



House of Commons  
Committee of Public Accounts

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**Improving tax  
collection**

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**Fiftieth Report of Session 2014–15**

*Report, together with formal minutes relating  
to the report*

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## Committee of Public Accounts

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## Summary

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We have made taxation a key area of our focus during this Parliament. We have published 20 reports on taxation and made over 100 recommendations to HM Revenue and Customs (HMRC) and HM Treasury aimed at improving HMRC's performance and strengthening confidence in the tax system. We have influenced the debate about multinational companies paying the appropriate amount of tax due, based on their transactions conducted within the UK; exposed serious problems with how the tax planning industry pushes aggressive tax avoidance schemes to businesses and wealthy individuals; helped to reform how HMRC tackles marketed tax avoidance schemes and settles tax disputes with large corporates; and challenged HMRC to provide a better and more even-handed service to customers. We welcome the action that HMRC has taken in response to our recommendations and the progress that has been made. But much remains to be done; for example, HMRC must urgently transform its currently unacceptable levels of customer service. We welcome the lead the UK Government has taken in this area on the international stage and call on the next government to continue this work and undertake to tackle both the industry and culture that surrounds and supports tax evasion and aggressive avoidance.



# Introduction

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HMRC administers the tax system and is responsible for putting tax rules into practice. Since 2010, HMRC's primary focus has been to increase the collection of tax revenues, while at the same time reducing the costs of collecting tax and providing a better service to customers. HMRC interacts with over 45 million people and almost 5 million businesses and collects around £500 billion of tax each year. It is important that people have confidence in the way that HMRC works and that it administers the tax system fairly while promoting a culture of compliance. This report draws out some of the major issues we have identified regarding the administration of the tax system and recommends further actions to address the areas of our greatest concern. We also annex to this report an account of the international conference on taxation we held in October 2014, which helped to reinforce and clarify our conclusions on these issues during the final session of the Parliament.

## Conclusions and Recommendations

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1. **The complexity of tax law and the constraints on HMRC's resources mean that it is fighting an uphill battle against those who are determined to cheat the tax system.** During this Parliament, we have repeatedly challenged HMRC to improve its performance. In particular, we have pushed HMRC to be more robust in addressing tax avoidance by multi-national companies, tackle the promoters and users of tax avoidance schemes, improve customer service, and be more even-handed in its treatment of taxpayers. HMRC has accepted over 80% of our recommendations and has made some significant improvements to its business. We note that HMRC has continued to reduce its headcount, which fell by 24,600 between 2008 and 2014. To address the deficit in the public finances, it is critically important that HMRC collects as much of the tax revenue that is due as is possible. Investment in HMRC more than pays for itself, with a minimum return of £10 for every £1 invested in HMRC staffing. Its resources must also reflect the scale of the challenge it faces in tackling a vast and sophisticated tax planning industry which supports aggressive tax avoidance by wealthy people and large companies.

**Recommendation:** *HMRC could collect more of the tax that is due if it had more resources devoted to this work and it should be assertive about making this case to HM Treasury and Parliament. It should set out how much additional tax it could collect if it was granted more funding to build its capability in the most critical areas.*

2. **We remain concerned that some multi-national companies who transact business in the UK are not paying the appropriate amount of tax.** The evidence we heard from Google, Starbucks, Amazon, Shire and the large accountancy firms showed that the practice of creating artificial structures and transactions to exploit international tax boundaries and so avoid tax in the UK is widespread. Designing ways for multi-

national companies to avoid tax is a lucrative business and it is clear that the voluntary code of conduct for tax advisors is not working in all cases. We note that some of the companies which avoid UK tax and those that provide advice on how to do so continue to benefit from large public sector contracts. Work is underway to reach international agreement on changes to tax rules and to improve the exchange of information and transparency of reporting. While we expect the Organisation for Economic Co-operation and Development (OECD)'s work in this area to have a positive impact, it will take some time. We expect HMRC to take a much more proactive approach to challenging and tackling artificial tax arrangements.

**Recommendation:** *HMRC and government must set out how they will tackle tax avoidance by multi-national companies more robustly, rather than waiting for the OECD's work to bear fruit. This should include introducing new offences to penalise those involved in advising or helping companies and individuals avoid or evade tax.*

3. **We are concerned that HMRC's relationship with large accountancy firms is too cosy.** In our February 2015 report on the role of large accountancy firms we drew attention to the need for HMRC to take a more active role in challenging the advice given by large firms to their multinational clients. In its response, published on 19 March, HMRC disagreed with our recommendation for it to challenge tax advice, citing only what it does to challenge non-compliance by the multinationals themselves. We also recommended the introduction of a new code of conduct for tax advisers and consultation on how it could be best implemented. The Department also disagreed with this recommendation, despite our assertion that existing codes of conduct are simply not preventing firms from promoting tax avoidance schemes. The Department's response to our February report is out of kilter with wider policy to clamp down on aggressive tax avoidance and is not in taxpayers' best interest. We urge the Department to reconsider its response.
4. **For as long as the United Kingdom has such a complex tax code, opportunities for aggressive tax avoidance and evasion will continue to be exploited.** This Government came into office committed to reducing tax reliefs but in practice the number of reliefs has increased by almost 100 so that, according to the Office for Tax Simplification, we now have 1,140 tax reliefs. Even the most ethically-based reliefs like Gift Aid tax relief can be exploited to avoid tax by those determined to cheat the system. We have reported separately on tax reliefs and made recommendations for improved management and accountability, but the fact we have so many inevitably impacts on the efficiency and effectiveness of HMRC.

