House of Commons

Committee of Public Accounts

HM Revenue & Customs: Managing civil tax investigations

Twenty-seventh Report of Session 2010–11

Report, together with formal minutes, oral and written evidence

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Committee of Public Accounts

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Summary

Some £15 billion of tax a year is lost through evasion, fraud and criminal attack. Civil investigations are an important element of HM Revenue & Customs' (the Department's) work to tackle this serious non-compliance. They are targeted on the minority of taxpayers who deliberately seek to evade their obligations. Effective investigations bring in revenue both from tax recovered and financial penalties imposed.

The Department has performed well and significantly increased the tax yield it generates on compliance and enforcement work in recent years. It has two directorates that do civil investigations alongside other work – Specialist Investigations for higher value, more complex cases, and Local Compliance for lower value cases. Together they brought in £8.5 billion in 2009-10, an increase of 49 % in real terms since 2007-08, while reducing expenditure by 10 % in real terms. This represents a strong performance and our findings and recommendations are designed to support further improvements in performance and value.

The level of penalties the Department has imposed in some cases has been low. Over one quarter of civil investigations of fraud resulted in a penalty of less than 10 % of the tax due, and in one in seven cases no penalty was imposed at all. Furthermore, the Department has not monitored whether agreements secured have translated into money collected, and the full value of outstanding debts has not been realised.

The Department recognises that it has lacked detailed information on the costs and returns of different types of enforcement activity. At present, it does not know, for instance, the costs and returns on civil investigations or the point at which further investment in a particular type of activity would produce diminishing returns. Similarly, it has only a limited understanding of the performance and capability of its various investigation teams.

Without this information, the Department cannot decide how best to deploy its resources. Yet, under the Government's latest spending plans, that is exactly what it must do. In the Spending Review, it has been set a stretching goal of bringing in an additional £18 billion of tax revenue from its work on evasion, avoidance and debt over the next four years. At the same time, it must make further efficiency savings across the Department, although around £900 million of these savings can be spent on additional compliance and enforcement work.

The Department's senior officials will need to show strong leadership to achieve the new target. They will need to pay close attention to the morale of staff during what will be a time of significant change, and also to provide them with the best tools possible to do their job. The proposed re-design of the referrals system should help with this, as should the new tougher penalty regime for those who make deliberate errors.

The Department is committed to increasing its collection rate for debts from civil investigations to at least 95 % which could help to convince potential fraudsters that evasion and fraud are not worthwhile. It has not yet set a timetable for achieving this improvement.

On the basis of a report by the Comptroller and Auditor General,[1] we took evidence from the Department on its management of enforcement resources; the potential to increase the tax collected through civil investigations; and how it plans to meet future commitments.

[1] C&AG's Report, *HM Revenue & Customs Managing Civil Tax Investigations*, HC (2010-11) 677

Conclusions and recommendations

1. **Over the last three years, the Department has increased yield while reducing costs through better targeting of its work.** We welcome this positive progress. The Department faces a significant challenge over the next four years in reducing its costs while raising additional revenue of around £18 billion from increased efforts to tackle fraud, evasion and debt. A highly motivated workforce is crucial to its success. Strong leadership will, therefore, be needed to boost morale within the Department from its currently low ebb during this period of further change. The recommendations that follow are designed to help the Department strengthen its capability to achieve the higher levels of performance required.

2. **The Department has not had a sufficient understanding of the costs and returns of different enforcement activities.** It is preparing detailed plans for achieving the additional tax revenue of £18 billion in its Business Implementation Plan, which will be published in April 2011. We expect the Department to be clear about how it will use the £900 million planned spending on the tax gap and its assessment of risks. The Department should identify the costs and returns of different activities and the point at which it would reach diminishing returns. It should base its decisions on enforcement work on this evidence.

3. **Although its performance has been strong, the Department has not set sufficiently demanding targets for its investigation directorates**. To date, the two civil investigation directorates have exceeded their targets each year. Targets were sometimes set below the previous year's outturn. The challenge the Department faces over the next four years will require the directorates to stretch their performance further. The Department should set more stretching operational targets for investigation teams, based on a better understanding of their performance and capability. The Department should also apply learning from the improvements achieved in the Local Compliance directorate, which has almost doubled its yield to cost ratio, to the Specialist Investigations directorate, where the return has remained broadly constant.

4. **Only 20% of cases referred to dedicated investigation teams were adopted, creating disillusionment among caseworkers.** In part, this low level of take-up by the investigation teams reflects capacity, in part it reflects the quality of the referrals. It is, however, demotivating to front line staff to have so many cases rejected. The Department plans to re-launch the system with revised criteria to better identify serious fraud and evasion cases. It should set an expected adoption rate and monitor the system closely. The Department should also review what happens to cases which are rejected.

5. **Only one quarter of civil investigation of fraud cases were completed within the Department's 18 month target, and 15% took over three years**. The length of investigations will be influenced by the nature and complexity of the case but the Department should analyse the reasons for variation and set an objective to reduce

the time taken to conclude civil investigations. It should consider setting target times for completing individual investigations and identify ways to streamline its approach.

6. **Over one quarter of civil investigations of fraud resulted in a penalty of less than 10% of the tax due, and one in seven did not impose any penalty.** The Department expects the new penalty regime to result in higher penalties as the minimum penalty for deliberate evasion and concealment is 50%. The Department should track the level of penalties imposed to ensure that it is applying the new regime rigorously.

7. **The Department does not have adequate systems for ensuring that the outstanding tax, interest and penalties due from civil investigations are paid.** Not ensuring debts are collected is unacceptable. The Department is working to achieve a collection rate of at least 95% in future, from a base of 90%. The Department should vigorously pursue the collection of debt and improve its systems so that it can track whether debts are paid. It should set a target date for achieving a 95% collection rate.

8. **The tax gap provides an important measure of the Department's long-term performance in tackling non-compliance, but a range of measures are needed to assess the impact of enforcement activities in the short term**. The Department intends to introduce a new set of performance measures in 2011. Among them will be a measure of the amount of extra tax actually collected as a result of compliance work, not simply the amount identified as owing. In assessing its performance, it should also improve its understanding of the impact of its work on taxpayer behaviours and levels of non-compliance, while keeping in view the broader objective to reduce the tax gap.

1 Management of enforcement resources

1. In 2009-10, HM Revenue & Customs (the Department) collected £435 billion in tax. Most taxpayers try to comply with the law but a minority deliberately evade their obligations.[2] The Department estimated that the tax gap in 2008-09 – the difference between the tax payable if all obligations were met and the tax actually collected - was £42 billion (9% of theoretical tax receipts). Some £15 billion was due to fraud, evasion and criminal attack. The tax recovered by the Department's compliance activities is not included in this estimate.[3] The Department uses various methods to obtain the tax due, from helping those who want to comply through to identifying those who evade, and imposing civil penalties or criminal prosecutions.[4]

2. Civil investigations are designed to recover tax due and impose financial penalties for non-compliance. Two Enforcement and Compliance directorates do civil investigations - Specialist Investigations for higher value, more complex investigations, and Local Compliance for the lower value cases.[5] The two directorates have substantially increased the return on their work since 2007-08. In 2009-10 they delivered £8.5 billion in yield – the estimated additional tax arising from compliance work - an increase of 49 % in real terms since 2007-08. They spent £567 million on all of their work in 2009-10, having reduced expenditure by 10 % over the three years. The yield to cost ratio had increased from 9:1 to 15:1. As both directorates also carry out other compliance work, the costs of, and yield from, civil investigations are not separately identifiable.[6]

3. The Department attributed the improvement to better selection of cases across all of its enforcement work, not just civil investigations. It has made greater use of analytical tools to assess the information it holds about taxpayers and has identified more possible cases of evasion as a result. It has also improved its processes for case management to increase productivity.[7]

4. Over the last three years, Local Compliance increased its yield to cost ratio from 8:1 to 14:1, whereas Specialist Investigations' ratio increased from 18:1 to 19:1. The two directorates were set yield targets by the Department, but have generally outperformed these by over 10% (Figure 1).[8] Targets have sometimes been set below the previous year's outturn. The Department told us that the directorates were also on course to achieve the much higher targets it had set them for 2010-11.[9] These higher targets represented the

[2] C&AG's Report para 1

[3] C&AG's Report para 1.3; *Measuring tax gaps 2010*, HM Revenue & Customs 2010

[4] C&AG's Report para 2

[5] Q21, C&AG's Report para 2

[6] C&AG's Report paras 5, 1.11

[7] Qq 6-7

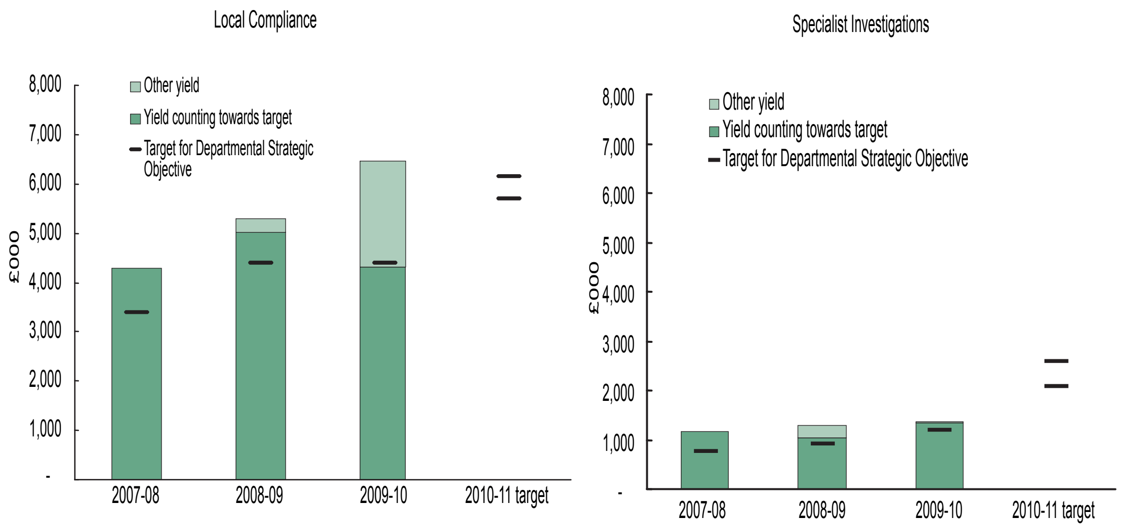
[8] C&AG's Report para 1.14, Figure 2

[9] Q68

progress it had to make during the final year of its three-year goal of reducing tax losses by £7 billion by 2010-11.[10]

5. Directorates translated their high level targets into annual operational ones for their teams. They did so largely on the basis of the teams' ongoing investigations and planned work. However, the performance and the workload of different teams varied widely, and the Department did not have sufficient understanding of why this was.[11] We are therefore concerned whether the Directorates' targets have been sufficiently challenging and whether the improvements in yield: cost ratios could have been even greater. The Department is now introducing a case management system that will give better information about the comparative performance of teams. It is also developing an economic model so it can test the likely results of undertaking different mixes of activities in future. It expects both systems to help optimise its use of resources.[12]

Figure 1 Performance against targets



Note 1 Only yield that contributes to a reduction in the tax gap counts towards the Department's Strategic Objective. In 2009-10, Local Compliance generated £2.1 billion of yield that related to the prevention of overpayments of VAT claims.

