

Government response to the conclusions and recommendations of the Treasury Sub-Committee report on 'Disputing Tax'

The government has considered the [Treasury Sub-Committee's \(TSC's\) report titled 'Disputing Tax'](#) (the report), published on 31 July 2019.

This paper sets out the government's response to each of the Committee's conclusions and recommendations.

Paragraph numbers refer to the report.

Recommendation 1 (paragraph 10)

It is important for Parliament and taxpayers to be confident that HMRC has a robust picture of the number of people that are involved in tax avoidance schemes or whose past involvement in tax avoidance remains unresolved, how much tax is at risk, and the years involved.

It is equally important to know all the parties involved, which of those parties may ultimately be liable to pay any unpaid tax and what means they have to settle. That information is not only necessary to ensure that HMRC puts in place efficient and proportionate arrangements to conduct enquiries and collect any tax found to be due, but also to allow proper transparency and scrutiny of the performance of HMRC.

We recommend that HMRC should write to the Treasury Committee on an annual basis with a summary of the number and characteristics (sector, income, profile etc) of people it knows to be involved in tax avoidance schemes.

Government response

The government partially accepts this recommendation.

HMRC agrees to publish further information about those involved in tax avoidance under HMRC's commitment to increase transparency.

HMRC will explore options to publish additional information about the number and characteristics of those involved in tax avoidance on an annual basis.

Recommendation 2 (paragraph 27)

There have been delays in providing settlement terms to those who wished to settle their affairs under the Contractor Loan Settlement Opportunity. We recommend that HMRC closely monitors its response times and reports back to us on progress in providing settlement calculations.

Government response

The government partially accepts this recommendation.

HMRC has acknowledged that there have been delays responding to taxpayers who expressed an interest in settling their use of disguised remuneration tax avoidance schemes.

The Contractor Loan Settlement Opportunity prompted a big response. By 5 April 2019 over 19,000 people had expressed an interest and provided the information needed to settle their use of disguised remuneration schemes.

HMRC deployed additional resources to support the settlement process and by 31 August 2019 over 99% of users had received their settlement calculations.

HMRC continues to support taxpayers who provided the information by 5 April 2019 to settle their cases and will allow sufficient time for them to do this.

HMRC has confirmed that no one who provided the necessary information by 5 April 2019 will be disadvantaged if settlement of their case takes longer as a result of HMRC delay.

HMRC's systems do not monitor response times for this settlement activity on an automated basis. However, HMRC will publish further information about progress on settling cases in its 2019 to 2020 annual report.

Recommendation 3

In its response to this report, we also recommend that HMRC provides an update on the number of cases that have been brought to a conclusion under the Contractor Loan Settlement Opportunity and how many of the liable population chose not to take it up, providing details of the range of settlement terms and the amount of tax and other duties covered.

Government response

The government accepts this recommendation.

The government estimated that around 50,000 taxpayers who have been involved in disguised remuneration (DR) schemes are affected by the loan charge. Under the DR settlement terms published in November 2017, more than 28,000 scheme users expressed an interest in settling their tax affairs, with over 19,000 returning their settlement packs with the information needed by 5 April 2019.

Since the loan charge was announced at Budget 2016, and up to 30 June 2019, HMRC has agreed around 8,000 settlements with employers and individuals, bringing into charge around £2 billion. HMRC continues to support those who provided all the information needed to settle before 5 April 2019 to finalise their settlement.

Those who did not repay their outstanding loans, did not settle their affairs, or did not provide HMRC with the information needed to settle before

5 April 2019, will need to pay the loan charge, which should be included on their 2018 2019 tax return, due by 31 January 2020.

It is too early to give the final figure for how many users of disguised remuneration schemes did not settle. It is also too early to say how many of those who need to pay the loan charge have complied with their filing obligations.

HMRC included information about disguised remuneration settlements in its 2018 to 2019 annual report. HMRC intends to publish further information in its future annual publications.