**Recommendation:** *HMRC and HM Treasury should renew their efforts to review all tax reliefs and radically reduce the number in the tax code.*

5. **There are not enough prosecutions for tax evasion to act as an effective deterrent to those who break the law.** HMRC clearly favours bringing in revenue quickly over prosecutions—which it told us can take many years to complete—but we are not

convinced that they have struck the right balance between prosecuting tax evaders and allowing them to settle their affairs. The tax system relies on people following the rules, so HMRC needs to show that it comes down hard on tax cheats and change the perception that it is far too tolerant of those who break the law by hiding their income. HMRC must work within inter-governmental agreements such as the Liechtenstein Disclosure Facility. However, we are concerned that the current system still causes the odds to be stacked in favour of tax evaders using offshore accounts when the worse that will happen if they are caught is that they will pay the tax they owe and a fine. HMRC told us that it had increased the number of prosecutions overall, but these are for a wide range of tax offences. We are not persuaded that HMRC and the Crown Prosecution Service are doing enough to prosecute serious tax evasion cases.

**Recommendation:** *HMRC should gather evidence to establish the effectiveness of prosecutions in deterring tax evasion by wealthy individuals. HMRC should work with the Crown Prosecution Service to significantly increase the number of prosecutions.*

6. **We welcome new powers obtained by HMRC to tackle marketed tax avoidance, but the number of unresolved cases is still a major concern.** When we reported in 2013, HMRC appeared to be on the back foot in tackling marketed tax avoidance as its approach of challenging the users of tax avoidance schemes after the act made it too easy for the promoters and users of such schemes to benefit from them. In response to our recommendations, HMRC has established a new directorate to tackle this problem and it has asked for and received new powers which should allow it to disrupt the behaviour of promoters and serial tax avoiders. It is too early to see an impact from these new measures. Meanwhile, HMRC has identified a further 24,000 unresolved cases involving marketed tax avoidance since 2012. Its best estimate is that more than 65,000 cases remain unresolved.

**Recommendation:** *HMRC should set a timetable and a trajectory for bringing down the number of open cases that relate to marketed tax avoidance schemes. HMRC should also consider where else in its business it could strengthen its compliance approach by applying the same principles it has used to address marketed avoidance schemes.*

7. **Our evidence shows that some HMRC customers receive an unacceptable quality of service.** HMRC accepts that its recent customer service performance has not been good enough. It has not met its own targets and it forecasts that it will not be able to answer over a fifth of phone calls from customers this year. HMRC's customer charter commits it to provide an even-handed service, but only 63% of individuals and small businesses say that they think HMRC acts fairly, compared to 87% of large businesses. HMRC accepts that small businesses who seek to make contact with HMRC too often receive a service that is not good enough. It told us it was aiming to provide a better and more personalised service for small businesses and to offer more ways for customers to provide and obtain information electronically.

***Recommendation: HMRC should aspire to provide a service on a par with good practice in the private sector to all its customers, and should set out how and when it will achieve this.***

- 8. We are deeply disappointed by HMRC's handling of whistleblowers. We consider that HMRC's use of powers reserved for tackling serious criminals against Mr Osita Mba was indefensible. HMRC told us that it had changed how it deals with whistleblowers and that it now provides information to its audit and risk committee who can use this to challenge how HMRC handles whistleblowers.**

***Recommendation: HMRC should tell us when it makes use of the powers granted to it under the Regulation of Investigatory Powers Act against whistleblowers from within HMRC. It should also provide us with the information on whistleblowing that its audit and risk committee receives so that we can gain assurance over the appropriateness of HMRC's approach to managing whistleblowers.***

# 1 HMRC's overall response to our recommendations in this Parliament

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1. Since 2010 we have published 20 reports on issues of taxation and taken evidence from a range of witnesses. On the basis of a report from the Comptroller and Auditor General we took evidence from HM Revenue & Customs (HMRC) on how it has responded to the recommendations we have made in this Parliament.<sup>1</sup>

2. We have made around 100 recommendations to HMRC since June 2010, recommending that HMRC make improvements in areas such as: addressing tax avoidance by multi-national companies; tackling the promoters and users of tax avoidance schemes; settling large tax disputes; the administration of personal tax; and customer service.<sup>2</sup> HMRC has responded positively to many of our concerns.<sup>3</sup> It has accepted over 80% of our recommendations and has completed the implementation of more than two thirds of those accepted.<sup>4</sup> There remains, however, much more for HMRC to do.