Note 2 The 2010-11 targets were set as a range.

Source: C&AG's Report Figure 3

[10] C&AG's Report para 1.14

[11] C&AG's Report paras 1.15, 1.20 and 3.9

[12] Qq 22, 37-39, 68

2 Increasing the tax collected through civil investigations

6. Each year, local caseworkers refer some 4,000 cases of suspected serious evasion for possible investigation by specialised teams. Between 2007-08 and 2009-10, the number of referrals fell from an average of 380 a month to 330 a month, but the Department told us the number of referrals had since recovered. Although mandatory, the centralised referral system has not been used consistently across the Department, and some caseworkers are disillusioned by the low rate at which their referrals are taken up by specialist investigators. In 2008-09, just 20% of referrals were adopted by investigation teams, with the remainder returned to the originating officer to pursue.[13]

7. The Department has not analysed the reasons for rejection which would help it judge the quality of referrals and whether it was focusing specialist resources appropriately. Nor does it know the result of those cases that are returned to the originating officer. The Department acknowledged, however, that resources have restricted the number of specialised investigations undertaken and told us that it expects to expand the number of investigators so as to take on more cases in future.[14]

8. The Department said that it had always intended there to be a high number of referrals through the system in its early years, even though this inevitably meant many cases would not be taken up. It said that this was an important way of gathering intelligence.[15] However, following a review, it now plans to re-launch the referrals system in April 2011 with more specific criteria for the types of case that warrant civil or criminal investigation. In future, it will seek to target referrals more carefully to increase their chances of adoption for specialised investigation.[16]

9. In 2009-10 the Department concluded 265 civil investigations of fraud, generating £115 million of tax. It uses this type of investigation for suspected cases of serious fraud, where it does not propose a criminal investigation. The average time taken to complete a case was 25 months, compared to an internal target of 18 months. 75% of cases exceeded this target and 15% took over three years (Figure 2). Specialist Investigations also concluded additional cases that were started under the previous regime for civil investigation of fraud which was replaced in 2005. The 23 cases took on average 6 years to complete.[17]

10. There were also wide variations in the time taken at different stages of the investigation:

- in only 10% of cases was the initial decision to proceed on a case made within the target time of 10 days, while 13% took over 100 days; and

[13] Q 49; C&AG's Report paras 2.5 and 2.6

[14] Qq 8, 86-87; C&AG's Report para 8

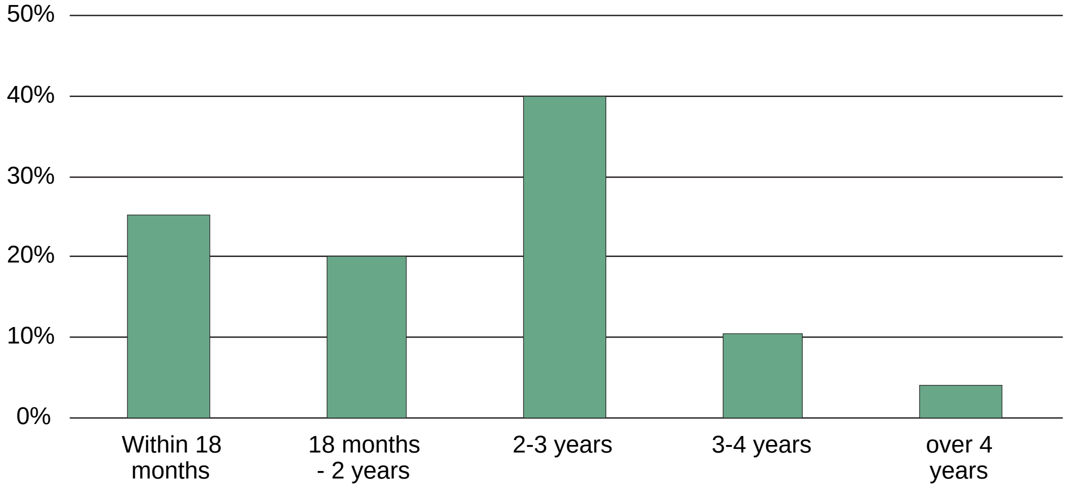
[15] Q 49

[16] Qq 50-51, 57-60

[17] C&AG's Report paras 3.3-3.5

- in 77% of cases it took longer than the 180 days' target to obtain the taxpayer's disclosure report; 8% took over a year.[18]

Figure 2 Time taken to complete civil investigations of fraud settled in 2009–10



Note: Based on data for 265 civil investigations of fraud cases settled in 2009–10

Source: C&AG's Report Figure 7

11. The Department considers that the complexity of a case often affects the time required to bring it to a conclusion. Some cases are straightforward, for example hiding the interest earned on money held offshore whereas others might, for example, involve a complex network of offshore companies. Nonetheless, it intends to improve the speed and efficiency of investigations in future, so as to increase the number of cases and bring in more revenue. It considers the National Audit Office estimate of potential additional revenue of £30 million - £60 million to be the upper limit of what will be possible though, because during the downtime on cases investigators already work on others. The Department does not have sufficient management information to produce a firmer estimate at present. This analysis should become possible once the new case management system becomes operational in 2011.[19]

12. Civil investigations lead to the imposition of financial penalties up to a maximum of 100% of the tax understated. Penalties can be reduced depending on the seriousness of the taxpayer's initial omissions and their level of cooperation with the investigation. The Department has not analysed the level of penalties applied across civil investigations. On civil investigations of fraud completed in 2009-10, however:

- the average penalty was 21% of the tax due;
- over a quarter of penalties were for less than 10% and most were for less than 30%; and

[18] Q70, C&AG's Report para 3.6

[19] Qq 70-74

- 14% of cases attracted no penalty at all.[20]

13. Following a review of the Department's powers, a new penalty regime is now in force for tax returns relating to 2008-09 onwards. The new regime sets tougher minimum penalty rates for deliberate error. Different types of behaviour now attract different levels of minimum and maximum penalty. Penalties are also higher if the taxpayer's disclosures are prompted by the Department's scrutiny. For example, for a prompted disclosure of deliberate evasion with concealment, the minimum penalty is 50% and the maximum 100%. In cases of simple errors and carelessness the penalty is 0% to 30%. Because of the time it takes for the Department to receive and review returns, it has so far applied very few penalties under this new regime.[21]

14. It is good practice to ensure that tax and penalties are recovered promptly, but the Department does not routinely monitor whether tax and penalties due from civil investigations have been collected.[22] A bespoke analysis revealed that it could not trace payments for 27% of the outstanding tax due on completed civil investigations of fraud from 2008-09. Of the £58 million that could be traced, only 84% had been collected.[23]

15. Currently there is no automatic link between the Department's case management and debt management systems. It considers, on the basis of sampling, that 90% of debts are collected, and cautions that not all debts can be collected because of bankruptcies and defaults.[24] The Department encourages investigators to obtain upfront payments in settling cases. It is planning to join up its systems in 2012, and also to conduct a specific campaign on compliance debts, with the aim of increasing the level of recovery to 95%.[25]

[20] Q 41-42; C&AG's Report paras 4.3, 4.6 and Figure 9

[21] Qq 41-44; HMRC 08/10 Compliance checks - penalties for errors in returns or documents

[22] Qq 26-27

[23] C&AG's Report para 4.13-4.14

[24] Qq 23-25

[25] Qq 27-33, 45

3 Planning to meet future commitments

16. The Department's aims for 2011-15 are to be more efficient, more flexible in dealing with customers and more effective in collecting revenue. Under the Government's spending plans, the Department will do more to tackle tax evasion, avoidance, organised criminal attacks and debt. It is expected to bring in an additional £7 billion a year by 2014-15, compared to a total tax gap of £42 billion. At the same time it is to reduce its costs by 25%, although it can spend £917 million of the resulting savings on more enforcement and compliance work. [26]

17. The Department is currently developing its plans. It aims to increase steadily the additional revenue raised each year beyond the £13 billion additional yield it expects to achieve from all of its activities in 2010-11. As a result, over the next four years, it plans to bring in an extra £18 billion in total, giving a return of around 20:1 on the £917 million spending. Meanwhile, the savings will be made across the whole Department, allowing for the prospect that staff and resources may be redeployed to increase the scale of enforcement and compliance work.[27] The Department is due to publish its Business Implementation Plans by April 2011.[28]

18. The Department wants to develop its ability to take different approaches to different types of non-compliance in future, recognising that non compliance occurs for a range of reasons from innocent errors through to deliberate, concealed fraud. It aims to concentrate further its more experienced staff and specialist skills on the larger, more serious cases, and to deal with errors in a less resource-intensive way, and to spend the £917 million on the areas of greatest risk. It plans to spend around 65% of the funding on tackling non-compliance among small and medium-sized businesses, individuals and the hidden economy which accounts for around 60% of the tax gap. Its aim is to increase its coverage of the 4.8 million customers in these sectors. It plans to spend the remaining funding on work covering large businesses and wealthy individuals, collecting more debt and tackling organised crime.[29]

19. The Department recognises that it needs to improve its management information so it can determine the most cost-effective use of its resources. While it has monitored spending and progress towards targets in the past, it has not had sufficiently detailed information about the specific costs and returns of different enforcement and compliance activities.[30] It is seeking to address these gaps through the new case management system and economic model (paragraph 5), but will need to do so quickly if the extra spending on enforcement and compliance is to achieve maximum effect.[31]

[26] Q13; *Business Plan 2011-2015*, HM Revenue & Customs November 2010; Ev 13

[27] Qq 11-16, 34-35; Ev 13

[28] *Business Plan 2011-2015*, HM Revenue & Customs November 2010

[29] Qq 9-10, 13, 74-78; Ev 13

[30] C&AG's Report paras 7 and 16

[31] Qq 37-40, 69

20. The Department's performance framework does not capture the full effects of civil investigations and other enforcement work. Yield is the element of performance that is most readily measured, but the effect of the Department's work on taxpayers' future behaviour and its work to prevent error and fraud are also very important. The Department has worked with others internationally to estimate the deterrent effects of its activities which will inform the decisions it takes about where to put its resources. In 2011, it plans a broader set of measures to assess its performance on enforcement activities, including a measure of the actual cash collected as a result of its work.[32] It also told us that it will periodically reassess the tax gap, which it regards as a longer term indicator of its performance.[33]

21. The Department recognises that its staff have considerable commitment to its work but that there is a lot of dissatisfaction, as demonstrated in successive annual staff surveys. The next survey is due to be completed in December 2011.[34] The organisation has been through major change in the last five years, and career prospects have been restricted by office closures and reducing staff numbers. The Department has also made changes to strengthen management systems that do impose constraints on the way work is carried out, leading to concerns among staff about whether processes have become too bureaucratic. The senior management recognise they need to understand and address staff worries, and communicate better the reasons for change. Future plans will undoubtedly bring further changes that will be uncomfortable for some, but the planned expansion of enforcement and compliance work presents a clear opportunity to motivate staff.[35]

[32] Qq 36,69; C&AG's Report paras 6, 4.14

[33] Q 46

[34] Qq 55-56, 62

[35] Qq 55-56, 61-67

Formal Minutes

Wednesday 9 March 2011

Members present:

Rt Hon Margaret Hodge, in the Chair

Mr Richard Bacon
Mr Stephen Barclay
Dr. Stella Creasy
Matthew Hancock
Mrs Anne McGuire
Austin Mitchell
Nick Smith
Ian Swales
James Wharton

Draft Report (*HM Revenue and Customs: Managing civil tax investigations)* proposed by the Chair, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 21 read and agreed to.

