



# ICAEW EVIDENCE TO PAC INQUIRY HMRC CUSTOMER SERVICE AND ACCOUNTS 2023-24

Issued 18 November 2024

ICAEW welcomes the opportunity to give evidence to the Public Accounts Committee on its inquiry: [HMRC Customer Service and Accounts 2023-24 - Committees - UK Parliament](#) following the call for evidence published on 31 October 2024.

This submission of 18 November 2024 has been prepared by ICAEW's Tax Faculty. Internationally recognised as a source of expertise, the Tax Faculty is a leading authority on taxation and is the voice of tax for ICAEW. It is responsible for making all submissions to the tax authorities on behalf of ICAEW, drawing upon the knowledge and experience of ICAEW's membership. The Tax Faculty's work is directly supported by over 130 active members, many of them well-known names in the tax world, who work across the complete spectrum of tax, both in practice and in business.

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## KEY POINTS

1. While HMRC is answering more phone calls, we are concerned that resolution rates remain low. This drives further customer service demand. Strategic investment and transformation are required to deal with the root causes of why taxpayers and agents are contacting HMRC.
2. We are concerned that HMRC's current approach to managing compliance using one-to-many campaigns to reduce its costs is being undertaken without any meaningful evaluation as to whether this approach collects more revenue compared to opening enquiries. Furthermore, we would question whether HMRC is currently sufficiently resourced to follow up on responses to these campaigns.
3. Although HMRC has taken significant steps to counter error and fraud in some areas, it needs to ensure that other routes are not open to exploitation. When tackling fraud and error for tax reliefs, there needs to be a better balance to ensure that preventative action does not deter genuine claimants from claiming relief and thereby undermining the policy intention.

## CUSTOMER SERVICE AND DEBT MANAGEMENT PERFORMANCE

4. ICAEW has previously raised concerns that taxpayers' and agents' trust in HMRC's customer services had reached an all-time low. In particular, we highlighted that HMRC must avoid the tone of suggesting that HMRC's service problems are caused by taxpayers and agents not using digital services when they should be. Aside from the fact that much of the interaction arises due to failures on HMRC's part, the reality is that many digital services are either not available, not sufficiently developed, or not sufficiently robust enough to be used with confidence.
5. In the first half of 2024, there were two key shifts in approach from HMRC and the government, namely:
  - the helpline restrictions that were announced on 19 March 2024 that were then reversed on 20 March 2024; and
  - the announcement on 13 May 2024 that the government would provide HMRC with £51m in new funding to bring HMRC's phonenumber service back up to the published target of 85% of calls to HMRC advisers being answered.
6. Before considering current service levels, it is worth revisiting the context behind these changes in approach.

### Helpline restrictions announced on 19 March 2024 and reversed on 20 March 2024

7. Although ICAEW was made aware of the [19 March 2024 announcement](#) in advance, we were not consulted on the content or given a chance to provide input. The proposed changes to the VAT helpline came as a particular surprise, as they had not been trialled and we highlighted that this would cause problems, with calls being bunched into five working days.
8. HMRC has suggested that stakeholders might have been more receptive to the changes had we had earlier sight of the [evaluation of the changes to the self assessment helpline in 2023/24](#). We do not agree. The full impact of the self assessment helpline closure cannot be assessed – even at this stage – as the effect on the accuracy of returns won't be known for some time. Although more self assessment returns were filed by the 31 January 2024 deadline, more taxpayers missed the deadline, and we still know very little about this group. Some self assessment online services, such as registering and deregistering, require significant improvement.

### New funding to meet the target of 85% of calls to HMRC advisers being answered

9. Following the announcement that the helpline restrictions would not go ahead, it was clear that another solution would be required. The result was the [announcement of new funding](#) on 13 May 2024.

10. At the time the new funding was announced, ICAEW highlighted that given recruitment and training lead times, any improvement in HMRC customer service performance was unlikely to be seen until the Autumn. We welcome this extra funding and there are some initial indications that this funding is having some impact.