3. We have asked HMRC on a number of occasions whether it has the resources it requires to address fully our recommendations. Although HMRC has reduced its headcount from 86,000 in 2007-08<sup>5</sup> to 61,400 at 31 March 2014<sup>6</sup> it has maintained that it has the right number of staff to tackle tax avoidance.<sup>7</sup> In our report on the role of large accountancy firms in tax avoidance we concluded that HMRC was not able to defend the public interest effectively when its resources were more limited than those of the big four firms who employed almost 9,000 people as part of their UK tax practice. Providing tax services to companies and wealthy individuals was worth around £2 billion for the four large accountancy firms. We noted that HMRC had 65 transfer pricing specialists compared to some 250 in the four firms.<sup>8</sup> HMRC told us that the number of transfer pricing specialists it employs has now increased to almost 80.<sup>9</sup> HMRC's response to our concerns that the industry of accountants, lawyers and bankers who advise people on how to avoid tax is much better resourced than HMRC has been to note that it has extremely good tax experts.<sup>10</sup> In 2012 HMRC told us that it would expect a 1:10 ratio between spend on

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1 [C&AG's Report, \*Increasing the effectiveness of tax collection: a stocktake of progress since 2010\*, Session 2014-15, HC 1029, 6 February 2015, hereafter referred to as 'Increasing the effectiveness of tax collection'](#)

2 [C&AG's Report, \*Increasing the effectiveness of tax collection\*, Figure 1](#)

3 [C&AG's Report, \*Increasing the effectiveness of tax collection\*, paras 7-8](#)

4 [C&AG's Report, \*Increasing the effectiveness of tax collection\*, Figure 1](#)

5 [C&AG's Report, \*HM Revenue & Customs' transformation programme\*, Session 2007-08, HC 930, 18 July 2008, Para 1.5](#)

6 [C&AG's Report, \*HM Revenue and Customs Accounts 2013-14\*, Session 2014-15, HC 19, 3 July 2014, para 1.8](#)

7 [Committee of Public Accounts, \*HMRC's progress in improving tax compliance and preventing tax avoidance\*, Eighteenth Report of Session 2014-15, HC 458, 18 November 2014, para 16](#)

8 [Committee of Public Accounts, \*Tax avoidance: the role of the large accountancy firms\*, Forty-fourth Report of Session 2012-13, HC 870, 26 April 2012, para 3, hereafter referred to as 'Role of the large accountancy firms'](#)

9 [Qq 139-143](#)

10 [Q 137](#)

additional staff and the compliance yield they would return, and that in the first year of bringing in 1,000 new staff the ratio had been around 1:11.<sup>11</sup>

## 2 Tax avoidance

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4. We held evidence sessions with representatives from Amazon, Google and Starbucks to investigate why some multi-national companies pay little corporation tax despite doing a large amount of business in the UK. We found that multinational companies were able to exploit national and international tax rules to minimise corporation tax on the economic activity they conduct in the UK so that they did not pay their fair share, giving them an unfair advantage over British businesses.<sup>12</sup> In our report on Google we noted that the big accountancy firms sell tax advice to multinationals that involve constructing artificial tax arrangements that serve only to help them avoid UK taxes. We concluded that HMRC had to work with complex and out-of-date UK and international tax laws, which are too easy for businesses to exploit, but that HMRC had not been sufficiently challenging of the manifestly artificial tax arrangements of multinationals.

5. Following the publication of documents that suggested PriceWaterhouseCoopers (PwC) had promoted complex tax avoidance schemes to numerous clients we took evidence from PwC and Shire Pharmaceuticals, one of the firms on which media attention had focussed. We concluded that the tax arrangements PwC had promoted in Luxembourg had borne all the characteristics of a mass-marketed tax avoidance scheme and that earlier evidence from PwC asserting that they were not in the business of selling such schemes had been misleading.<sup>13</sup> HMRC told us that PwC, as a firm of Chartered Accountants, was subject to the Institute of Chartered Accountants in England and Wales' code of ethics and a code of professional conduct in relation to tax which had been endorsed by HMRC. These codes do not have a statutory underpinning and it is the Institute's responsibility to ensure its members comply with them. HMRC told us that, in relation to aggressive tax avoidance, the code states that firms should not engage in structures that are artificial.<sup>14</sup>

6. HMRC told us that its main way of tackling the exploitation of international tax rules was through the UK's support for the Organisation for Economic Co-operation and Development's (OECD's) *Action Plan on Base Erosion and Profit Shifting*. We fully support the OECD's important work in this area, which will set international standards that all countries will be expected to comply with. But we are concerned that it will take some time for it to have an impact.<sup>15</sup> We asked HMRC about the proposals in Autumn Statement