Conclusions and recommendations 1 to 8 read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Twenty-seventh Report of the Committee to the House.

Ordered, That the Chair make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

Written evidence was ordered to be reported to the House for printing with the Report.

[Adjourned till Tuesday 15 March at 10.00 am

Witnesses

List of printed written evidence

List of Reports from the Committee during the current Parliament

The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

Session 2010–11

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Second Report	Delivering Mulit-Role Tanker Aircraft Capability	HC 425
Third Report	Tackling inequalities in life expectancy in areas with the worst health and deprivation	HC 470
Fourth Report	Progress with VFM savings and lessons for cost reduction programmes	HC 440
Fifth Report	Increasing Passenger Rail Capacity	HC 471
Sixth Report	Cafcass's response to increased demand for its services	HC 439
Seventh Report	Funding the development of renewable energy technologies	HC 538
Eighth Report	Customer First Programme: Delivery of Student Finance	HC 424
Ninth Report	Financing PFI projects in the credit crisis and the Treasury's response	HC 553
Tenth Report	Managing the defence budget and estate	HC 503
Eleventh Report	Community Care Grant	HC 573
Twelfth Report	Central government's use of consultants and interims	HC 610
Thirteenth Report	Department for International Development's bilateral support to primary education	HC 594
Fourteenth Report	PFI in Housing and Hospitals	HC 631
Fifteenth Report	Educating the next generation of scientists	HC 632
Sixteenth Report	Ministry of Justice Financial Management	HC 574
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Nineteenth Report	M25 Private Finance Contract	HC 651
Twentieth Report	Ofcom: the effectiveness of converged regulation	HC 688
Twenty-First Report	The youth justice system in England and Wales: reducing offending by young people	HC 721
Twenty-second Report	Excess Votes 2009-10	HC 801
Twenty-third Report	The Major Projects Report 2010	HC 687

Twenty-fourth Report	Delivering the Cancer Reform Strategy	HC 667
Twenty-fifth Report	Reducing errors in the benefit system	HC 668
Twenty-sixth Report	Management of NHS hospital productivity	HC 741
Twenty-seventh Report	HM Revenue and Customs: Managing civil tax investigations	HC 765

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 26 January 2011

Members present:

Rt Hon Margaret Hodge (Chair)

Mr Richard Bacon	Joseph Johnson
Stephen Barclay	Mrs Ann McGuire
Dr Stella Creasy	Austin Mitchell
Jackie Doyle-Price	Nick Smith
Matt Hancock	Ian Swales

Amyas Morse, Comptroller and Auditor General and **Jane Wheeler**, Director, gave evidence. **Robert Prideaux**, Director of Parliamentary Relations and **Marius Gallaher**, Alternate Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

Managing Civil Tax Investigations (HC 677)

Examination of Witnesses

Witnesses: **Mr Mike Eland**, Director General, Enforcement and Compliance, HMRC, **Ms Marie-Claire Uhart**, Director, Specialist Investigations, HMRC, and **Mr Donald Toon**, Director, Central Compliance, HMRC, gave evidence.

Q1 Chair: Welcome. Thank you very much for coming this afternoon. As you are appearing before us this afternoon fortuitously, I just wanted to start by asking you to respond to the story in the *Daily Mail* on HMRC, on national insurance—the £1.2 billion of national insurance contributions that haven't been allocated to individuals since 2004, and therefore may be impacting on their pension entitlements. I particularly want you to respond on that because, since reading the *Daily Mail*, I have discovered that the NAO did produce a report on this just at the time of the general election, so we never took evidence on it. It raised many of the issues that have been raised in the *Mail* today, so we're very pleased the *Daily Mail* finally read the NAO report of 30 June.

Mike Eland: Thank you very much, Chair. I'm very happy to do that, and shall I first introduce myself and my companions. I'm Mike Eland; I'm the Director General of Enforcement and Compliance within HM Revenue and Customs. Marie-Claire Uhart is the Director, Special Investigations, and Donald Toon is the head of my Central Compliance unit. I am also obviously very concerned at the stories in the press that people will be alarmed by. I hope I can provide some reassurance and if you'd like, I'll take you through the details.

Chair: Yes, if you can do it just as succinctly as you can because it's not the main purpose of our hearing this afternoon, and there may be one or two questions that my members have for you.

Mike Eland: First of all, these cases occur where there are errors on the returns employers send us that mean that we can't automatically match those records with customer records. When that occurs and the contribution is at a level where it might affect people's pension, that is automatically identified and we write to those individuals at that point where we have the address and name that should be on the return. We invite them to contact us and we hope we can reconcile things at that stage. In addition to that, we do an annual scan of the national insurance records and if there are people whose contribution levels for that year have fallen below the level necessary to qualify for the pension—and there could be a number of reasons for that; they might have gone part-time or whatever—we send a letter to all of them so that they can either contact us over any discrepancy or if they wish they can top up the pension where it's a result of doing something like part-time working.

We do, however, keep all the back records and we also put the unmatched payment into a special suspense account because we have the money and we do so until they can be matched. Of the records that we have on store, the numbers that were given in those PQs, 86% of those are below the lower earnings limit for national insurance contributions and it's very unlikely that any pensioner entitlement is kept. Because these are the total employers' records—

Q2 Chair: 86%—explain that to me.

Mike Eland: It's 86% of those—

Chair: NI contributions?

Mike Eland: No, 86% of the unmatched records have no relevance as far as pension is concerned because the people are below the level. So those two processes that I talked about: one from the point of view of the employer records as they come in, where we don't have the match and we send out the first batch of letters, and then the second where we do the annual check on the national insurance record, should weed out anybody whose pension might have been affected. There's a third thing that then happens. As people

approach retirement age, the Department of Work and Pensions will contact them and let them have an estimate of their likely pension entitlement. If there is anything that then concerns people they can get in touch either with DWP or ourselves and again we can look to see if we match this off the record. In addition to that, if anybody is currently concerned, DWP have a website where people can contact it and get a projected pension quote and if there is anything that concerns them then, then again they can contact us.
So as I say, I think this is a story with a number of misunderstandings in it. I do think that, from the numbers I've given, people should be able to take a great deal of reassurance that their pensions should not be affected. We will get these lines out very clearly to people and I hope that my explanation gives you reassurance too.

Q3 Chair: Okay. Let me just ask you two brief questions, then I'm going to move on if the rest of the Committee is happy. One is: 86% on 2 million people, so there's about 300,000 people who are affected.
Mike Eland: They're not affected; we can't match their record but there is no economic consequence to that.

Q4 Chair: And the other thing is this goes back to 2004, which is pretty unacceptable, so I just want to know do you have a timeframe in which you will be dealing with this?
Mike Eland: As I say, we are proactively looking to match anybody where there is an impact for them. We retain these records so that if there are any queries or anything in the future, rather than people having to produce their own records, we have those records and we have the money secured.

Q5 Chair: Okay. So going back to 2004 is a bit unfair because you've probably attempted to match the record.
Mike Eland: We attempt to match all of the records, but we concentrate on those where it is likely to have an impact on the customer.

Q6 Chair: Is everybody alright with that? Okay. If we go to the hearing today, I think we have to start by saying congratulations. It does seem to me, on the basis of the general Report that you've done extremely well here, that you've increased the yield substantially and you have done that with fewer people. So whilst there's still a lot we will question you on, I hope that you can accept it's in that context. This is an area of work where there is definite improvement, which is highly welcome. So perhaps you'd like to start with a general explanation of how and why have you done that?
Mike Eland: Thank you very much for those comments, Chair. I think we've done it through a variety of ways. The most crucial one is better selection of cases; we have also managed cases more proactively and we have had a number of process improvements on how we manage those cases so we can increase productivity. If you asked me for the single most important one, I think I would come back to the better selection of cases, and we have done that through investing in a lot more analytical tools, so that we can use the vast amount of information we hold, analyse it better and improve the identification of the small number of people the Report talks about—7% of companies, 5% of individuals—who are evading tax. We were able to profile and select more of those.

Q7 Chair: I'm quite surprised you've said that because one of the areas where I was going to probe you on was the fact that only one in five of the cases put forward to you are ones that you then choose to pursue through the civil investigations team. So it seemed to me you did not have the best of systems on one or two things because either you were getting the wrong ones put forward to you or you just didn't have the capacity in terms of resources or people to deal with legitimate areas where we're not getting the tax we ought.
Mike Eland: Yes. There's two points to that. One, that process identifies only a particular part of our whole compliance activity. We have a much broader range of interventions. The Report refers to 230,000 interventions, of which these ones, through the civil investigation of fraud process, are a small part. So we are using these risk tools to identify the whole spread of interventions, not just this particular area. Secondly, it is the risk work that I have talked about that enables the officers who make the referrals to identify those cases in the first place, so there's a two stage process. We use the broad risk tools to get officers to work on a range of cases. Where they identify amongst that range of cases that there are ones they think need escalating for more specialist resource, we then ask them that they should then do so. We set the levels for referral reasonably broad because we are trying to identify, through that referral process, ones we can pursue for criminal investigation, ones we can pursue for civil investigation and ones that we will put back to them, saying "We're happy for you to carry on and investigate these". So what we are doing through that process is sifting, if you like, the total numbers.

Q8 Chair: Yes, but what I'm wondering is firstly, whether or not those elsewhere in your chain understand the criteria or are taking the right decisions to refer up, and secondly, are you rejecting cases in part because you haven't the resources or Ms Uhart has not the resources to pursue them.
Mike Eland: There is a resource issue and a balance there, yes.
Chair: So the answer is you could get more if you had more bodies?
Mike Eland: No, because the cases are all followed through on. It's just who takes them up. They are not cases we just junk and don't pursue any further. They will go back to be worked by the people in the general compliance activity.
Chair: But they're not as focused or skilled.
Mike Eland: We try to use our best investigators on the highest value cases.
Chair: On the biggest.
Mike Eland: It's essentially that. It is a prioritisation tool and certainly, I think, with the resources and new investment we have going forward, we will expand

the number of investigators and we will take on a broader range of cases.

Q9 Chair: £42 billion is a huge figure; you're getting in £8.5 billion. The CSR set you the target of raising that to £15 billion.
Mike Eland: To another £7 billion a year on top of that, yes.
Chair: So you'll come out at £15 billion and it just seems to me again, and it's something we come back to time and time again with HMRC, these are megabucks. Are you therefore taking the right decisions as to where to allocate your resources to ensure the best return to the coffers of tax due?
Mike Eland: There's a spectrum of behaviour on the part of taxpayers, ranging from innocent error up to outright, deliberate, concealed fraud. We try to use all these different techniques to make sure that we are concentrating our face-to-face interventions and our most experienced and best investigators on the right end and not getting them tied up in smaller cases or cases where it's largely a matter of negligence or error, which still have to be pursued, obviously, and the money recovered, but you don't need the full range of investigative skills to complete that. So that is what we're trying to do all the time.

