



29 January 2024

Nigel Huddleston MP
Financial Secretary to the Treasury
HM Treasury
1 Horse Guards Road
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Dear Minister,

HMRC SERVICE PERFORMANCE

I am writing to you with some further details on HMRC service performance, as discussed at a meeting between the Chancellor and ICAEW on 16 January 2024.

Before setting out the details of issues that our members face when interacting with HMRC, I summarise ICAEW's recommendations to improve matters.

Recommendations

Increased investment in HMRC to develop better digital services and to improve customer support that is needed until these digital services can be demonstrated to reduce phone and telephone demand.

- An HMRC taskforce to clear the backlog of correspondence and thereafter keep on top of it.
- Prioritisation of HMRC resources. We think that there may be scope to refocus HMRC resources onto the development of digital services and altering processes that will reduce phone and post demand in the short to medium term. This is particularly the case for digital services for agents. We have provided a list of possibilities to HMRC. As part of this reprioritisation, HMRC may need to stop some activities.
- Greater consideration of the impact of any tax policy changes on HMRC's effectiveness including, for example, the increase in the number of taxpayers who will need to complete self assessment tax returns because of the freezing and reduction of bands and allowances.
- A step change is needed in HMRC's approach to driving forward improvements along with greater accountability.
- Ensuring that any tax policy changes adopt a 'digital first' position with the aim of reducing the administration burdens placed on HMRC and taxpayers.
- Also in the longer term, the tax system needs to be radically simplified so that taxpayers are able to successfully engage with it without needing to seek help from HMRC.

Experiences of ICAEW members

ICAEW continues to receive evidence of unacceptable HMRC service performance on a daily basis. The problems are across all HMRC service areas and include extreme waiting times on helplines, calls being cut off and long delays in responding to post. Members are increasingly

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commenting that the quality of service that they receive when they do speak to an adviser or receive a written reply has deteriorated significantly with HMRC advisers unable to deal with the issue and giving incorrect information.

Appendix 1 includes a selection of case studies of feedback ICAEW has received from members. These case studies, from across HMRC service areas, illustrate the impact that poor HMRC service performance is having on taxpayers, businesses, and their agents.

Most HMRC helplines are operating reduced hours. Prior to the pandemic many of the major helplines were open in the evening and at weekends. This is no longer the case and there does not appear to be a plan to restore the previous hours.

Poor service performance increases the risk of tax not being collected and is an administrative burden on taxpayers, their agents and also HMRC. The impact of this burden on economic growth and the associated costs are difficult to quantify but is nonetheless real.

Self Assessment

The situation is currently most acute in the area of income tax self assessment (SA) and individuals' PAYE. This is partially seasonal, but the situation has been exacerbated by HMRC's decision to restrict the SA helpline and the agent dedicated line (ADL) to a limited range of queries. Agents are unable to phone HMRC about any individual's PAYE issue (including, for example, an incorrect tax code) and cannot phone about problems with registering or deregistering for self assessment. These issues cannot be resolved by agents online. SA repayments are often made promptly but if they are flagged for checking, they take many months to be resolved. This renders the service level agreement and the information on HMRC's Where's my reply and dashboard tools much less helpful than might appear to be the case.

R&D

Members are also expressing considerable frustration about the quality and handling of enquiries into claims for research and development (R&D) tax relief. While HMRC should take appropriate action to tackle abuse of any tax relief, the current high-volume approach is causing many valid R&D claims to be rejected or withdrawn. Members report significant delays in the handling of enquiries exacerbated by not being able to chase progress or resolve misunderstandings as enquiries raised by the team in Individual and Small Business Compliance have no named point of contact. Where the claimant company had made a repayment claim, these delays can have a significant impact on its cash flow.

