HM Revenue
& Customs

Knowledge, Analysis and Intelligence
HM Revenue and Customs
Albert Bridge House
1 Bridge Street
Manchester
M60 9AF

Phone 03000 572768

Email anthony.burke@hmrc.gov.uk

Web www.gov.uk/government/organisations/hm-revenue-customs

Mark Pont
Assessment Programme Lead
Office for Statistics Regulation
Statistics House
Cardiff Road
Newport
NP10 8XG

Date 30 October 2019
Our ref
Your ref 16 May 2019

Dear Mark

COMPLIANCE CHECK ON HMRC MEASURING TAX GAPS STATISTICS

I am writing to update you on the progress made since the publication of your compliance check on HMRC Measuring tax gaps statistics 16 May 2019.

We welcomed the positive message about the way the tax gap team is proven to be highly committed and engaged when working to enhance the trustworthiness, quality and value of these statistics. These are important HMRC statistics and make a vital contribution to informing the national discussion around tax fairness and tax compliance.

On 20 June 2019, we published our 'Measuring tax gaps 2019 edition' report with tax gap estimates for 2017-18. For the first time we also published an interactive executive summary. The full report and interactive summary is available on Measuring tax gaps.

Your letter requested an update by the end of October about how we have addressed the recommendations made in the compliance check. The recommendations are set out below, along with the actions we have taken and are planning to take in the future.

Recommendation 1: Showcasing the value of collaboration with international and topic experts.

We are pleased to see your endorsement of our engagement and collaboration with other tax gap experts. Building national and international credibility for the UK tax gap fosters government and public trust in our tax gap research, estimate methodologies and publications. Our Measuring tax gaps 2019 edition implemented this recommendation, capturing details of:

- HMRC's first international tax gap conference in September 2018
- Our active membership of:

- the Organisation for Economic Co-operation and Development (OECD) Advanced Tax Gap Analysis Community of Practice, established in March 2019
- the OECD working group on measurement of the shadow economy
- the International Monetary Fund's (IMF's) group of international experts assisting to develop an international tax gap framework for Personal Income Tax under the IMF's Revenue Administration Gap Analysis Program (RA-GAP).

We have also continued to work with topic experts and will explore the option for HMRC to publish details of our engagement with external stakeholders alongside the Measuring tax gaps 2020 edition.

Recommendation 2: To test whether there is an appetite from users for more nuanced reporting of tax gaps in line with the IMF proposals.

We continue to improve tax gap reporting, bringing a wide range of information and bespoke analysis together in one place to help facilitate user understanding. For example, in June 2019 we published a new interactive version of the executive summary and chapter one of Measuring tax gap 2019 edition, allowing users to further explore the tax gap data detail.

Extensive reporting of HMRC's performance is published in its annual report and accounts, including a time series breakdown of compliance yield and tax gaps in the historical data series.

We publish details of the methodologies used for the cash collected measure of compliance yield in the tax gap calculation in the tax gap publication and tables in Chapter C of the methodological annex. It is only the Mandatory Random Enquiry Programme (MREP), Landfill Tax and diesel methodologies where the cash collected yield is deducted to establish the net tax gap.

We will continue to explore new presentation options for reporting the tax gap estimate. At Measuring tax gaps 2019 edition, we launched an online survey to understand more about how the tax gap estimate is used and informs decisions. We will evaluate this feedback to inform our Measuring tax gaps 2020 edition publication. Any decision to implement changes will balance the costs to produce the data against the value they add to the estimates.

Recommendation 3: HMRC should report to its methods governance body on the outcomes of the review of its continued use of US Internal Revenue Service research for multipliers.

We have secured additional resources and external technical expertise to fast-track this priority project.

These multipliers are difficult to estimate as they cannot be measured directly from collected data. Until recently only the Internal Revenue Service (IRS) had attempted to determine the best values to use, using an econometric model applied to large volumes of their audit data.

We have examined and considered a number of different approaches being used by other international tax authorities. Currently, there is no consistent application of non-detection multipliers internationally.

We are working closely with an external academic consultant, and other international tax authorities, to review the methods for determining the non-detection multipliers applied to our MREP results. As part of this work, we will continue to ensure that any non-detection multipliers are aligned with international best practice.

We are assessing models that analyse our MREP data and evaluating whether the Detection Controlled Estimation approach developed by the IRS is appropriate for use with each of the different types of taxpayer populations covered by the MREP. We will continue to research the most appropriate methodology, consulting with stakeholders where necessary.