Q10 Chair: You haven't really answered the question. Would you be better putting more people into Ms Uhart's separate thing, given the extent of the return to us?
Mike Eland: Yes, and the answer is that is exactly what we are trying to do, particularly going forward, where we have this new investment. We are looking to put that up at the serious—
Chair: So you'll double her staff and you'll double the yield, will you?
Mike Eland: Not entirely. We certainly want to increase Marie-Claire's resource, but we will also want to increase resource elsewhere. For example, in terms of criminal investigation, we're going to significantly increase the number of criminal investigators and the number of prosecutions we're going to carry forward.
Amyas Morse: It's not just a theoretical question though, I don't think, to say, considering all the financial pressures, if you weren't resource-constrained how much could you increase the yield? That's really what we're trying to feel our way towards. We're not trying to be silly about it, but we're just saying that we understand there are resource constraints, but just for the purpose of this discussion, if there weren't—
Mike Eland: I do think this comes back to the £7 billion going forward. That number has been arrived as a result of us and Treasury, and others during the spending review process, looking at precisely this sort of question. If you had more resource, where would you put it? What could you bring in? And those numbers—the £900 million investment and the £7 billion a year by 2014—are the result of that. It will involve quite a significant change in the way we use our resource. We will be putting more resource into that top end; we will be looking to deal with the error end in less resource-intensive ways and trying to move our trained tax inspectors and investigators into that top area.

Q11 Chair: I don't think we feel still we've bottomed this out.
Mike Eland: I'm sorry. I'm not trying to avoid any questions.
Amyas Morse: We don't think you are, but just so that I understand it properly—and I'm sorry, but I understood that your funding for this was really dependent on savings being achieved in HMRC, so actually it's not as if the tap is just on. You have to achieve the savings in order to drive it forward faster, haven't you? Isn't that right?
Mike Eland: It is right, but not just from within my area. So in other words, by the end of the spending review period, the enforcement and compliance numbers will have gone up in total and we will also have filled all our natural wastage with new recruitment and so on as we go forward. We will also continue to be able to make our own efficiency savings and, whereas previously they would have probably gone to meet our headcount reduction, we are now going to redeploy those people to new activity. So we will still be continuing to deliver, if I could put it like this, the £8 billion we've already secured and we'll continue to do that each year with fewer people, and people released will be rediverted into bringing in the additional money. Where savings are made elsewhere in the Department, we will also be recycling some of those into this area, either in money terms or in people terms.

Q12 Stephen Barclay: Just briefly following up on Amyas's point, first of all, what the money is going to be spent on is still not decided. Is that correct? Because the 2011–2015 business plan refers to a number of possible programmes, but you haven't decided what you're going to spend it on yet.
Mike Eland: We're in the process of doing that allocation at the moment.

Q13 Stephen Barclay: Okay. And in terms of the yield you expect to get on that, what sort of yield, in terms of the ratio between staff and cost, do you expect to get?
Mike Eland: I don't have the staff/cost ratios, but basically we will be building up the yield over the period up to the end, which is where we have to achieve the £7 billion target. We will be looking to achieve an additional over £2 billion next year, £4 billion the year afterwards and £6 billion the year after that.

Q14 Stephen Barclay: Perhaps you could let us have a note on that. It's just if you look at the Local Compliance team, the yield last year was 14:1 and that of the Specialist Investigations team was 15:1. My very quick calculation suggested you were setting a target of 8:1, which seemed quite modest, but that might be my misunderstanding, so if you could perhaps give a note on that.
Mike Eland: Yes, I'm very happy for you to have this.
Chair: Can you answer that Mr Toon?

Donald Toon: I can't give you a straightforward cost/yield ratio answer. What I can say is that in some areas where we're planning activity, for example criminal investigation, the cost/yield ratio is not good because criminal investigations do not produce significant amounts of direct yield. So what we're looking for there is to build a deterrent effect and, therefore, a simple analysis of the cost/yield ratio is not always wholly useful.

Q15 Nick Smith: But it's not the £7 billion to £900 million. That's the simple maths, isn't it?
Mike Eland: Yes; actually, because we have to build up to that £7 billion, if you take the £900 million spread across the three years and then the fact that we have to build up, I think if you add up all the revenue in the build up I think it's about £18 billion. So it's £900 million to bring in £18 billion.

Q16 Stephen Barclay: But perhaps we can have a note. It just strikes me if you're asking the Treasury for £900 million it's useful to have an idea of what the bang for the buck on that is going to be.
Mike Eland: Sure.

Q17 Stephen Barclay: But could I come to something else because my look at the figures suggested that compliance is actually deteriorating in terms of VAT gap and revenue loss. I went back to when you were appointed; I think you were acting Chairman in 2004 when you first gave evidence to this Committee. In your evidence there, in terms of the VAT gap and how you were expecting it to move you said, "We want to get it from 15% not recovered, down to 12%". And so, I was a little surprised that in 2008–09 the VAT gap was at 16%. I just wondered if you could explain that.
Mike Eland: Yes, the VAT tax gap, for those unfamiliar, is calculated by estimating what the VAT should have been through a variety of estimates from economists, using things like consumption statistics and so on, and then the yield or the revenue that's actually come in in that year. We were succeeding in getting the tax gap down as you've referred to. Two things knocked us off course: one was we did see a surge in missing trader fraud, the VAT fraud—that was a major attack on our system. We feel we have now overcome and suppressed that attack and we are recovering a lot of the money and that will feed through into the tax gap.

Q18 Chair: Explain that a bit more. What was that?
Mike Eland: Sorry, it's a fraud whereby people operate in a syndicate. They drive up the amount of VAT owing to the Department. One member of that chain then disappears and people—
Chair: This is the carousel fraud?
Mike Eland: This is the carousel fraud. Exactly. So there was that problem, but those numbers are also inflated by the fact that during the recession, VAT debt rose and because we take whatever the receipts are in that year, it effectively is assuming that we don't recover any of that VAT debt, where we will recover it in the future years.

Q19 Stephen Barclay: You say that it's the recession, but a very quick look at the figures shows me that at no point in the last five years has it been at the target you promised the PAC when you started in post. So in 2005 it was a 15.2% VAT gap; 2006, 13.5%; 2007, 12.5%; 2008, 16% and last year of 13.9%. So actually we've only moved 1.1%, so it seems a pretty poor performance to me. Also what struck me was revenue loss had also gone the wrong way. So if we go back again to when you gave evidence: in 2004–05, revenue loss was £9.7 billion; in 2008–09 it was £15.2 billion—obviously the recession played a part, but if you take the year before it had still gone the wrong way. It was £11.7 billion in 2007–08 and last year it was £11.5 billion.
Mike Eland: I don't recognise the revenue loss figures you're quoting there, are they VAT revenues?
Stephen Barclay: These are the figures from HMRC's *Measuring Tax Gaps 2010* report.
Mike Eland: Right, sorry; I understand, yes.

Q20 Stephen Barclay: Why have the figures got worse again since you've been in post?
Mike Eland: I've tried to explain it is those two phenomena. The VAT MTIC fraud phenomenon has been around since 2003 and, as I say, we managed to combat that. We have blocked large numbers of suspect repayments; we've denied those and we're going through the tribunals defending that at the moment, and we've secured over £1 billion of those. I do come back to the fact that VAT debt is captured in those numbers, and VAT debt has risen and is now coming down again.

Q21 Stephen Barclay: The thing that sings out from the Report to me is if you just look at two paragraphs alone—paragraphs seven and eight—which refer to the fact that you've got work ongoing to strengthen the management of resources; you're about to roll out a case management system; you're developing a resource allocation model; you don't have an effective system for escalating cases and it says the Department is "in a transitional phase". You're making assurances when you're in post in 2004, the figures have deteriorated and we're getting a Report today that says six or seven years after you've started in post you're about to do a whole load of things to improve this and the department is in a state of transition.
Mike Eland: I don't accept that as a fair overall picture. You're concentrating on one area where there were two particular factors I've referred to. If you look at these overall numbers and if you look at the Department as a whole, we have actually increased the total amount of additional tax we have brought in very significantly in that period. That's the total picture of tax, which is obviously what you have to focus on. We've done that through a whole lot of measures, particularly, as I say, around investing at the front end in intelligence. Of course, we are still then improving other parts of the process, and particularly as we are now—you've quoted things I said there when I was in a different department. We're now a new department that has been created out of two old departments. A whole lot of things have to be done

when you're bringing two departments together; that's why we're still in a transitional process.
Stephen Barclay: That was 2005.
Austin Mitchell: In terms of figure 2 on page 14, why is Local Compliance doing better in terms of yield when it's had to take a bigger burden of staff cuts, thus bringing its yield/cost ratio down more substantially? Why is it doing better than the Specialist Investigations?
Mike Eland: In terms of cost/yield ratios, Special Investigations is higher. It is a smaller unit. There is a much larger number of people in Local Compliance and so if you're comparing like with like, I think you have to use the cost/yield ratios to do that.
Austin Mitchell: I was looking at yield figures; it's a more substantial yield.
Mike Eland: There's 13,000 people in Local Compliance, and are there 2,000 or 1,500 in Special Investigations?
Marie-Claire Uhart: It's about 1,500 people, so it's a bit less—
Mike Eland: So they're obviously a smaller unit doing smaller numbers of bigger cases. So that's why the total numbers are different there.

Q22 Austin Mitchell: Yes, but you've imposed major reorganisation on the Local Compliance. Witness the fact that you're moving the Grimsby Local Compliance people to Lincoln at enormous cost in terms of travel. They've had to put up with more disturbance and more difficulty and yet they've done far better.
Mike Eland: I'm sure I would want to say that I am pleased with the performance of Local Compliance. I think they have done a very good job, but we do have to rationalise our structures, I'm afraid, and we are trying to do that in the best possible way, taking account of people's own individual circumstances. In the case of Grimsby to Lincoln, I know people are concerned about the travel time, but we've tried to take that into account.

Q23 Austin Mitchell: It's not a nice reward for good work to move them all, but why don't you know whether the tax and the penalties that are due from the investigations have been collected? I see that they couldn't trace payments for 27% of the outstanding tax due on civil investigations. Why is that?
Mike Eland: The reason for that is that we have a debt management operation with its IT system and we have our own case management systems over here, and there is no automatic linkage.
Austin Mitchell: Don't you follow up on them?
Mike Eland: What we do, in order to assure ourselves that that money is being collected, is sampling rather than tracking every individual case. So we do ensure that we are confident that 90% of the tax that is due here is being collected, but I agree that that is not where we should end up, and next year we are looking to be able to join up so we have a system that goes from one end of the process to the other.

Q24 Austin Mitchell: It's not 90%. According to the figures here, of the £58 million that could be traced, 84% had been collected. What's happened to the rest? Why aren't they in prison?
Mike Eland: There will be cases where people have gone bankrupt or where they've defaulted on the debt and we will then chase them up, so not every bit of money that is identified here can be collected if people don't have the means to pay it; we will take action against them through the courts and so on to recover it.