Recommendation 4 (paragraph 28)

On the face of it, the Financial Secretary to the Treasury's announcement that HMRC would not pursue the charge on individuals in 'closed' tax years in which participation in a loan-based scheme had been fully disclosed seems sensible. We recommend the government reports on how many individuals this will impact, and the amount of money being written off.

Government response

The government accepts this recommendation.

HMRC has made clear that they will not apply the Loan Charge to a tax year where an enquiry was closed on the basis of fully disclosed information. HMRC will report on the number of individuals impacted and the associated tax forgone in its 2019 to 2020 annual report.

Recommendation 5 (paragraph 31)

Professional bodies have a role to develop standards for professional conduct in relation to tax. Although tax advice is not regulated and not all tax advisers are necessarily members of professional bodies, clear standards of conduct endorsed by influential professional bodies provide the public with a valuable benchmark against which to judge the conduct of any tax adviser, professionally qualified or not.

We recommend that HMRC works with the professional bodies to consider whether their standards are sufficiently clear about conduct relating to all stages at which their members may be called upon to provide advice on tax avoidance, including stages leading up to settlement of a tax dispute. HMRC should report back to the committee with progress against this recommendation by June 2020.

Government response

The government accepts this recommendation.

HMRC's programme of activity already includes extensive engagement with the professional bodies and continues to look at what more can be done on tax avoidance promoters.

HMRC is also exploring ways to raise standards more broadly in the paid tax agent market, including those agents who do not regularly engage with HMRC, and/or do not belong to any of the professional bodies, meaning they are not bound by the Professional Conduct in Relation to Taxation (PCRT).

HMRC agrees with TSC that clear standards of conduct endorsed by influential professional bodies provide the public with a valuable benchmark against which to judge the conduct of any tax adviser.

The 7 PCRT-owning professional bodies have indicated their intention to review the PCRT in autumn 2019. HMRC will engage with them to seek co-ordinated action on this recommendation alongside that review.

HMRC will seek to ensure that expectations of their members, where asked to provide advice on tax avoidance, are fully and effectively referenced in the PCRT.

Recommendation 6 (paragraph 32)

HMRC should vigorously pursue the promoters and enablers of avoidance schemes to the full extent of their powers, whether they are members of a professional body or not. Given HMRC's evidence that some firms continue to promote tax avoidance schemes, we recommend that HMRC produces a clear strategy for dealing with tax advisers that continue to promote or enable tax avoidance and we look forward to receiving details of this.

Government response

The government accepts this recommendation.

Following the commitment to double resources involved in tackling promoters of avoidance schemes in 2019 to 2020, HMRC is updating and strengthening its strategy for tackling promoters. HMRC expects to have the strategy finalised by 31 March 2020 and will share with the committee.

Recommendation 7 (paragraph 38)

Given the extent of the information now available, and the international effort that has gone into reaching the current level of transparency, and the cost to businesses in complying, it is reasonable to expect HMRC to be able to exploit and explain the use they make of bulk data such as the Common Reporting Standard (CRS).

We recommend that HMRC produces an annual report on what the data reveals about the scope and scale of offshore non-compliance, including any particular areas of risks identified and how it is addressing those risks.

Government response

The government partially accepts this recommendation.

The government agrees that HMRC should explain the use it makes of bulk data such as the CRS. HMRC will publish data on the automatic exchange of

information, including the CRS, and the use of that data in its annual report.

In addition, HMRC already publishes data on tax compliance, such as the annual 'Measuring tax gaps' publication (see the [latest edition](#)).

However, there are restrictions on HMRC publishing detailed information for some areas because of provisions in the international treaties under which data is exchanged, and the need to keep certain sensitive operational details confidential.

Recommendation 8 (paragraph 40)

We recommend that proper regard be given to the potential impact of the use of extended time limits by HMRC. Specifically, we recommend that HMRC ensures that it leaves good time to ensure that enquiries are opened and, where necessary, assessments made or amended.

Throughout its enquiries HMRC should ensure that frequent and regular contact is maintained with the taxpayers involved and that appropriate channels of communication are used.

