the fact only a handful have been issued over the past two years.

That said, what is often forgotten is the introduction of new powers can change behaviour. If an individual or organisations now know what they are doing is illegal or they are far more likely to be caught, then they will change their behaviour as a result and such powers will not be implemented.

### **Further information**

For further information on any of the above, please do not hesitate to contact Phil Hall (Head of Public Affairs & Public Policy) AAT, 140 Aldersgate Street, London, EC1A 4HY. Tel: 07392 310264 or [phil.hall@aat.org.uk](mailto:phil.hall@aat.org.uk)