### National Audit Office report

11. In the same week that the £51m of new funding was announced, on 15 May 2024 the National Audit Office (NAO) published a report on [HMRC customer service](#). The NAO's report makes for disturbing reading and reinforces many of the concerns expressed by many stakeholders, including ICAEW, over a long period of time. As the conclusion states:

*[HMRC's] approach to cutting services as it introduces new digital solutions has been too aggressive. HMRC needs to allow more time for new services to bed in, understand the difference they make, and then make staff reductions when the benefits are demonstrated.*

### HMRC's performance against targets in 2023/24

12. HMRC published its [performance statistics for 2023/24 and a commentary](#) alongside its [2023/24 annual report and accounts](#). While HMRC exceeded its target for compliance yield (£41.8bn against a target of £40.5bn), it failed to meet the following key targets:
- customer satisfaction (79% against a target of 80%);
  - customer correspondence cleared within 15 working days (76% against a target of 80%);
  - net easy score (+59 against a target of +70); and
  - telephone adviser attempts handled (66% against a target of 85%).
13. It is worth noting that HMRC no longer treats average speed of answer and callers waiting for more than 10 minutes as priority metrics, a decision we find surprising given the necessity for taxpayers to contact HMRC by phone. Both measures have deteriorated significantly with average waiting times reaching 26 minutes, and almost three-quarters of callers waiting more than 10 minutes. By any ordinary measure, these wait times must be a priority metric. We would suggest that HMRC's customer service metrics are set independently and benchmarked against industry standard good practice.
14. HMRC's debt balance remained relatively static during 2023/24 at around the £44bn–£45bn mark. While it is significantly lower than the August 2020 peak of almost £72bn, it remains much higher than pre-pandemic levels of around £19bn. This increase now seems to be structural rather than transitory and further work is needed to understand it.
15. The amount of managed debt has reduced from around £8bn to £7bn over the period, but the number of taxpayers with time to pay arrangements is almost unchanged at around 900,000. We note that HMRC has made it easier for more taxpayers to make a [time to pay arrangement online](#) and that the limits for PAYE and VAT have been increased to £100,000.

### Current performance levels

16. At the time of writing, the latest published HMRC performance data covers [August 2024](#). This generally shows an improving picture. Focusing on telephony – the target of the new funding – there was an initial dip in performance with only 57.5% of calls answered in the first quarter of 2024/25. However, the August figure was significantly better at 74.9% of calls answered. From our discussions with HMRC, it appears confident that this target is now being met.
17. This is borne out by data from our members. Emerging findings of a study of tax agents' contact with HMRC, conducted jointly by the Chartered Institute of Taxation (CIOT) and ICAEW during September and October 2024 show that 85% of attempts to contact HMRC across a range of helplines and webchats got through to an adviser in that period.

18. However, the results of that study are not all positive. The initial findings reveal that a quarter of issues raised through helplines and webchats go unresolved, while in 41% of cases, agents needed to contact HMRC again.
19. The NAO report highlighted that a growing number of calls to HMRC were caused by failure demand (72% in 2023/24). The NAO reported that HMRC estimated that at least 13% of calls are chasing progress. The fact the ICAEW and CIOT study highlights that so many issues remain unresolved and that agents will need to contact HMRC again demonstrates failure demand in action. It is not enough to be meeting the target of answering the phonelines. An improvement in resolution rates would be a real game changer. The reasons for contacting HMRC is also something that ICAEW and CIOT are currently exploring as part of the study of agent contact.