HMRC needs to be alive to the dangers of building up a large stock of offshore evasion enquiry cases and should make sure that sufficient resources are allocated to the conduct of enquiries to ensure that cases are brought to resolution as quickly as possible.

Government response

The government accepts this recommendation.

The government agrees with the recommendations. Guidance has been published on the use of the new 12-year offshore assessing time limit and HMRC agrees it is important to leave good time to open enquiries and make assessments. During enquiries, HMRC seeks to maintain appropriate communications with taxpayers.

Recommendation 9 (paragraph 43)

We welcome HMRC's initiative to work with other jurisdictions and will watch for further information about its progress with interest.

We recommend that HMRC sets out which—if any—powers and measures it feels need tightening or enhancing through legislation, as well as which resources need strengthening when it comes to dealing with offshore promoters, taxpayers or jurisdictions concerning tax avoidance and evasion.

Government response

The government accepts this recommendation.

HMRC continues to keep legislation and resource needs under review. Changes to tax policy, including to HMRC's powers, are announced at the budget. HMRC

and HM Treasury follow the tax policy-making process set out in 2010 and updated in 2017 to ensure that they consult with as many stakeholders as possible.

Recommendation 10 (paragraph 44)

We recommend that HMRC engages with the professional bodies in the UK that are signatories to the PCRT standards. In its response to this report, HMRC should report back to us on progress made on the work referenced in its No Safe Havens 2019 report on promoting comparable standards for UK tax advice in other jurisdictions.

Government response

The government accepts this recommendation

HMRC will continue to engage with the PCRT professional bodies to ensure that standards are upheld among agents whose clients include those with offshore tax affairs. Broader work will explore ways to strengthen the paid tax agent market through uniformly higher standards of competence and behaviour, underpinned by better data.

In the meantime HMRC continues to address issues relating to offshore tax affairs on a case-by-case basis, using existing processes.

HMRC will also explore opportunities to work with other jurisdictions to promote comparable standards for UK tax advice in their jurisdictions.

Recommendation 11 (paragraph 52)

Given the stress and anxiety that disputes with HMRC can cause a vulnerable taxpayer, we welcome the steps taken by HMRC to improve its approach to vulnerable taxpayers and look forward to receiving an update on progress. However, it is clear that more can be done. We recommend that HMRC provides a clearer explanation of its definition of 'vulnerable' when it comes to identifying this sub-set of customers.

Government response

The government accepts this recommendation.

HMRC's customer advisers on its helplines are trained to look out for drivers or characteristics of vulnerability. These drivers include: confidence, access to services, mental or emotional state, mental health, capability, complexity and disability.

HMRC's Extra Support Service was established in 2014 and HMRC has processes in place to transfer customers, who contact HMRC in respect of their tax obligations and entitlements, who exhibit any of these drivers and characteristics, to Extra Support advisers.

These advisers have the skills, knowledge, empathy and equipment to handle queries at the customer's pace and will remain as their point of contact

throughout, providing reasonable adjustments, as required, in a 'once and done' approach. HMRC is extending the Extra Support Service to customers involved in compliance interventions and a pilot is ongoing.

HMRC is working with customers who have either used HMRC's Extra Support Services or the Voluntary and Community Sector (VCS) to research whether there are any additional drivers and characteristics that indicate vulnerability that HMRC is not aware of. HMRC will use this information to further refine and improve the extra support provided to customers.

HMRC is also specifically looking at how it supports customers, particularly those who require extra support, who are undergoing a compliance intervention, through mapping a number of customer journeys. As part of this work, HMRC will be seeking the views and inputs from members of existing stakeholder and representative groups and forums.

HMRC will use this work to identify and refine the support provided to customers undergoing a compliance investigation.

Recommendation 12 (paragraph 53)

We recommend that HMRC reports on how it has reflected on the insights of groups such as the Low Incomes Tax Reform Group (LITRG), the tax charities, and other advice bodies to gain a full insight into the difficulties faced by taxpayers who cannot afford to pay for advice. This should be provided to the committee in the response to this report.

Government response

The government accepts this recommendation.