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11 [Committee of Public Accounts, \*HM Revenue & Customs: compliance and enforcement programme, Eighty-seventh Report of Session 2010-12\*, HC 1892, 24 May 2012, Qq 22, 33](#)

12 [Committee of Public Accounts, \*HM Revenue & Customs: annual report and accounts 2011-12, Nineteenth Report of Session 2012-13\*, HC 716, 3 December 2012, hereafter '\*HMRC 2011-12\*'; Committee of Public Accounts, \*Tax avoidance – Google\*, Ninth Report of Session 2013-14, HC 112, 13 June 2013](#)

13 [Committee of Public Accounts, \*Tax avoidance: the role of large accountancy firms \(follow-up\)\*, Thirty-eighth Report of Session 2014-15, HC 1057, 6 February 2015, paras 2-3, hereafter '\*Role of the large accountancy firms \(follow up\)\*'](#)

14 [Qq 285-290](#)

15 [Qq 192, 234](#)

2014 for a diverted profits tax.<sup>16</sup> HMRC told us that these proposals covered two types of arrangements: those where a multinational stops just short of putting a permanent establishment in a country and uses “commissionaire arrangements” instead; and arrangements between companies in the same group that involve entities or transactions that lack economic substance. HMRC confirmed that these proposals did not cover intra-company loans because those arrangements were being pursued through the OECD.<sup>17</sup> HMRC told us that it expected to collect some £1.35 billion in additional tax up to 2020 from the diverted profits tax through the direct revenue it raises and by changing the behaviour of companies.<sup>18</sup>

7. We reported on marketed tax avoidance schemes that are sold to one or more high worth individuals with the aim of reducing their tax liability in early 2013. We found that HMRC had allowed a system to evolve where the die were loaded in favour of the promoters of tax avoidance schemes. The complexity of tax law created opportunities for avoidance, there was no effective deterrent to stop people from promoting avoidance schemes, and HMRC was ineffective in challenging promoters who obstructed its attempts to investigate.<sup>19</sup> HMRC has improved its approach in response to our recommendations.<sup>20</sup> HMRC has set up a new counter-avoidance directorate to better co-ordinate its activities. Before this change the schemes were dealt with by separate teams and HMRC’s response was not joined-up.<sup>21</sup> It has acted to disrupt the market and change the economics of promoting and operating avoidance schemes by seeking new powers in five areas: an accelerated payment rule so that HMRC, rather than the user, can hold the disputed tax until the case is resolved; follower notices to tackle avoidance schemes with multiple users; powers to tackle serial avoiders; a stronger disclosure regime; and powers to issue conduct notices to promoters whom it considers abuse the rules. The new powers should make it less attractive to promote or buy an avoidance scheme.<sup>22</sup>

8. HMRC told us that it had at least 65,000 unresolved marketed tax avoidance cases,<sup>23</sup> an increase of 24,000 since 2012.<sup>24</sup> HMRC noted that it had applied its new ‘accelerated payment’ powers, which enables HMRC to make the users of schemes pay the tax up front, to 4,000 cases since November 2014. HMRC told us it would be using this power across 41,000 cases over the next two years which it expected would raise £5 billion by 2017-18.<sup>25</sup>

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<sup>16</sup> Subsequently included in the Finance Bill 2015.

<sup>17</sup> [Qq 312-315](#)

<sup>18</sup> [Q 246](#)

<sup>19</sup> [Committee of Public Accounts, Tax avoidance: tackling marketed avoidance schemes, Twenty-ninth Report of Session 2012-13, HC 788, 19 February 2013, summary](#)

<sup>20</sup> [C&AG’s Report, Increasing the effectiveness of tax collection, para 4.5](#)

<sup>21</sup> [C&AG’s Report, Increasing the effectiveness of tax collection, para 4.6](#)

<sup>22</sup> [C&AG’s Report, Increasing the effectiveness of tax collection, paras 4.9 – 4.11](#)

<sup>23</sup> [Q 219](#)

<sup>24</sup> [C&AG’s Report, Increasing the effectiveness of tax collection, para 4.7](#)

<sup>25</sup> [Qq 220-223](#)

### 3 HMRC's approach to prosecutions

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9. We have previously reported on HMRC's response to the list it received in April 2010 of potential tax evaders, but it was not until February 2015 that the Committee heard the detailed allegations of wrongdoing at HSBC's Swiss bank.<sup>26</sup> HMRC identified 3,600 potentially non-compliant UK taxpayers from the list they were given. HMRC told us that it had traced 3,200 of these people and had established that around 1,100 had not given HMRC full information about their affairs and owed tax.<sup>27</sup> HMRC stated that it had reached a settlement with all but 130 individuals on the list and had recovered £135 million.<sup>28</sup>