### Investment and digitalisation

20. In evidence to the Treasury Committee on 24 April 2024, HMRC suggested that “modernisation of HMRC is not always in the immediate interests of some of our stakeholders”. We are not sure what HMRC meant by this but ICAEW has been seeking improvements to digital services, particularly for agents, for many years now. However, there has been a significant lack of investment to effect the necessary step change in improvement. Our members in practice would be delighted if HMRC provided comprehensive and reliable online services for agents so that writing and phoning became the exception. In an ideal world, our members would be able to achieve effective resolution of issues for their clients both quickly and in one single contact. However, the reality is that this is not the case, so our members are forced to resort to the phone and writing – often multiple times as is becoming clear from our current study.
21. There are now plans for an HMRC digital transformation roadmap – to be published in spring 2025. However, ICAEW is concerned about whether HMRC will receive the required investment to make the necessary transformation. We understand that the funding announced in May 2024 to meet the target of 85% of calls being answered is for the current and next year only.
22. The Autumn Budget announcement of £1.4bn investment over five years is understood to be limited to HMRC compliance and debt collection activity. Investment in new HMRC systems is restricted to those specifically mentioned in the [Autumn Budget 2024](#):
  - £154m to modernise HMRC debt management IT systems;
  - £16m to modernise HMRC’s app to allow self assessment taxpayers to make advance voluntary instalments;
  - £52m to digitalise the inheritance tax service;
  - £4m to enable HMRC to pre-populate self assessment returns with child benefit data; and
  - £36m to modernise HMRC’s tax adviser registration service.
23. In order to reduce the need to contact HMRC, ICAEW notes that none of these services would be considered a priority by our members.
24. It is understood that HMRC customer service and modernisation will form part of the Spring Spending Review. ICAEW’s concern is whether the digital transformation roadmap will be sufficiently developed to make the case for the funding.
25. Some of the most significant investment is needed in HMRC’s back-end legacy systems. The task of creating a unique taxpayer record on HMRC’s ETMP platform and migrating records to that platform is complex and difficult. It is, however, essential to enable improvements to taxpayer and agent facing services and some reforms such as late submission penalties.

## HMRC'S PERFORMANCE IN COLLECTING REVENUE AND MANAGING COMPLIANCE

26. HMRC's compliance strategy is now very much based on the use of so-called nudge or one-to-many letters. While this may be a low-cost approach for HMRC and can sometimes have advantages for taxpayers and agents, it can often result in wasted time and costs and increased uncertainty, overriding the existing statutory enquiry regime and the safeguards contained within it.
27. The majority of one-to-many (or nudge) letters are sent to taxpayers (and sometimes copied to agents). Members report that it is not always clear that HMRC has targeted the correct taxpayers, what information HMRC has that has led to the recipient being selected, what action to take, and the consequences of not taking action. Dealing with the letters takes time for taxpayers and agents, regardless of whether an amendment is required to a return. Members report that because HMRC does not reply if they write in explaining why the client's return was correct this creates uncertainty for clients.
28. However, some nudge letters are just sent to agents. For example, [HMRC's Agent Update 121 published on 17 July 2024](#) stated that HMRC was writing to around 800 agents to ask them to check for potential errors in their clients' 2022/23 self assessment returns in respect of P14 income, P11D income or the high income child benefit charge. These letters are particularly problematic for agents, aside from the cost of the checking and who will pay for it. The letter needs to be recorded on the files of the relevant clients, but as the letter contains a list of client names, this list has to be redacted for each and every client. HMRC states that it is complying with the General Data Protection Regulation (GDPR) as it confirms that the agent is still acting for the clients, but it does not seem to recognise the client confidentiality issues that these letters create for agents. Further, these letters cause issues for clients, who are legally responsible for their tax affairs but who are not contacted by HMRC.
29. Given the significant cost to taxpayers and agents in responding to nudge letters, it is frustrating that HMRC does not appear to systematically evaluate the process for issuing letters or the success of these letters compared to opening traditional enquiries.
30. We note in HMRC's latest consultation issued as part of the tax administration framework review that it proposes to introduce a new statutory requirement for taxpayers to correct their tax returns where appropriate. This appears to be an attempt to put nudge letters on a statutory footing. This could be an opportunity to ensure quality control of these campaigns.
31. If a one-to-many letter does result in a taxpayer or agent contacting HMRC, we are also concerned about whether HMRC is sufficiently resourced to follow up the issue. This reflects feedback that we hear from members in other areas of HMRC's compliance activities. For example:
  - stretched HMRC resources leading to slow progress in resolving enquiries (eg, delayed responses by HMRC to correspondence and refusal in many cases to agree to meetings with the client or agent); and
  - slow progress in HMRC processing disclosures made in response to HMRC disclosure campaigns (eg, a member's experience of using the let property campaign).