Q25 Austin Mitchell: I just want one question for Mr Toon actually, because I see, very sympathetically, from his biography that he spent years at sea, where I now am. So when it came to merge the Customs and Excise investigations and the Revenue investigations, which was the better? Which was the tougher?
Donald Toon: I don't think that's a question that I actually can answer because there is no direct comparison between the two. The way in which the taxes operate, between direct tax from the former Inland Revenue side and the indirect taxes and excise duties, are fundamentally different. I think I would say that the skill sets and the commitment were probably pretty much the same, but they were dealing with very different problems.

Q26 Matthew Hancock: Can I just follow up on this a little bit because in the Report, in paragraphs 4.13 and 4.14, there's some more of the detail that Mr Mitchell was talking about. You say that you're unable to trace 27% of the yield and my general attitude to the law is that when fines and penalties are put in place they should be recovered. I think that's a good principle to operate on, don't you?
Mike Eland: Yes.

Q27 Matthew Hancock: But if you can't even trace more than a quarter, then isn't that a pretty poor state of affairs? I would like your initial reaction to that.
Mike Eland: First of all, if we had continued with the exercise and put a lot of resource into it, I'm confident we could have traced all of those sums. What is referred to here is whether we could, within an exercise that was done originally for HM Inspectorate of Constabulary and then for the NAO, within a confined time limit, identify the cases. I agree we cannot do that automatically and in a straightforward way.
I have two pieces of reassurance for the Committee on this. One is that we do, through the sampling techniques we're using, convince ourselves, and I'm very happy for the NAO to look at this, that 90% is recovered. Secondly, we do agree that this is not the right and longer term position. Therefore, we are looking to identify the system where we are flagging these cases and they are going into the debt management machine as an area that they have to give particular priority to. Debt management works on a campaign basis. It's been very successful; it blitzes particular areas. It's pulled the debt down from £27 billion at the height of the recession to below £20 billion now. We are going to do a campaign specifically on compliance cases coming forward. So I hope that gives you some reassurance, though I admit this is not ideal.

Q28 Matthew Hancock: Mr Toon, earlier you said that one of the key points about compliance is its deterrent effect. Don't you think that if 27% of people who have a penalty put against them don't then have to pay the penalty, then that undermines the deterrence pretty substantially, Mr Toon?
Mike Eland: Donald can come in if he wants to, but what I'm saying is that we are actually following through on these cases. We just can't link them up.

Q29 Matthew Hancock: But you're unable to trace 27%.
Mike Eland: What it's saying there is we couldn't trace them as individual—

Q30 Chair: Can I just ask you this question? What percentage would you think is acceptable to HMRC?
Mike Eland: Obviously I would want to follow up 100% where we can get the money.

Q31 Chair: Okay. What's acceptable? Where are you aiming at?
Mike Eland: As I say, I think we're 90% now. I'd like to improve on that, clearly.

Q32 Chair: To what? Do you have a target around that?
Mike Eland: 95% or thereabouts. There are always going to be people who can't pay fines—and I would be surprised if this wasn't the case across the criminal justice system.

Q33 Chair: Okay, but 95% would be where you want to get to?
Mike Eland: I'd like to.
Chair: And we could hold you to that.

Q34 Dr Creasy: In the light of some of the Committee's questions and assuming that the tax gap in theory would remain around £42 billion each year, how challenging do you think a £7 billion target is, if there are perhaps other ways that you could be addressing some of the undertake, as it were? How challenging do you think the £7 billion target is?
Mike Eland: I do think it is quite challenging because what I think we have to remember is it's on top of what we have already achieved and built up. That doesn't flow in automatically.

Q35 Dr Creasy: Of course, but even if that's on top of what you've built up, that's still about £18 billion cumulatively and obviously we're looking at a £42 billion gap, so that's still a lot of money.
Mike Eland: Yes. Are you asking me really what I would see as an ideal reduction in the tax gap?
Dr Creasy: What target do you think would be a fair target?
Mike Eland: I think that the £7 billion is a challenging target because it does require us to effectively be collecting £18 billion a year as additional tax through a range of new activity that is starting in each year. This is not something where you're building up a revenue flow that continues into the next year. At the beginning of each year you go back to zero, so I think it is actually quite a challenging target.

Q36 Dr Creasy: Because looking at your previous targets, they stand rather in contrast to that, don't they?
Mike Eland: It is true that in that £7 billion we are looking to reflect what is in the Report and see that we are capturing a wider spread of revenue activity than just purely intervention yield.

Q37 Dr Creasy: Because one of the things that the Report also talks about is that there are wide variations in the workload, particularly of your Local Compliance teams. How confident are you about the practice of your Local Compliance teams in terms of being able to meet that more challenging target?
Mike Eland: I do have confidence in them.

Q38 Dr Creasy: Have you undertaken any evaluation of why there's that variety of workloads?
Mike Eland: We are in the process, at the moment, of introducing a case management system. That will give us much better management information that will enable us to make much better comparisons between the performance of different teams and we have also built an economic model that enables us to test what the results of different types of intervention are likely to be.

Q39 Chair: And when is that going to be in?
Mike Eland: The economic model is here already. It only works for Local Compliance at the moment. We're extending it to embrace other more specialist areas this year. The case flow system will be in, for most people, by the middle of this year and then there are some specialist groups that will follow on from that. When we have both of those I think we will be able to do much better testing that enables us to optimise our resource usage.

Q40 Dr Creasy: But obviously this target is for the 2010–11 range. You're talking about not having the data for—
Mike Eland: The target is over the next three to four years. We have to build up to an additional £7 billion a year by 2014.

Q41 Jackie Doyle-Price: I just want to come back to the issue of deterrence again, and if you look at page 29, paragraph 4.8 says that the Department can apply penalties of "up to 100% for deliberate understatement with concealment". If we look at Figure 9, which shows the distribution of penalties, we actually see that, by far, the biggest category is 0–10%, and approximately two-thirds of penalties lie beneath a third. Do you think you're really using your deterrent powers effectively, because penalties are effective deterrents to wilful fraud?
Mike Eland: Can I just explain that there are two penalty regimes? There's the old one and, because of most of the cases that were looked at in this Report, that's obviously the one that the NAO's rightly used. The way you get down to some of those lower penalties is that the old penalty regime, which is based

on legislation and published codes of practice and so on, allows quite significant discounts for co-operation during the investigation. You're getting a trade, if you like, between stimulating co-operation and the endgame of the penalty. It's rather like a judge discounting sentence if people make a guilty plea. We have had a review of powers over the last two to three years; we had quite a lot of legislation going through. The new penalty regime will set minimum levels and it will also specify things for different types of behaviour. If your behaviour is that you deliberately committed evasion and you concealed it—that's the worst category you can get into—then the minimum penalty will be 50% and the maximum will be 100%. Co-operation will only influence between the two of those.

Chair: Say that again.

Mike Eland: You cannot go below the minimum that is set, however much people co-operate.

Q42 Chair: So we won't have this figure of 14% getting no penalty. Everybody will have a penalty.

Mike Eland: People who fall into that band, yes.

Chair: Everybody will have a penalty.

Mike Eland: Everybody who is in the deliberate, and deliberate and concealed, categories. If you've been careless or you've made a simple error, and because the penalty regime applies across all behaviours, there will be instances where you can have a zero penalty, but not where you are engaged in deliberate evasion.

Q43 Chair: Is this new regime going to be tougher?

Mike Eland: There is a tougher minimum in it, yes.

Q44 Jackie Doyle-Price: What time does this kick in, because obviously some of these investigations go on for a number of years? How long will it be before we can actually see that reflected in these figures?

Mike Eland: The legislation specified that it is from the returns from April 2010, I think.

Marie-Claire Uhart: Yes. Periods from 2008 and it's returns from April 2009. For direct taxes we won't see it for a little longer, because it takes longer before we start to get returns and review them. We are already starting to see it for VAT penalties, but the numbers at the moment are really very low.

Q45 Jackie Doyle-Price: I just want a quick follow-up on that. You also say in paragraph 4.14 that "From 2011–12, the Department proposes to measure the cash collected from interventions which could create stronger incentives for investigators to collect payments." How do you see that improving the figures we discussed earlier?

Mike Eland: I'm sure they will improve the figures considerably, particularly when we have this information link so we can track it through. We're encouraging, wherever it's possible, that our investigators themselves get the money in, as part of the agreement. It's obviously better to get it upfront. Particularly where people are saying they're co-operating, we ask for payments on account. I think that will improve that, yes.

Q46 Ian Swales: It's worth reminding ourselves the tax gap figures are two years old now. Given the stories we've had of people reduction, systems chaos and increasing thresholds around this table, my guess is the figure is probably bigger now. I don't know if HMRC intends to reassess the tax gap. Do you believe it has changed significantly since it was last looked at?

Mike Eland: We will reassess it periodically. We publish an updated booklet every year, I think. I don't want to play with words, but the tax gap is very much a longer-term indicator of performance. It is influenced by economic factors, which you can iron out over a period. It's very useful to see that we're on the right course, but it is less useful as a year-on-year measure. Quite often there is a revision, because consumption data have been revised.

Q47 Chair: We heard earlier on from Stephen that it's going up year on year.

Mike Eland: That was the VAT, not the total tax.

Q48 Ian Swales: I'm a simple soul and I think that if you can spend £5 to get £6 in, as a taxpayer I'd quite like you to do that. One of the worries I have from listening—we've had a number of HMRC hearings—is this sense of the business case for what you actually do. You yourself have talked about headcount reductions. This is an organisation that gets an average of 18 times to one value for its expenditure. How can you justify making headcount reductions right now? Where's the sense in that?

Mike Eland: The headcount reductions are in other parts of the Department, under the Spending Review as it goes forward. Essentially during the Spending Review, we did look at the business case in precisely those terms. That £900 million to £7 billion was the result of that.

Q49 Ian Swales: Can I just come back to one specific, which is this issue of referrals? The Report says that you only actually take 20% of the cases that are referred to you, and you bounce back 80%. Perhaps not surprisingly the number of referrals are falling, which I guess, if I was somebody referring five cases to you and getting four back, I would probably be less enthusiastic about referring. What are you going to do about this? Paragraph 2.7 suggests that people are actually often not clear what to refer; they're not clear why things have been referred back. How are you going to deal with that?

Mike Eland: We have had a review in January. It's been implemented for this month. Do you want to add to that, Donald?

Donald Toon: Certainly. We have reviewed the system. We should correct one point, or update one point, which is that the referrals aren't falling; they've risen from the level that is shown in the Report and, at present, have stabilised at around 400 cases per month. The key point to say here is that what we intend to do is to relaunch the system with new criteria for referral, with effect from April. What that's trying to do is really to be rather more specific about cases that are more likely to require take-up by some form of specialised investigation, whether that be criminal or civil investigation. It's important to bear in mind as well that we introduced the process in 2007, and one of the factors then was to get as many cases referred as we could. We set very low criteria, because that helped build our central intelligence picture of just the structure of potential fraud or suspicious fraud in the tax system.

Q50 Ian Swales: Have you changed your thresholds recently in terms of what cases you're prepared to take on, your expected yield? Have you changed that?
Donald Toon: We have not changed the threshold that goes for specialised investigation. It's important to say that we do not simply work on the basis of the yield threshold. There have to be a number of other factors as well. That could be the type of fraud, the level of fraud that we're talking about and the complexity of the fraud. Also it could be to do with whether there are links to areas where we believe compliance is particularly poor, so where there is an additional requirement to investigate in some areas. We have not changed those criteria; what we have done is tighten up those criteria.