10. In December 2013 we reported that, despite assurances received from HMRC a year earlier, it remained the case that only one of 16 cases subject to criminal investigations arising from the list of Swiss bank account holders had resulted in a prosecution.<sup>29</sup> In response to our further questions on this matter HMRC told us that it submits those cases it considers to have the strongest basis for being successful to the Crown Prosecution Service (CPS) who have the final decision on whether to prosecute based on the strength of the case and the public interest.<sup>30</sup> In this instance HMRC had sent three cases to the CPS who accepted one for prosecution.<sup>31</sup> HMRC noted that this person had been successfully prosecuted because an earlier disclosure from the individual had not included the Swiss account.<sup>32</sup> Of the 1,100 people identified as owing tax, 500 were encouraged by HMRC to settle under a voluntary disclosure arrangement which means that they are normally immune from further action.<sup>33</sup> HMRC told us that under this arrangement penalties could be up to 30% of the tax owed, but that this was limited to 10% for the tax years before April 2009.<sup>34</sup>

11. We questioned whether HMRC had the balance right between prosecuting people to deter others, and settling cases to bring tax in quickly.<sup>35</sup> HMRC told us that prosecutions were a key and important part of its activities. It had accepted the need to increase the proportion of prosecutions across the range and maintained that it had increased prosecutions fivefold in the past three years.<sup>36</sup> However, HMRC noted that it did not believe that prosecutions for any law enforcement agency were the single or the only

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26 [Q 23](#)

27 [Qq 12-17](#)

28 [Qq 16-18](#)

29 [Committee of Public Accounts, HMRC tax collection: annual report & accounts 2012-13, Thirty-fourth Report of Session 2013-14, HC 666, 19 December 2013, para 8](#)

30 [Q 103](#)

31 [Q 15](#)

32 [Q 104](#)

33 [Qq 123-126](#)

34 [Qq 129-132](#)

35 [Q 90](#)

36 [Q 88](#)

deterrent, or were a cost-effective way to do all compliance work.<sup>37</sup> HMRC also noted that the complexity involved in bringing criminal charges was illustrated by the fact that it took HMRC on average 44 months to get to a point where the CPS considers charging.<sup>38</sup> HMRC told us that an evaluation is currently underway to help it understand more about views and responses to prosecutions for tax evasion.<sup>39</sup>

## 4 Customer service

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12. We last reported on HMRC's customer service performance in March 2013. While we welcomed the commitment made by HMRC to improve, we considered that its revised target of answering 80% of customers' calls within 5 minutes was unambitious and inadequate, being lower than industry standard response times in the private sector.<sup>40</sup>

13. HMRC acknowledged it was unacceptable that, two years on, it had not yet met its target for answering phone calls.<sup>41</sup> HMRC expects its performance in 2014-15 to be worse than in 2013-14, and that it will not meet its revised targets.<sup>42</sup> HMRC told us that it had recently introduced new technology to better direct customers' calls and was using staff flexibly to answer a greater proportion of calls received at peak times than in previous years. HMRC also told us that these measures were intended to make its service more consistent across the year and that it hoped to meet its 80% target in 2015-16.<sup>43</sup>

14. HMRC's customer charter commits it to provide an even-handed service to its customers, but only 63% of individuals and small businesses say that they trust HMRC to act fairly, compared to 87% of large businesses who say HMRC treats them fairly.<sup>44</sup> HMRC told us that it would not agree that large businesses received a better deal on their tax, but it did agree that they had more access to HMRC. It explained that its approach was to know what big businesses were doing and to try and leave small businesses alone.<sup>45</sup> However HMRC admitted that it could be difficult for small and medium sized businesses to contact HMRC to discuss their tax affairs and accepted that the service it provides small businesses was not as good as it could be.<sup>46</sup>

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37 [Q 88](#)

38 [Q 6](#)

39 [Supplementary written evidence from HM Revenue and Customs, 3 March 2015](#)

40 [Committee of Public Accounts, HMRC: Customer Service, Thirty-sixth Report of Session 2012-13, HC 869, 18 March 2013](#)

41 [Q 208](#)

42 [C&AG's Report, Increasing the effectiveness of tax collection, para 7.5](#)

43 [Qq 209-210](#)

44 [Q 247; C&AG's Report, Annex: Increasing the effectiveness of tax collection: a stocktake of progress since 2010, Session 2014-15, HC 1029-II, 6 February 2015, para 2.19](#)

45 [Q 248](#)

46 [Q 249](#)

15. HMRC told us that it wanted to improve and to personalise the service it offers using technology.<sup>47</sup> Its aim is for individuals and small businesses to have access to digital accounts that will increase the amount of online self-service possible and reduce the need for contact with HMRC.<sup>48</sup> In this context, we note that the C&AG's report highlighted the challenge HMRC faces in building its commercial and technical capability within a short timeframe if it is to achieve the objectives of its technology strategy.<sup>49</sup>

## 5 HMRC's treatment of whistleblowers

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16. In 2011, we were approached by an HMRC employee, Osita Mba, who raised concerns about HMRC's governance of a large tax dispute. The concerns raised by this whistleblower helped us in our examination of how HMRC settles tax disputes.<sup>50</sup> However, HMRC's response in this case was to use powers granted to it under the Regulation of Investigatory Powers Act (RIPA) to authorise reviews of the whistleblower's telephone records and online activity.<sup>51</sup> HMRC subsequently accepted that this whistleblower had acted in response to genuinely held concerns and that there were failings in the way it responded.<sup>52</sup>