## ERROR AND FRAUD

32. HMRC has taken some significant steps to counter erroneous and fraudulent PAYE repayment claims. Since February 2024, an agent reference number has been required on P87 tax relief on employment expenses and marriage allowance claim forms. A similar requirement was introduced for the R40 form in April 2024. If an agent reference number is not provided, the repayment is made to the taxpayer even if nominated to the agent.
33. HMRC has also started to require additional evidence to support PAYE repayment claims. In October 2024, HMRC suspended the online P87 claim form and started to require that all such claims be made by post and be accompanied by supporting evidence. The online service is being gradually reintroduced although will continue to be available only to

taxpayers and not agents. A requirement to provide supporting evidence for R40(PPI) claim forms was introduced in December 2023, following a short period during which processing of claims was suspended.

34. These additional checks require additional HMRC resource and may delay repayments but, in our view, this action could and should have been taken much earlier. There has been a noticeable move towards checking claims before making payment rather than the previous approach of “process now and check later”. We note that the additional controls do not apply to repayments claimed via a self assessment tax return and recommend that this be addressed.
35. The measures announced at Autumn Budget to mandate advanced electronic signatures on some (but not all) repayment claims and to require agents who interact with HMRC to be registered should provide HMRC with better scrutiny of tax agents operating on clients’ behalf and will give greater confidence to taxpayers who use these agents.
36. We would also note HMRC’s approach to tackling the level of error and fraud in respect of R&D tax relief claims. ICAEW has been raising concerns about the claims made by certain R&D agents for some time and is keen to assist the government in this regard. However, HMRC’s response to fraud and error – in the form of its current ‘volume-based’ compliance strategy – is causing significant disruption to many businesses undertaking genuine R&D activities. We have previously flagged that this approach has a disproportionate impact on smaller businesses as they often do not have the resources to defend claims in the face of HMRC enquiries.
37. Some of the characteristics of HMRC’s volume-based approach to R&D relief claims include:
  - sending lengthy, standardised enquiry letters that are not tailored to the claim and sometimes include inappropriate wording taken from letters sent to companies in a completely different sector;
  - asking for information that has already been included in the additional information form or the R&D report submitted by the company or agent;
  - assessing the existence of R&D through search engine research, rather than a detailed examination of the rationale and process of the company in carrying out the activities for which it is claiming the relief; and
  - refusals to attend meetings with the company and/or its agent to see the R&D in action, which would resolve many of the queries HMRC has opened.
38. The outcome of this approach is that many claims are being abandoned as it is simply not cost-effective to continue defending them. Others are causing disproportionate additional time and expense for companies and their advisers.
39. Indeed, the [latest published statistics](#) show that the volume of R&D claims in the SME scheme was 23% lower than in the previous year. While some of this can be attributed to tackling fraud and error, we are concerned that it is also acting as a barrier to genuine claimants.
40. There is also widespread concern over the interpretation and quality of data being used to assess the effectiveness of the R&D compliance strategy undertaken by HMRC. As noted above, many businesses are voluntarily withdrawing compliant claims due to the disproportionate costs of defending them when enquired into by the HMRC R&D compliance team. It is not clear how this type of outcome is being recorded in HMRC statistics. HMRC’s evaluations are based on questionnaire responses from a small sample of the overall population making R&D tax relief claims.
41. Aside from HMRC’s compliance approach for R&D claims, there are various other policy measures that have been introduced in recent years to prevent abuse of the R&D tax relief regime. These include:
  - a PAYE-related cap;
  - identifying a named company officer with responsibility for claims;
  - identifying advisers used for the claim;

- making an advance notification for new claims;
  - providing additional information before the claim is made; and
  - removing the use of nominations and assignments for tax credit payments.
42. ICAEW recognises that the requirement for claimants to provide additional information should allow HMRC to better risk profile R&D tax relief claims and target its enquiries. That said, we acknowledge that compiling and submitting this additional information does come at a cost to business, reducing the net benefit of the relief. ICAEW has received many examples from members of enquiries being opened that ask for information that has already been provided in the additional information form. This demonstrates that HMRC is not always reviewing the information available before opening enquiries. This approach causes an increase in costs which are especially disproportionate in the SME sector. We recommend that in future HMRC must review all submitted documentation before asking for further information.