If appropriate, we will submit any change proposals to our tax gap steering governance group in early 2020 with the intention to introduce changes in Measuring tax gaps 2020.

Recommendation 4: HMRC should review whether its assumptions about under-reporting of alcohol consumption continue to represent established professional consensus.

The existing alcohol consumption multiplier assumptions were informed by the expert opinion of those involved with assuring the alcohol regime at the time of the first spirits tax gap publication in 2001.

In 2006, we reviewed the multipliers and examined new data sources, including alcohol sales data. However, we concluded that this data was unsuitable to inform or replace the existing consumption multipliers, and therefore no changes were recommended.

Over the last two years, we have explored a number of alternative data sources to develop new multipliers for our wine model. This included using data from Liverpool John Moores University research on alcohol consumption at weddings, corporate and similar events, and Health Survey England data. We have also worked with officials from the Office for National Statistics (ONS) and Department for Environment, Food and Rural Affairs.

In January 2019, after consulting the British Beer and Pub Association (BBPA), we agreed to review the beer under-reporting assumptions ahead of the Measuring tax gaps 2020 edition.

If appropriate, we will submit any emerging change proposals to our tax gap steering group in early 2020 with the intention to introduce changes in Measuring tax gaps 2020.

Recommendation 5: HMRC to consider linking in the MTG publication to research based on analysis of the tax gap data.

We publish the measuring tax gap tables to facilitate user understanding and bespoke analysis. Topic researchers and tax gap experts will be aware of the datasets available through HMRC's Datalab. We plan to add a link to HMRC's Datalab to the Measuring tax gaps statistics collection page alongside the Measuring tax gaps 2020.

In order to preserve impartiality and trust in our statistics, we remain cautious about linking to external research that uses tax gap data. This is a very politically active area where even properly conducted research can be misconstrued or misused and we wish to avoid establishing a connection to any content that might undermine trust in the statistics.

We also maintain that there could be reputational difficulties where we elect to endorse some research and not others.

Recommendation 6: HMRC to consider whether the public value of these statistics and data could be enhanced within the budgets available, through examining the potential to meet users' priorities beyond HMRC staff.

To enrich the value of our statistics we have built strong partnerships with: HM Treasury, who attend our governance meetings; the Office of Budget Responsibility; National Audit Office; and ONS. The tax gap is also included in HMRC's annual report and accounts, which is scrutinised by the Parliamentary Public Accounts Committee.

We are immensely proud of our collaboration with external tax gap experts, both in the UK and internationally. Since our first International Tax Gap Conference on '*Overcoming obstacles to tax gap measurement',* which attracted more than 50 experts from tax authorities and finance ministries worldwide, we have continued to work closely with a number of international academics and groups to improve the value of our tax gap statistics.

In addition to the established collaboration with the OECD and IMF groups, we actively seek feedback from academics to improve the insight of our tax gap estimates – including discussions with experts from the University of Westminster and the Tax Administration Research Centre at the University of Exeter.

Each year, following each publication, we talk through the findings with HMRC's key stakeholders, for example through the Joint Initiative Steering Group and meeting with Tax Agent Professional Bodies. We have also completed a round of teach-in sessions with key professional bodies to improve understanding of the tax gap and how it is calculated. As previously mentioned, we have launched a stakeholder survey, published alongside the Measuring tax gaps 2019 edition, as a mechanism to receive further feedback from our users.

We will also explore the option for HMRC to publish details of our engagement with external stakeholders to improve the quality and value of the tax gap estimates.

Recommendation 7: Where appropriate, provide comparisons to support interpretation of the tax gaps statistics and data, signpost to relevant statistics, and explain consistency and coherence.

The Measuring tax gaps publication references a wide range of other government statistics and guidance including: HMRC annual report and accounts containing a time series breakdown of compliance yield and tax gaps, annual tax rates and allowances, and child and working tax credit error and fraud statistics.

The HMRC annual report and accounts is HMRC's key performance publication setting out the achievement, challenges and strategy for HMRC in reducing the UK's tax gap.

As part of the Measuring tax gaps publication cycle, we will continue to seek to improve the signposting of relevant HMRC and government statistics including fiscal event publications and other HMRC statistics and research. We will explore options for technical notes to be published alongside the tax gap estimate to enhance the public value of these statistics. These must be balanced against maintaining tax gap statistics impartiality within government, and efficiently managing the volume and resources of the Measuring tax gaps team and its publication.

We'll keep you updated on our plans, and make sure to send you links to the various outputs that we publish. Please contact me if you wish to discuss any aspects further.

Anthony Burke

Head of Tax Gaps Team

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