17. We have twice asked HMRC to confirm that it would not use RIPA powers against whistleblowers in future.<sup>53</sup> HMRC noted that there was a strict requirement for staff not to share personal data, and in cases where this happened it could be difficult to tell whether someone was a whistleblower or if they had malicious intent. As such they could not give us a guarantee that these powers would not be used again.<sup>54</sup> HMRC confirmed that any further use of these powers in relation to whistleblowers would be authorised at the most senior level within the Department.<sup>55</sup>

18. HMRC told us that it was confident it had adopted the best practice across government around whistleblowing and that it had improved the awareness both of people who might use the scheme as whistleblowers and of the people who need to support them. It had committed to separate the support given to whistleblowers from any investigation of the whistleblower having potentially broken the law by sharing confidential information.<sup>56</sup> HMRC also told us that it had adopted new civil service procedures, reviewed and changed the information available to staff and provided additional training to its managers.<sup>57</sup>

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47 [Qq 248-249](#)

48 [Q 212](#)

49 [C&AG's Report, Increasing the effectiveness of tax collection, paras 10, 12](#)

50 [Committee of Public Accounts, HM Revenue & Customs 2010-11 accounts: tax disputes, Sixty-first Report of Session 2010-12, HC 1531, 20 December 2011](#)

51 [Oral evidence from inquiry: Whistleblowing, HC 1117, 24<sup>th</sup> March 2014, Qq 70-73](#)

52 [Oral evidence from inquiry: Whistleblowing, HC 1117, Q 70](#)

53 [Q 293](#) and [Oral evidence from inquiry: Whistleblowing, HC 1117, Q 72](#)

54 [Q 293](#)

55 [Oral evidence from inquiry: Whistleblowing, HC 1117, Q 83](#)

56 [Qq 293-294](#)

57 [Q 305; Oral evidence from inquiry: Whistleblowing, HC 1117, Q 72](#)

HMRC noted that it had improved its monitoring of whistleblowing and shared this information with its audit and risk committee who could use this to challenge the non-executive board on its approach.<sup>58</sup>

# Annex: Public Accounts Committee Conference on *The Impact of Globalisation on Taxation*

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## Introduction

1. As our inquiries on tax avoidance throughout the Parliament have demonstrated, international tax law and the tax practices of multinational companies have a significant bearing on the amount of tax paid in the UK, and affect governments and citizens across the world. We therefore decided to hold an international conference in the City of London to discuss the nature of the problem, progress made to address it, particularly in relation to the work of the OECD, and outstanding challenges and potential solutions at both the national and international level.
2. The conference was sponsored by the Institute of Chartered Accountants in England and Wales, and was hosted by the City of London Corporation in the Guildhall on 30 October 2014. We welcomed 200 delegates including fellow parliamentarians from eight European countries, business representatives, academics, campaigners, tax lawyers and experts from the OECD.
3. We summarise the main areas of discussion below.

## The problem

4. Conference delegates were in broad agreement that international tax laws and administration are no longer appropriate for the 21<sup>st</sup> century and are in need of updating.
5. The current rules had been introduced with the aim of eliminating borders to encourage global trade. However, in a globalised economy, companies have increasingly adopted global, decentralised business models. This enables companies to operate, for example, sales in Europe, production in Asia, and R&D in America, but not pay tax on profits anywhere. Double tax arrangements were designed to ensure that firms and individuals did not have to pay tax twice on the same profits in different countries but some companies have managed to take advantage of these rules to achieve double non-taxation, meaning they pay no tax in either jurisdiction.
6. The status quo causes problems for governments, individuals and, increasingly, companies themselves.
7. Governments have been losing revenue as corporation tax receipts decline. It is a particular problem for developing countries, who have a far greater reliance on corporation tax as individual tax is not as developed a process.
8. As a result, the burden of taxation is shifting from companies to individuals: income tax, VAT and property taxes have all been increasing to cover these losses.

9. Delegates had differing views about the extent of the problem. Some argued that it was one more of perception than reality, and that the huge increase in the amount of international tax transfers was a natural result of the huge increase in the amount of international trade that has occurred. There was also disagreement as to whether or not companies and individuals have a moral duty to pay their “fair share”, with one speaker arguing we should discuss these issues in the language of values and good citizenship, rather than morality.

10. However, as the public has woken up to this issue, companies have been increasingly concerned to avoid reputational damage and tax policy now features prominently on boardroom and Corporate Social Responsibility agendas. The public often simply do not believe the figures on profit presented by companies, even if they are technically accurate. If there is no trust in business, it makes it much harder to do business, making it harder to create wealth. Moreover, companies who do pay their “fair share” can be disadvantaged by the current system where it creates unfair competition.