Employers' PAYE

Our members who are employers and payroll agents tell us that they do not have confidence in HMRC's employer liability and payment (L&P) records due to persistent errors that have arisen since PAYE real time information was introduced. They tell us:

- HMRC's employer L&P account figures do not agree with employers' records of liabilities and payments made;
- referrals of figures that do not agree to HMRC's Charges Resolution team are not dealt with in a reasonable time;
- HMRC's Debt Management & Banking (DMB) continues to chase for payment after a dispute is raised; and
- employers and payroll agents cannot view the figures in HMRC's enterprise tax management platform (ETMP) in the same format as HMRC.

We have numerous real-life examples that we would be happy to share. We are in discussion with HMRC about some of them.

External evidence of the issues

A significant body of evidence is available from HMRC performance data and public statements including the Charter annual report and HMRC's annual report and accounts for 2022-23. The report by the Comptroller and Auditor General in HMRC's annual report and accounts highlights the problems as does the annual Adjudicator's report. The Public Accounts Committee (PAC) launched its annual enquiry into HMRC's accounts on 27 July 2023 and has collected evidence but has yet to report. Its report into HMRC's performance for 2021-22, published in January 2023, concluded that taxpayers and their agents were still not receiving an acceptable level of customer service and that the move to online services will not happen quickly. It made a series of recommendations for improvements and asked that HMRC's CEO responded to the PAC within three months. HMRC replied on 12 May 2023. The Treasury Select Committee has also held an evidence session and exchanged correspondence with HMRC. More recent data from HMRC does not show any real improvement and there has been a further deterioration in telephone performance.

Outlook

The First Permanent Secretary and Chief Executive, HMRC, set out HMRC's position in stark terms in the letter to the Public Accounts Committee dated 12 May 2023 referred to above, saying: "Our existing resource levels will not enable us to handle current forecast demand – which is set to increase significantly – for our phone and post services in line with our service standards." A reduction of £1bn to HMRC's budget (2023/24 £5.7bn, 2024/25 4.7bn) was confirmed at Autumn Statement 2023.

The prospects of improvement in service levels in the short to medium term seem remote. HMRC considers that the solution lies in online self-service by taxpayers and agents. In the annual report and accounts it states that it wants a 30% reduction in the volume of contact through phone and post by 2025 (compared with 2021/2022).

However, HMRC's digital services are not comprehensive, don't work well and can be difficult to access (for all and especially those with particular accessibility needs or lacking identity documents). Digital services for agents lag behind the development of services for taxpayers.

Developments such as the single customer account show promise but will take years before they make a significant difference to phone and post demand. HMRC is severely constrained by the complexity of moving taxpayer records from legacy systems to new platforms. Developments such as Making Tax Digital for income tax self assessment (MTD ITSA) are not expected to improve customer service levels (HMRC's main rationale is that the MTD ITSA will help to close the tax gap associated with error and failure to take reasonable care). MTD ITSA, even if it can be delivered by the intended go live date in accordance with the latest plans is likely to lead to increased demand for telephone support while it is being introduced. There is an arguable case for redeploying investment and resources allocated to MTD ITSA to improve other HMRC digital services.

Budget representations

ICAEW has also submitted a formal representation to HM Treasury ahead of the Spring Budget taking place on 6 March 2024.

In that representation ICAEW's key tax policy recommendations are:

- Deliver a tax strategy for modern simplified and digital tax system.
- Review tax cliff edges and remove disincentives to improving growth and productivity.
- Design all tax policy changes with the aims of simplifying the tax system and reducing the admin burdens on both taxpayers and HMRC.
- Invest in digital tax services to address gaps and improve data access reducing demand for phone and post services.
- Review HMRC's capabilities to address the current and future demands and improve service standards.

- Review the VAT recovery rules for businesses where they do not own the goods but have an economic interest in them (eg, when handling goods as third parties or leasing).
- Incentivise HMRC to improve its performance and provide equitable redress to taxpayers that have incurred extra costs due to delays.

We look forward to hearing from you and we are very happy to meet you to discuss them.

Yours sincerely,



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