HMRC has been working with VCS through a range of established forums (eg Joint Initiative Steering Group; Additional Needs Working Group and Individuals Stakeholder Forum) plus through bilaterals with senior HMRC leaders to help provide a holistic service to people who need extra support.

VCS organisations provide tax and benefit-related support services to a range of individuals, including those with disabilities, mental health or learning difficulties; those on low income; older people; migrants; and carers.

HMRC recognises that support needs can be complex and customer needs can change, due to increasing or difficult life events (such as debt, bereavement, illness or domestic violence). Some customers also face multiple issues.

Examples of this include: individuals suffering from debt who experience depression and anxiety; or individuals losing their sight as they grow older, and who also experience cognitive decline.

HMRC is building on the experience and successes of the Extra Support Service in the Customer Service Group to determine how best to support customers who are undergoing compliance checks.

HMRC is trialling new approaches to this across our compliance group, particularly in Counter Avoidance, supported by upskilling of colleagues who are involved in the pilots.

HMRC has already taken action to improve the information provided to customers at the start of a compliance check so that HMRC is clearer on what they can expect and what their legal rights and protections are.

HMRC is also working with a range of stakeholders, including LITRG and other members of the VCS, to gather their insights into how customers experience compliance checks and where the pressure points occur, with a particular focus on customers who are not represented or who need extra support.

HMRC provides Grant Funding to VCS organisations to:

- help people use HMRC's digital services
- provide advice and support to those customers who, for various reasons, need extra help at some point in their lives when interacting with HMRC (eg elderly, people with mental health conditions, digitally excluded, people faced with mounting debts, etc)
- help HMRC identify and reduce barriers for our hard-to-reach customers, thereby improving customer experience and HMRC efficiency and productivity

Funded VCS organisations directly support people with their tax and benefits through telephony, face-to-face, via their websites and through digital training.

HMRC currently funds a project and an outward secondee to a VCS organisation producing resource material for advisors specialising in supporting customers on low incomes or who need extra support – this investment is now in its 10th year and HMRC continues to receive quarterly insights highlighting specific issues or obstacles arising from some of our services.

HMRC also works with a broader network of unfunded VCS organisations who provide us with feedback on issues that our customers are facing, enabling us to act and improve our services for customers. HMRC conducted research with the VCS earlier this year to improve understanding of how it can improve the support HMRC provides to customers who need extra help. It was published in July: see [Voluntary and community sector partners](#).

HMRC acknowledges that some of the people that the VCS support may lack trust or confidence in dealing with HMRC directly, and some may be in dispute with HMRC, so the VCS are an integral part of HMRC's strategy to support customers.

HMRC recognise the need for a robust and comprehensive method for sharing insights across HMRC, moving beyond our current processes. This includes ensuring the insights feed through performance hubs from executive committee downwards, through the Department's design methodology to ensure all changes maximise the benefit of the insights.

Recommendation 13 (paragraph 64)

We have heard that it is too difficult for anyone involved in a dispute with HMRC and with little knowledge of the workings of the tax system to find adequate information from HMRC to help them understand the law and find out about their rights and the help that is available to them.

We recommend that HMRC urgently reviews and improves the accessibility, quality and level of detail of guidance it makes available to vulnerable taxpayers. In its response to this report it should set out a clear timetable to achieve this.

Government response

The government accepts this recommendation.

HMRC recognises how important clear, concise and understandable guidance is for customers and accepts that further improvements can be made to GOV.UK to better help unrepresented customers who are in dispute with HMRC.

An extensive programme of improvements is already underway, including reviewing our compliance factsheets and letters to make them easier to understand, and improving signposting to information about customers' rights as well as extra support that is available.

In addition, HMRC will work with Government Digital Service (GDS) colleagues who deliver much of this content to look specifically at what more can be done to improve the guidance aimed at helping unrepresented customers in dispute.

Alongside using customer research, HMRC will seek to involve bodies including the Chartered Institute of Taxation (CIOT) and LITRG in this work, to deliver further improvements by March 2020.