Q51 Ian Swales: For deterrent reasons? So you would want to have a headline case to discourage others in certain cases?
Donald Toon: In certain areas, yes.

Q52 Mrs McGuire: One of the issues that this Committee has to wrestle with, when dealing with organisations, or Departments such as your own and DWP, is this spectrum between fraud and error—in this case between carelessness and fraud. How do you make that assessment and at which point in the process do you make the assessment that someone has been careless, such as putting in the wrong figures, or is trying to commit deliberate fraud? Where in the process is that decision made?
Mike Eland: We obviously do profile in our risk assessment for people who might have a propensity for fraud, people who might fit a profile. We try to separate it out at that point, but the main separation out will come during the actual investigation. There you would be looking for either proof that somebody actually intended to evade the tax or conceal something—you find a source of income that was not declared or something like that. Occasionally people will say that that is as a result of a mistake, and we will have to probe that to test whether it was really plausible that that could have been a mistake and was not actually deliberate fraud.

Q53 Chair: The trouble is that, by that time, you've sifted them. They come in; you put 20% to—
Mike Eland: Yes, but if there is something we have sifted into the error area and the person dealing with that case suspects fraud, they have to go back to the referral process.

Q54 Mrs McGuire: Can I just test a little bit on your profiling or sampling? Could you give us an indication of your profiling? Are there particular areas? Does it matter whether or not the person has an intermediary or an accountant? How do you do it?
Mike Eland: I obviously do not want to go into much about this in an open session.
Mrs McGuire: I do not want you to reveal state secrets here.
Chair: MPs are top of the list!
Mike Eland: We will look at the compliance history of particular sectors. We will look at whether people fit an expected level of return. If people are working in a particular sector where people of that size of company and so on are producing a certain level of return and profit and everything, and somebody is out of line, then that raises a question in your mind. We are looking for patterns and we are looking for exceptions, when we go through this. If you don't mind, I wouldn't want to go into anymore detail.

Q55 Mrs McGuire: No; as I say, I'm not asking you to reveal state secrets. Could I just finally, Margaret, hark back to something Ian raised, which is the issue of staffing? Part of the press reaction to the publication of this Report was a comment by a tax partner at UHY Hacker Young, who said, "It's astonishing just how low morale has sunk at HMRC. We deal with HMRC on a daily basis and it's obvious to us just how much disillusionment there is in the organisation." I would have to say to you that I don't think this would just be the opinion of Mr Maugham from this particular company and I would suggest that if you tested the profession around the country, you would find that you would get a similar reaction to the engagement with HMRC. Do you think that's a fair comment or is it just part of a network view of HMRC? Do you think there are major issues about how you engage with those with whom it's probably helpful on occasions to work?
Mike Eland: I go out every month on visits to local offices and sit down and talk with groups of staff. Obviously I know from those visits that there is a lot of dissatisfaction with particular things that are happening to them, and concerns. I also know from those visits that I am very lucky within my area in having a lot of people who have a great belief in what they are doing and are very committed to delivering it. Their frustration is sometimes with things that they regard as bureaucratic processes, and I have to look at those and see whether they are genuinely bureaucratic processes or whether actually they are management systems that are constraining some of their activity in ways that are beneficial. We have a history in this area of a lot of people who are good individual investigators, but we have to use them as a unit, as a team, to deliver things and that sometimes needs some constraint.

Q56 Mrs McGuire: Given the yield that your members of staff are delivering for the taxpayer, I think it is disappointing that, as you have admitted before this Committee today, you do have a morale issue.
Mike Eland: I think I would be misleading the Committee otherwise, because we publish our staff survey results, and people can see from them that we have an issue. It is one I take extremely seriously as a long-standing member of the Department. I do spend a lot of time talking to groups of staff, understanding

the issues and putting this over. We have to do something about it.

Q57 Joseph Johnson: Are you telling the Committee, or are you announcing for the first time, that you're reviewing the system of referral or is this something you'd decided some time ago?
Donald Toon: The review itself was actually complete; it was done during, I think, the audit itself, if I remember rightly.
Marie-Claire Uhart: It was last summer.
Donald Toon: Last summer, yes.

Q58 Joseph Johnson: Last summer? The review of the referral system is not mentioned in the Report as such, so it has the appearance of being new, the review of the referral system.
Jane Wheeler: I think we're talking about the decision to relaunch the system rather than the actual review that was done.

Q59 Joseph Johnson: Is that a new announcement that you're making today, the relaunch of the referral system?
Donald Toon: We're not making it as an announcement.
Mike Eland: We expressed our intent to relaunch the system back in June. Is that what you're saying, Donald?
Donald Toon: We did a review of the system. We have chosen to implement that review. It's very much an internal process so it's not necessarily an external announcement at all. We've chosen to map out by essentially relaunching the system, resetting the system, any way you could use it. I wouldn't dignify it by saying this is a major announcement. It is simply updating the way in which we operate the referral system. We call it a 'relaunch' as a term of convenience.

Q60 Joseph Johnson: What's the desired outcome, and what's the timeframe for achieving it?
Donald Toon: The desired outcome is really, as I said before: to more carefully target the referrals to increase the likelihood that those referrals will be taken on for specialised investigation.

Q61 Ian Swales: Very quickly as to the morale, I also spent Friday morning talking to groups of staff in an HMRC office. I think the biggest issue in all of this, from those professional people, is actually the frustration at not being able to do their job properly, seeing the amounts of tax that should be collected that are not being collected. This is why I have this concern that the changes that are taking place in HMRC appear to be happening without regard, from the information I receive anyway, without sufficient regard to the tax that's actually being collected whilst all these systems are changing and offices are changing, to the point where the trail is being lost in terms of correspondence. People are being asked to process returns that they know to be wrong and this sort of thing. It's bound to be harming morale, and there's been a real failure of leadership, frankly, in the last two or three years. I want to get confident, through these hearings we have, that it's being addressed. This is the third or fourth one where we've had the same feeling from the National Audit Office Report.
Mike Eland: As I say, it is something I do take particularly seriously.

Q62 Chair: When's your next staff survey?
Mike Eland: It'll be at the end of 2011.
Chair: Because that might be the best indicator.

Q63 Ian Swales: If I could just add a PS: in three hours not one person mentioned salaries or pensions. There was nothing about personal conditions; it was all about pride in HMRC and distress at what they see happening.
Mike Eland: I do genuinely believe that the plans that we are developing going forward, the shift into tackling evasion, the additional resources that are going in to that, the investment we've made in the new systems—people are very excited by that.

Q64 Chair: When we get the staff survey at the end of 2011, when will NAO be able to look it?
Mike Eland: It will be published.
Chair: When?
Mike Eland: I think it's December.
Chair: December 2011?
Mike Eland: There is a timescale for it.
Chair: At that point, we can test it.

Q65 Dr Creasy: You are also going through a process of change, as every Government Department is. What's your assessment of the impact of any possible staffing changes on that morale issue? What are staff telling you on the ground?
Mike Eland: We've been through quite a lot of changes in the last five years, and they have seen promotion prospects and things constrained, and career prospects constrained. As we go forward and we're expanding and filling vacancies and so on, I would hope that they will see that actually opportunities are opening up for them again in this area.
Dr Creasy: You're not expecting any staff losses.
Mike Eland: There are some real pluses in this for our staff.

Q66 Dr Creasy: You are going to see changes. People are going to be losing their jobs.
Mike Eland: There are going to be changes in jobs and people will find some of those uncomfortable. However, if you take the overall picture in this area of Enforcement and Compliance, people should see their prospects improving and opportunities improving. We're responding to a desire, as Mr Swales said, to tackle some of the revenue they see out there. They are going to have more opportunity to have—

Q67 Dr Creasy: Do you see that having a possible impact though on your ability to meet that target? If your staff are unhappy and they're not motivated and they're now going through a process of change, that's quite worrying.

Mike Eland: What I'm saying is that some of those things reflect where they've been in the past. I am saying that I think a lot of what we're planning to do this year and for the next three years, as we're expanding this area, is going to be motivating. It will help counter some of that problem.

Q68 Nick Smith: Mr Eland, as the Chair said earlier, I think fair dos really to you and your team. Overall, there's been a significant improvement in performance over the years, notwithstanding people's genuine concern about what's happening to staff. Something's puzzling me though. Just returning to targets, your directorates have, on the whole, exceeded the targets by some margin in the last three years. What do you do about setting more challenging targets for the future? I just don't get why there's such a difference between targets and performance in recent years. Please explain that to us. Secondly, I want to talk about enforcement, but why don't you do that first?
Mike Eland: This year, 2010, we have set more demanding targets. If you look at them in this report, they do show quite a significant increase. We are on course with Local Compliance. If we look at the Figure 3 on page 15, we're on course to meet that 2010–11 target, if you take both mixes of revenue that are referred to there. Specialist Investigations are on course to exceed them. Given the targets were set higher this year than they have been for the previous years, I think you are seeing a stretch effect beginning to take place, as we set more demanding targets. We try to set the targets in relation to capability. As we are improving our capability, so the target should increase.

Q69 Nick Smith: My second point is about what works. How can you tell whether spending more on civil investigation is better value for money than, say, spending on criminal investigations, campaigns to improve compliance or raising awareness, particularly raising awareness, because that can be really costly? How good are you at measuring what works?
Mike Eland: We are obviously better in some areas than others. Where it is a good tangible output like a settlement of a case or an investigation, you can compare different cost/yield ratios, as we have here. Where there are more intangible things, like deterrent effects of criminal investigation, it is more difficult to establish, in a way that you can build into targets, what that is. We have done quite a lot of research, along with a number of other organisations internationally, on deterrent effects. We're beginning to estimate that more; we can use it in resource modelling, which I was talking about earlier. When we're looking at whether we should put in more criminal investigators or more civil investigators, we will build in a deterrence impact that we calculate statistically in order to see that we're not underplaying that area.

Q70 Chair: There are two more areas. I'll just do one, which is that, on your targeted stuff, if you look at the time it takes you to decide whether to take a case, only 10% make your target of doing it within 10 days. If you look at how long it is to take disclosure, 180 days; nearly 80% went over 180 days. If you look at the average time from beginning to end, it varies massively and there's a potential saving to HMRC of between £30 million and £60 million. That's the not-good-enough bit of the Report. Perhaps you can tell us a little bit about why, what you're going to do and by when.
Mike Eland: We do want to improve the speed of investigations. When we have the management information from the system I'm talking about introducing this year, and we can do comparisons between different units and different caseworkers and so on in a much more scientific way than we can now, that will enable us to address some of these things. I would make two points: firstly, I do not think we can read too much into some of the variations. There are quite a lot of variations between different types of cases. Marie-Claire can expand on this. Some are very complex; some are quick and easy to deal with. The other point I think I should make is that the savings that NAO calculates assume that actually all the reduction in elapsed time is reduction in caseworkers' time. That elapsed time in the Report is the time between the opening of a case and the closing of the case. It is not the amount of time spent by the investigator on it. While there is downtime, investigators are dealing with other cases.