11. Although the debate on tax avoidance is often polarised, and different views exist as to how it should be addressed, there is therefore a shared agenda for reform.

### **International action to increase the effectiveness of tax collection**

12. On this basis, the G20 and the OECD have begun a process of international tax reform to combat tax avoidance. Delegates heard that the OECD wants to continue to promote global trade to create successful businesses which create wealth for countries, but wants better transfer pricing guidelines and more transparency.

13. First, the OECD has led negotiations to improve transparency, leading to the Automatic Exchange of Information (AEI) which by 2017 will have 92 signatory countries. Delegates were told that as a result of this, for example, the Philippines had recovered \$1 million in 2014 through Exchange of Information; and Sweden had recovered €139 million from 230 exchanges of information from Germany.

14. The G20 has further mandated the OECD to develop an action plan to prevent base erosion and profit shifting, focusing on three core principles:

- Coherence;
- Substance (i.e. defining the substance of transactions, and where they occur); and
- Transparency.

15. Progress is being made to deliver these actions, assisted by a broad international consensus regarding the need for change. However, delegates posed a number of challenges to those charged with implementing these reforms, from a range of different perspectives:

- Are all the right people involved in the process? For example,
  - is the US sufficiently engaged?

- should the UN, and the IMF be involved?
- given the impact of tax avoidance on developing countries, should they not be brought into the negotiations?
- There was scepticism about the extent to which the new rules would apply to/sufficiently target tax havens.
- The reforms would require the calculation of arm's length prices; some delegates queried if this is possible.
- In relation to country-by-country reporting, some considered the proposals should go further in mandating authorities themselves to access each other's information, rather than being reliant of the companies providing the information.
- More fundamentally, some delegates were of the view that the entire process is flawed as it is merely tinkering round the edges of a broken system.

## **Domestic action to increase the effectiveness of tax collection**

16. Delegates proposed a range of further actions that could be taken at UK level.

### *A more powerful, better-resourced tax authority*

17. The conference was told that HMRC staff numbers have been cut by around a third recently, with further reductions planned. It was alleged that HMRC does not have the resources to read corporate tax returns and that Companies House could do more to investigate the thousands of companies which don't post companies accounts, rather than assuming they are not trading. Without accurate information, information exchange will be less effective.

### *A fairer approach*

18. It was alleged that multinationals regularly get a better deal from HMRC than SMEs, because they have Company Relationship Managers. It was suggested that this approach be extended to SMEs to ensure they are treated on an equitable basis.

19. More generally, however, there was a perception amongst delegates representing the business community that they now have a more positive relationship with HMRC.

### *Less complexity and more consistency*

20. Delegates were told that the UK has the most complex tax law in the world. The tax code is now 17,000 pages long. As a result, vast resources are being spent both by governments and companies to avoid and chase tax, which could be better spent elsewhere. There was a consensus of the need to simplify the tax code.

21. Delegates also discussed whether governments operate “double standards” which send out a confusing message to corporations, with some arguing that, if companies take advantage of incentives which governments have offered them to encourage them to act in a certain way, it is unfair to then criticise those companies to act in a way a country wants them to act.

22. Better economic analysis would help governments—and the public—decide tax policy. It is hard to prove what figures there were on increased jobs as a result of lower taxes so it is hard for businesses to make this case.

### *Focusing on evasion*

23. It was agreed that tax avoidance is now high on the political agenda, but, now that this had occurred, some delegates argued there is a need to extend this focus to tax evasion. There were differing views as to what proportion of the tax gap comprised evasion.

24. Strongly differing views were expressed as to the extent of tax evasion, and the relationship between avoidance and evasion by corporations. Irrespective of this, a public perception of high tax avoidance at the top end could contribute towards a tolerance for evasion by individuals amongst the general public.

### *Better scrutiny*

25. Better public and parliamentary scrutiny of taxation could drive improvements. One proposal was to introduce an inventory of credits, so that politicians can see all the various policies that exist, and all the various schemes which have been created contributing to an extremely complex system of tax credits and rebates. On tax credits, there is poor disclosure in companies’ accounts of the tax credits they have received so it is hard to calculate. Customers don’t understand the tax disclosures made as they are too opaque.

26. It was suggested that parliamentary committees themselves need better expert advice. There is no one individual in HMRC who knows all of the tax legislation, so it was impossible for the PAC to be able to understand it. If the PAC and other committees had expert tax advisors they could better scrutinise tax legislation.

27. One delegate proposed an Office for Tax Responsibility which would analyse the impacts of all tax policies being drafted, reporting to the PAC. This would help identify what the costs of a tax are, and what impacts on the tax gap new tax legislation would have. It could also further investigate the tax gap to reduce its size.

### *Consumer behaviour*

28. Some delegates argued that consumer behaviour would change companies’ behaviour far quicker than what regulators or governments could achieve, which should influence the extent to which governments should focus on behaviour change rather than enforcement.

