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HMRC response to PAC Report - EMBARGOED UNTIL 00.01 on TUESDAY 20 DECEMBER 2011

HM Revenue & Customs (HMRC) has today responded to the report of the Public Accounts Committee into tax disputes. An HMRC spokesman said:

"HM Revenue & Customs rejects the conclusion of the Public Accounts Committee that there are systemic failures in the management of tax disputes. The report is based on partial information, inaccurate opinion and some misunderstanding of facts.

HMRC's internal processes are robust and this was confirmed by a recent review by the National Audit Office of large business settlements. We agree that public confidence in our processes is important, and as we have already informed the Public Accounts Committee we propose to make further improvements to our governance and to increase transparency about our work with large business. We also welcome the further review that the National Audit Office is to carry out as an opportunity to confirm this and clear up the concerns about foregone millions."

In response to the specific criticisms, the spokesman said:

1. "specific and systemic failures"

"We acknowledge that a mistake was made in one settlement and explained how this arose. We reject the suggestion that this is evidence of systemic failure. This assertion, based on untested, leaked information, is without foundation."

2. "more than £25 billion outstanding in unresolved tax bills"

"We explained to the Committee and again in a letter to the Committee Chair in November that this figure is a ballpark estimate of maximum potential tax liabilities, before a full investigation of the specific facts has taken place, and before applying any reliefs or allowances. It is not actual tax either owed or unpaid. In many cases, when HMRC has looked at the full facts it becomes clear that there is no further liability at all. Tax under consideration is an administrative tool to help us to focus our resources on cases where potential tax liabilities appear to be greatest. It is not tax owed."

3. "many millions of pounds may be lost to the public purse"

"HMRC's job is to bring in the tax that's owed and that's what we're doing. We collected a record £468 billion in taxes last year, including more than £13 billion extra from our compliance work. We drew the NAO's attention to an error in a single case which they then estimated to be between £5 and £8 million.

4. "a mistake led to a potential £20 million of interest on a tax liability not being collected"

"We do not agree this figure. We drew the attention of the Comptroller and Auditor General to an error, which he then estimated as between £5 million and £8 million.

5. "it is extremely disappointing that senior HMRC officials were not prepared to cooperate with our inquiry in a spirit of openness. We accept that there is a need for confidentiality to protect individual taxpayers, but this must not be used as a cloak to protect the Department from scrutiny...It is absurd that we had to rely on the media and the actions of a whistleblower to find out about the details of individual settlements."

"Senior HMRC officials sought to be co-operative by providing as much information as possible within the legal constraints of taxpayer confidentiality under which they work. Taxpayer confidentiality is a legal requirement, fundamental to tax administration in the UK and across the world. Parliamentary scrutiny is delivered via the NAO to whom HMRC provide unfettered access to all their papers."

6. "Parliament and the public have legitimate concerns that large companies are being treated more favourably than ordinary taxpayers..."

"HMRC treats all taxpayers even-handedly, supporting the majority who comply with their duty to pay their taxes, and cracking down hard on evaders, avoiders and fraudsters.

"It is wrong to suggest that HMRC officials are too lenient on large businesses. Large businesses pay around 60 per cent of total UK tax receipts, and account for more than half of the £13.9 billion additional compliance revenues that we brought in last year.

"Large business tax settlements are a vital part of how HMRC secures tax revenues for the country and without them Britain's public finances would be seriously damaged. HMRC's large business strategy is now being adopted by other tax administrations around the world.

7. "in several cases, HMRC chose to depart from its normal governance procedures. It is extraordinary that the same officials who negotiated deals also approved them."

"We have already informed the Committee of the action we have taken to ensure that in any case where an HMRC Commissioner has been involved in negotiations, the settlement decision is made under a 'dual key' approach by two different Commissioners. We have also written to the Committee with proposals to further strengthen our internal governance. These further changes will be agreed with our new Chief Executive in the New Year.

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