Q71 Chair: Okay. So what would your figure be?
Mike Eland: I do not think we have a figure, because we do not have enough evidence base at the moment to be able to set them, but we will once we've got—
Chair: But you agreed this figure?
Mike Eland: I entirely accept that the more cases we can do by being more efficient and having higher throughput, the more revenue we will bring in. I am just saying that that is the most optimistic that you could get out of it.

Q72 Chair: It may seem small beer to you, but when we look at things like school sport, this could fund quite a lot of school sport.
Mike Eland: Of course. We are very committed to improving our performance and improving the revenue total.

Q73 Stephen Barclay: Just following on, to suggest that we shouldn't read too much into variations when 75% of cases take longer than your own internal target, suggests that's more than just a bit of variation; that's the clear majority of cases taking more than your target. I was actually more struck by the one-third of specialist investigations that took an average of six years. I was just wondering what's the longest case you've got, both on the specialist side and on the Compliance side.
Marie-Claire Uhart: I don't have the information about the oldest case. I can obviously find that out and give it to you.
Stephen Barclay: Perhaps we can have a note. It's just I would have thought that one would be uppermost in people's minds, because they were trying to clear it.
Marie-Claire Uhart: I can give you some idea of why we would expect to see quite a variation in this kind

of case. There are a number of factors and one of them would be immense differences in complexity of the cases. You can have a case that is a serious fraud case, where all that's wrong is that somebody has hidden some money offshore. It's just the interest offshore that is the fraud. You could have another case, almost identical in terms of the amount, where what they've done is set up a complex network of offshore companies and so forth to hide the money. The length of time taken to deal with each of those cases could be hugely different.

Q74 Stephen Barclay: I would fully accept that, if you actually knew which were your longest ones and why those outliers were there. Given that one third of cases takes an average of six years, it suggests we're talking about more than one or two that take some time. The Chair has pursued that; I wanted to come on to something else, if I may. Could I just clarify—on the £900 million initiative over the next five years, what percentage of that money is going on investigating individuals and what percentage is going on investigating companies?
Mike Eland: We don't have that breakdown. We're in the middle of a planning process, where we're looking at precisely how we do break down that.

Q75 Stephen Barclay: Sure, but you've set out your 2011 business plan so, within the 2011 business plan where you talk about spending this money, I assume in order to get the money from the Treasury you have put in a case to justify £900 million. Can you give the Committee even a ballpark sense of what proportion is going on individuals and what proportion is going on corporates?
Mike Eland: If you take individuals as being individuals purely with their own personal tax affairs rather than individuals as small businesses, then actually most of it is going to go in the business area, although we will be actually strengthening our examination of people who are affected by the 50% tax rate, so the top end of individual earners, because obviously that's an increased risk.

Q76 Stephen Barclay: Just to clarify then, you are saying the majority—more than half of the money you would expect of the £900 million—would go into investigations on the corporate side?
Mike Eland: I think that's right.
Donald Toon: That would be right. That relates to individuals running small businesses and individual businesses.

Q77 Chair: Are those the sort of Vodafones?
Mike Eland: It's everybody from top to bottom.

Q78 Stephen Barclay: Can we pin it down a bit more then? The reason I'm trying to fuss on this is that one of the key things we're looking at is how you get the best bang for the buck, how you spend it. My understanding of corporation tax, the amount that goes missing, was around £7 billion, on your estimate. What I'm trying to get to is, if that's the amount you're estimating is going missing—around £7 billion—how much of the £900 million are you earmarking of this extra money for going after that £7 billion?
Mike Eland: The £900 million is to bring in the whole of the £7 billion.
Stephen Barclay: No, we're talking about a different £7 billion. The £7 billion you're talking about is including going after individuals, going after small businesses.
Mike Eland: No, it's not just small businesses. Let me just correct you.
Stephen Barclay: Unless I'm missing the point, my understanding is that the Department's view of the amount of corporation tax that goes missing is in the ballpark figure of £7 billion. Perhaps you could give us the figure. In going after those large corporations, how much of the new money you've secured will be spent on those investigations?
Mike Eland: As I say, this is precisely what we're doing at the moment, and we'll be publishing plans that will show you that. We're looking at this at the moment. What I can say is that we are looking at it from a risk point of view and we are trying to put money where we think the greatest risks are.
Stephen Barclay: That was the whole purpose of the question.
Mike Eland: We're looking at the corporate sector from top to bottom.

Q79 Stephen Barclay: I would have thought that, prior to writing a business plan, we would have an idea as to, just roughly, where the money was going to be allocated. Can I come onto something else then, if I may, just in terms of debt collection agencies? You ran a pilot on that which concluded last year. What's the yield/cost ratio in terms of the debt recovery agencies that you are using at the moment?
Mike Eland: I'm sorry; I just don't have the number in my head at the moment. I can very easily provide it to you.

Q80 Stephen Barclay: That would be great, thank you. Do we have a figure for how much money in total has been passed over to debt recovery agencies and how much has been collected by them?
Mike Eland: No, again, I just don't have those numbers, but I'll let you have a note of them.

Q81 Stephen Barclay: What's the maximum commission debt collection agencies are able to charge on your existing contracts?
Mike Eland: That again I'll have to check up. Let me just say they are paid only for recovery.
Stephen Barclay: Yes, I would hope they weren't paid for not recovering things.
Mike Eland: They're not.

Q82 Stephen Barclay: The clue is in the name, surely—debt recovery. Could I just then ask: how much debt that you've identified that you could collect have you decided not to collect?
Mike Eland: We do write off an amount each year. That comes about either because it is not economic to collect it or because the companies have gone insolvent and it's irrecoverable.

Stephen Barclay: If we look at it on the grounds of value for money or efficiency—
Mike Eland: By and large, we believe we collect 90% of the debt that is owed.

Q83 Stephen Barclay: I'm trying to understand this: when I was looking at the 2008–09 figures, under "Other remissions" it said £386 million. Then in 2009–10 that had gone up to £647 million. Could you just clarify what those figures are driving at and why the figure has moved in that way?
Mike Eland: That is the amount of tax where we are saying it is either uneconomic to collect it or it is irrecoverable because of insolvencies of the companies. I'm sorry if I'm not answering your question. Is that what you're looking for?

Q84 Stephen Barclay: It just seems to be quite a big change in a year. It comes to the heart of all the points that I think other colleagues were making, which relate to your ability to evaluate where best to spend your money. The Report, in paragraph 16.1, says "Enforcement and Compliance is not yet able to determine the most cost-effective use of resources," which I think goes to the nub of the questions that are being put. I, as a layperson, then look into your accounts for 2009, and see a jump from £386 million to £647 million, in terms of money you're not bothering to go after. There may well be a very good reason for that but, as the boss of the organisation, I'm asking for your clarity.
Mike Eland: Let me let you have a note on that, but obviously the amount that is written off will increase during recessions because insolvency will increase during recessions. It is not that we're not bothering to go after it. We are concentrating our effort on the areas of greatest return. We collect 90% of our debt, which is a good record, and we've reduced the debt balance over that period. We've also operated Time To Pay arrangements, which have helped a lot of small businesses. We've tried, through the recession, to get the right balance between debt recovery, helping people who have got temporary difficulties with Time To Pay, and recognising that there will be some increased write-offs as well.

Q85 Mr Bacon: One very quick question, prompted by something Mr Barclay has said, just as I came back in, and I must apologise for having to be absent from the Committee. Concerning corporation tax and the risks, one risk would seem to be not making sure you take the advice available within HMRC, from your own specialists who are paid by the public purse to give you advice. Can you tell the Committee if you are certain that HMRC always makes sure that the advice of your own specialists in controlled foreign corporation tax law is always taken into account in reaching settlements?
Mike Eland: This is not part of my own particular area, but—
Mr Bacon: You are Director General for Compliance.
Mike Eland: If you just let me finish, I am satisfied that all the legal and technical considerations were properly taken into account in looking at decisions under the litigation strategy of whether to proceed or not.
Mr Bacon: That wasn't, with respect, my question.
Mike Eland: You were asking whether we take into account the specialist advice that is available.
Mr Bacon: You employ specialists yourself, as HMRC. My question was: are you certain that HMRC always makes sure that the advice of your own specialists, on controlled foreign corporation tax law, is always taken into account by HMRC when reaching settlements or agreements?
Mike Eland: That is my understanding, yes, and my belief.
Chair: We're doing a further investigation on this. Austin, the very last question.

Q86 Austin Mitchell: There might be a couple. I see that the number of cases referred, you're getting more out of less, aren't you? In 2009–10, this is 2.5 on page 19, there was a reduction of 13% of cases referred up for dealing with. You got more out of the cases you did deal with. Why was that reduction?
Chair: We asked that, Austin, to be fair, right at the beginning.
Austin Mitchell: It says in the Report that this was due to disillusionment among caseworkers.
Mike Eland: Yes. The objectives we were set as a Department were both to make efficiency savings and to improve the revenue, and we tried to meet both of those, so those were the objectives that were set us.

Q87 Austin Mitchell: Do you know the rate of return on those cases that were referred back down again?
Mike Eland: I don't offhand, no, I'm afraid.
Austin Mitchell: We can assume they were all dealt with then.
Mike Eland: I can say they were all dealt with, yes.

Q88 Austin Mitchell: I must say, it looks like you're now trying to tighten up on a system that's been too lax for too long, because it took years for us to get an estimate of the tax gap out of HMRC. I've taken delegations over the years from organisations like Tax Justice and the Association for Accountancy and Business Affairs to the Revenue and to Ministers, saying, "What about the tax havens? What about these gaps? What about this method of avoidance? Why don't we tighten up on it?" They've all said, "Yeah, yeah, yeah", and nothing has happened. Then we had Dave Hartnett coming in telling us that he wants good relations with big companies and basically he trusts them: "These are splendid chaps and I'm sure they pay their tax," which certainly is not the case. Is it the case that, after years of being too lax to try to make us a Liechtenstein-on-sea—I have to use Liechtenstein, because all the other tax havens are actually on sea—to attract foreign business and capital, and not to scare off multinationals, you're now cracking down, at last?
Mike Eland: I would say that we have improved the tax take, as you've recognised in the Report, over the last few years, and we're looking to improve it further over the next three years. We will, in doing so, tackle all risks, whatever area they're in, whether the larger end or the smaller.

Chair: We are coming back to that specific issue on the back of an NAO Report in the future. May I thank you for your very open way in dealing with the Committee and say we do recognise that there is some genuine progress here? We look forward to looking at this again, with further progress in the areas we have discussed today. Thank you very much indeed.

Written evidence from HM Revenue and Customs

QUESTIONS ASKED BY STEPHEN BARCLAY:

1. *A note on the cost yield ratio for the £900 million new investment being made to allow a comparison with the current 15:1 and 14:1 ratios of the specialist and local compliance teams. Also in respect of the £900 million investment the expected split in terms of how much of the £900 million will be spent pursuing (a) individuals (b) small firms and (c) large corporations (I appreciate the Department may not have specific commitments on these three areas but it must have working assumptions.)* (Q13)

Cost yield ratios for £900 million

HMRC is expected to produce just over £13 billion in intervention yield in 2010–11. The objective is to increase that by £7 billion extra revenues a year by 2014–15. The £917 million is the aggregate investment between 2011–12 and 2014–15. Since we will build up to the £7 billion in cumulative steps, we calculate the comparable aggregate revenue figure is £18 billion giving a return on investment of around 20:1 across HMRC. This figure includes the work of our Large Business and Criminal Investigation Directorates as well as deterrent impact.