# Formal Minutes

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**Monday 23 March 2015**

Members present:

Mrs Margaret Hodge, in the Chair

Mr Richard Bacon  
Mr David Burrowes  
Stephen Hammond  
Chris Heaton Harris  
Meg Hillier

Stewart Jackson  
Dame Anne McGuire  
Austin Mitchell  
Nick Smith

Draft Report (*Improving tax collection*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 18 read and agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

Annex agreed to.

*Resolved*, That the Report be the Fiftieth 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.

[Adjourned.]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the Committee's inquiry page at [www.parliament.uk/pac](http://www.parliament.uk/pac).

**Wednesday 11 February 2015**

*Question number*

**Lin Homer**, Chief Executive and Permanent Secretary, HMRC; **Jennie Granger**, Director General Enforcement and Compliance, HMRC; **Jim Harra**, Director General Business Tax, HMRC; and **Indra Morris**, Director General Tax and Welfare, HMT

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## Published written evidence

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The following written evidence was received and can be viewed on the Committee's inquiry web page at [www.parliament.uk/pac](http://www.parliament.uk/pac). WRT numbers are generated by the evidence processing system and so may not be complete.

- 1 HM Revenue And Customs ([WRT0001](#))
- 2 HM Revenue And Customs ([WRT0002](#))
- 3 HM Treasury ([WRT0003](#))

# List of Reports from the Committee during the current Parliament

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All publications from the Committee are available on the Committee's website at [www.parliament.uk/pac](http://www.parliament.uk/pac).

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

## Session 2014–15

First Report	Personal Independence Payment	HC 280
Second Report	Help to Buy equity loans	HC 281
Third Report	Tax reliefs	HC 282
Fourth Report	Monitor: regulating NHS Foundation Trusts	HC 407
Fifth Report	Infrastructure investment: impact on consumer bills	HC 406
Sixth Report	Adult social care in England	HC 518
Seventh Report	Managing debt owed to central government	HC 555
Eighth Report	Crossrail	HC 574
Ninth Report	Whistleblowing	HC 593
Tenth Report	Major Projects Authority	HC 147
Eleventh Report	Army 2020	HC 104
Twelfth Report	Update on preparations for smart metering	HC 103
Thirteenth Report	Local government funding: assurance to Parliament	HC 456
Fourteenth Report	DEFRA: oversight of three PFI waste projects	HC 106
Fifteenth Report	Maintaining strategic infrastructure: roads	HC 105
Sixteenth Report	Early contracts for renewable electricity	HC 454
Seventeenth Report	Child maintenance 2012 scheme: early progress	HC 455
Eighteenth Report	HMRC's progress in improving tax compliance and preventing tax avoidance	HC 458
Nineteenth Report	The centre of government	HC 107
Twentieth Report	Reforming the UK Border and Immigration System	HC 584
Twenty First Report	The Work Programme	HC 457
Twenty Second Report	Out-of-hours GP services in England	HC 583
Twenty Third Report	Transforming contract management	HC 585
Twenty Fourth Report	Procuring new trains	HC 674
Twenty Fifth Report	Funding healthcare: making allocations to local areas	HC 676
Twenty Sixth Report	Whole of government accounts 2012–13	HC 678
Twenty Seventh Report	Housing benefit fraud and error	HC 706
Twenty Eight Report	Lessons from major rail infrastructure programmes	HC 709
Twenty Ninth Report	Managing and removing foreign national offenders	HC 708
Thirtieth Report	Managing and replacing the Aspire contract	HC 705
Thirty First Report	16- to 18-year-old participation in education and training	HC 707

Thirty Second Report	School oversight and intervention	HC 735
Thirty Third Report	Oversight of the Private Infrastructure Development Group	HC 675
Thirty Fourth Report	Financial sustainability of local authorities 2014	HC 833
Thirty Fifth Report	Financial Sustainability of NHS Bodies	HC 736
Thirty Sixth Report	Implementing reforms to civil legal aid	HC 808
Thirty Seventh Report	Planning for the Better Care Fund	HC 807
Thirty Eighth Report	Tax avoidance: the role of large accountancy firms (follow-up)	HC 1057
Thirty Ninth Report	The UK's response to the outbreak of Ebola Virus Disease in West Africa	HC 868
Fortieth Report	Excess Votes 2013–14	HC 1046
Forty First Report	Financial support for students at alternative higher education providers	HC 811
Forty Second Report	Universal Credit: progress update	HC 810
Forty Third Report	Public Health England's grant to local authorities	HC 893
Forty Fourth Report	Children in Care	HC 809
Forty Fifth Report	Progress in improving cancer services and outcomes in England	HC 894
Forty Sixth Report	An update on Hinchingsbrooke Health Care NHS Trust	HC 971
Forty Seventh Report	Major Projects Report 2014 and the Equipment Plan 2014 to 2024	HC 1045
Forty Eighth Report	Strategic flood risk management	HC 737