Split of the £900 million investment funding

The investment is designed to tackle various areas of the tax gap. The biggest share of tax gap, around 50% of the total, is down to SMEs (turnover of up to £30 million). 25% is from large businesses and 12.5% each from individuals and losses from criminal attack.

Around 65% of the investment funding will be focussed on the mass market and tax evasion. This reflects the need to increase coverage of the 4.8 million customers in this sector. Mass market refers to small and medium size enterprises, most individuals and the hidden economy. We are looking for a return an investment of around £4 billion a year by 2014–15.

Around 5% will be focussed on large businesses and wealthy individuals. This builds on the existing one-to-one client relationship model in this sector that has contributed over half of the ongoing £13 billion intervention yield. The expected return is around £1 billion a year by 2014–15.

The remaining funding will be spent on a range of interventions designed to tackle organised crime and collect more debt.

2. *Confirmation as to the amount of outstanding debt owed by large corporations and a list of the 20 largest corporations and the money that is owed as HMRC understands it, and what this relates to. In particular, I want to understand the amount of money owed by large corporations and how much of the £900 million is being targeted in pursuing them.*

HMRC has a statutory duty of confidentiality as set out in section 18 of the Commissioners for Revenue and Customs Act 2005 and is therefore unable to provide the information relating to the "20 largest corporations" or confirm or deny whether they do have outstanding tax debts.

There is a proportion of the £900 million allocated to debt and this is covered in the answer to the question on the split of investment funding.

3. *The oldest five cases currently being pursued by (a) the specialist enforcement team and (b) the local compliance team, and an explanation as to what those cases relate to and how long they have been running from the first piece of work conducted by HMRC.* (Q73)

The cases are listed below. All Specialist Investigation (SI) cases were commenced under the pre-merger process for investigation of fraud (Hansard).

Hansard was replaced by the current Civil Investigation of Fraud (CIF) regime with effect from 1 September 2005. The few remaining Hansard cases are therefore now at least five years old. They are those proving most difficult to conclude. Hansard procedure has never been used by Local Compliance.

CIF (and previously Hansard) investigations normally take place after referral from elsewhere in HMRC. SI also identify cases direct. The date of the first piece of work conducted often pre-dates the start of an investigation under Hansard or CIF by several months. Our current SI database records the formal start of an investigation under either Hansard or CIF procedure and not the earlier date. We have used the formal start date of the Hansard or CIF process to identify the oldest cases. In CIF cases we have provided the date the original enquiry was opened. In Hansard cases we have provided the date SI first became involved in the enquiry.

While there have been some HMRC delays when investigating some of these old cases, this is a minor factor. The length of time taken to conclude them is predominately because it is a disputed process, often involving legal action.

The five oldest fraud investigation cases in SI and Local Compliance are as follows:

Specialist Investigations

All of the oldest civil fraud investigations are those started under Hansard. 60 Hansard cases remain open in total, representing around 11% of SI's Hansard and civil investigation of fraud cases combined. We expect to have concluded most of the Hansard cases by the end of September 2011.

Case 1:

Date case opened under "Hansard" procedure—29 June 2001

Date of original SI action—1 March 2001

Involves multiple UK and offshore companies. Civil action between the parties and their trustees as well as some HMRC and customer delay have lengthened the case. A negotiated conclusion has not proved possible. Assessments have been issued in respect of all outstanding duties. Any appeals will be taken immediately to the First Tier Tribunal. We expect the case to close by 30 September 2011 but that could be delayed if the customer appeals.

Case 2:

Date case opened under "Hansard" procedure—6 March 2002

Date of original SI action—12 September 2000

Customer has disclosed untaxed offshore investments. A complex case with a lack of co-operation by the customer and/or his appointed advisor. HMRC has used formal information powers to progress matters. There have been some HMRC delays. HMRC has taken steps to have the case heard by the First Tier Tribunal. A Directions Hearing was put in place for late 2010 but the customer and his advisor resisted. A meeting has been arranged which aims either to agree a route to settlement or the content of directions for the Tribunal Service to provide for a date for a substantive hearing. The case is not expected to close until June 2012.

Case 3:

Date case opened under "Hansard" procedure—10 June 2002

Date of original SI action—26 March 2002

Case involves individuals and corporates. Tax irregularities partially conceded on challenge but customer entered an avoidance scheme creating artificial losses to wipe out the liabilities, then entered two further avoidance schemes. The customer moved offshore during the enquiry, severely hampering negotiations. There have been a number of complaints and Freedom of Information requests. Case now proceeding to formal litigation. Anticipated closure date of 31 December 2011, although litigation in cases of this type can take several years.

Case 4:

Date case opened under "Hansard" procedure—12 June 2002

Date of original SI action—24 May 2002

Involves the estate of a deceased customer with offshore interests. Funds held by an offshore lawyer who refused to recognise the authority of the UK administrator. The administrator spent several years trying to resolve matters but then died. Legal action to replace the administrator has taken considerable time to resolve. Further court orders are needed to establish legal jurisdiction and until these issues are resolved there is no prospect of the case settling. HMRC can exert little influence in this process. We estimate conclusion during 2011–12 but this will depend on external legal proceedings.

Case 5:

Date case opened under "Hansard" procedure—28 October 2002

Date of original SI action—15 February 2002

Formal Tribunal proceedings are underway but successive hearings have been adjourned due to ill-health or unavailability of the customer. To try and break the impasse, HMRC issued a letter to the First Tier Tribunal in October 2010 asking if it would be prepared to accept written submissions rather than a full hearing. The Tribunal is putting this to the other party. Settlement anticipated by 31 May 2011.

Local Compliance

All the oldest civil fraud investigations are those started under the new CIF regime.

Case 1:

Date case opened under CIF procedure—20 September 2006

Date of original HMRC enquiry—16 January 2006

Customers are suspected of conducting a UK trade via offshore nominees. None have co-operated. HMRC has used formal information powers and exchange of information agreements to obtain further information. We expect to identify additional UK tax liabilities but early resolution by agreement remains unlikely so the case is expected to progress through the Tribunal system.

Case 2:

Date case opened under CIF procedure—5 October 2006

Date of original HMRC enquiry—6 January 2004

The customer made piecemeal disclosure of a variety of irregularities in their tax returns. HMRC had evidence to suggest the disclosures were materially incomplete. HMRC has issued assessments to finalise the case. The customer has the right to appeal to tribunal or seek an internal review. Case remains current until the dispute resolution process has taken its course or time to lodge an appeal expires.

Case 3:

Date case opened under CIF procedure—18 October 2006

Date of original HMRC enquiry—22 March 2006

An initial disclosure report was found to be defective and needed more investigation. The customer has since become insolvent and is likely to be made bankrupt. HMRC has issued formal decisions and assessments which are in line with prior agreements. The customer has the right to appeal. The case remains open until that right expires at the end of February 2011.

Case 4:

Date case opened under CIF procedure—26 October 2006

Date of original HMRC enquiry—14 March 2006

HMRC has evidence indicating offshore assets and unpaid taxes. The customer has denied any wrongdoing, providing uncorroborated explanations for both the source of the funds and the purpose to which they were put. If true, there would be no UK tax consequences. HMRC has used formal information powers and forensic examination of documents to substantiate the case. Likely to require a tribunal hearing although the agents have requested a meeting to discuss matters.

Case 5:

Date case opened under CIF procedure—15 December 2006

Date of original HMRC enquiry—27 March 2006

HMRC has evidence of untaxed extractions from company accounts. The directors did not co-operate, transferred the business to another company, and continued to operate. Both companies were later put into liquidation. HMRC used formal information powers to quantify the full extent of irregularities in both companies and were able to demonstrate fraudulent conduct. Based on that evidence the companies' tax liabilities were transferred to the directors/secretary personally. Appeals were lodged after which a formal independent case review upheld the assessments. The liabilities are now final. That has led to the personal bankruptcies of the individuals involved. Case remains open while HMRC assist the Trustee in Bankruptcy to identify the individuals' assets.

4. *What is the cost/yield ratio in terms of the amounts collected by debt collection agencies?* (Q79–81)

The DCA contract pricing structure is for a percentage commission to be paid in respect of the amount of debt collected. If no debt is recovered then no payments are made. The cost/yield ratio will be equivalent to the percentage commission rate charged and these rates are, as the Exchequer Secretary confirmed to the house in a written answer on 29 November 2010, commercially confidential and it would not be appropriate to disclose them. (Official report Col 643W 29/11/10)

What is the total amount of debt handed over to debt collection agencies and how much has been collected by them since it started?

Between 23 June 2009 and 11 January 2010 (2009–10) debts of £11,571,460 were referred to DCAs. As at 28 January 2011 £4,685,535 (40.5%) had already been paid or secured in a Time to Pay arrangement. Theses were debts being handled as part of the original pilot exercise.

On reactivation of the programme after the June budget announcement, between 27 July 2010 and 14 January 2011 (2010–11) debts of £214,380,733 have been referred. As at 28 January 2011 £57,125,995 (26.6%) has been paid or secured in a Time to Pay arrangement.

It is important to bear in mind that these are snapshot figures. Amounts of debt referred and recoveries secured change on an almost daily basis, sometimes by significant amounts.

What is the maximum amount of commission charged by Debt Collection Agencies?

As the Exchequer Secretary confirmed to the house in a written answer on 29 November 2010 (Official report Col 643W 29/11/10), the commission rates payable are commercially confidential and it would not be appropriate to disclose them.

I can however confirm that between 31 July 2009 and 31 January 2011 HMRC has paid a total of £2,462,769 to DCAs in respect of commission charges.

The committee may however be interested to know that HMRC began a formal competitive open procurement exercise in January 2011 for a new, cross government framework agreement for Debt Collection Agency services. The exercise was advertised in the Official Journal of the European Union (OJEU) on 28 January 2011 and can be viewed at:

http://ted.europa.eu/udl?uri=TED:NOTICE:30619–2011:TEXT:EN:HTML"

Is there a cap on commissions and if so at what level?

There has not been a cap on commissions for either the pilot or the 2010–11 programme but the requirement for the new framework agreement reserves the right to cap commission for particular packages or individual debts.

5. *I'm trying to understand this: when I was looking at the 2008–09 figures, under "Other remissions" it said £386 million. Then in 2009–10 that had gone up to £647 million. Could you just clarify what those figures are driving at and why the figure has moved in that way?* (Q 83)

The HMRC Trust Statement reports Revenue Losses figures in Note 8.2; losses are categorised as either remissions or write-offs. Remissions are debts capable of recovery but HMRC has decided not to pursue the liability, for example, on the grounds of value for money or official error. Write-offs are debts that are considered to be irrecoverable because there is no practical means for pursuing the liability.

The 2009–10 Trust Statement reported a remissions total of £647 million, an increase from the £386 million reported for 2008–09. The increase of £261 million between 2008–09 and 2009–10 was mainly due to a bulk remission of £133 million in respect of 162,293 tax credit overpayments. This related to aged debts that were considered irrecoverable and not cost effective to pursue. The remainder of the increase was made up of general increases in remissions across all taxes.

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