

**The Tax Administration Framework Review – new ways to tackle non-compliance
Response from the Low Incomes Tax Reform Group (LITRG)**

1. Executive Summary

- 1.1. We welcome the opportunity to respond to this consultation exploring whether HMRC’s approach to correcting mistakes by large numbers of taxpayers could be improved. We agree with the principles identified in the 2005-2012 Powers Review,¹ and with the broader objectives for the Tax Administration Framework Review. These broadly chime with the seven principles for the tax system that we set out in our 2020 paper *A better deal for the low-income taxpayer*.² Our comments on each of the proposals set out in the consultation document are focused on the position of unrepresented taxpayers who are unable to pay for professional advice.
- 1.2. We think HMRC should continue to carry out work on reviewing the overarching tax compliance framework and tax administration framework, as explored in the calls for evidence of 2021 and 2024. Nevertheless, as noted in our response to the 2021 call for evidence, we think it is important that HMRC continue to address and fix problems with the existing system in the interim where harm is being caused to taxpayers, while working towards longer term change. This is to ensure that trust between HMRC and taxpayers does not break down during the time taken to design and implement a new system.
- 1.3. We recognise the increase in volume of low value inaccuracies described by HMRC in the consultation document. However, it would have been helpful to see some information around the nature and scale of the problem in the consultation document. It is not clear from the consultation that HMRC have analysed and identified what is driving this increase in inaccuracies.

¹ <https://www.data.gov.uk/dataset/81ab0ed3-f523-4876-9d67-b64820aa45b9/hmrc-powers-deterrents-and-safeguards-report>

² <https://www.litrg.org.uk/reports/better-deal-low-income-taxpayer>

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- 1.4. Before proceeding with any of the proposals, we think it is important that HMRC clearly identify the risk, the scale, the drivers, and the cost of the existing problems. This will assist HMRC in determining whether the proposal will address the problems effectively and efficiently. It will also ensure that the change is worthwhile in the context of a longer-term overarching reform of the tax administration framework.
- 1.5. From our experience, we think it is likely that, to some extent, the increase in low value inaccuracies is driven by high volume repayment agents (HVRAs). So, in addition to considering these options, we think HMRC should be checking the processes of HVRAs from end-to-end for compliance with basic standards for agents and electronic communications processes. This is something we have suggested for some time, and we think is absolutely critical to implement it consistently across all HVRAs when they first start submitting claims and then periodically thereafter.
- 1.6. Some HVRAs have been exploiting HMRC's 'process now, check later' approach to tax returns and claim forms for years. We do not think it is unreasonable for HMRC to request supporting evidence for claims as a general principle. If HMRC introduce additional information requirements, they would need to make sure that the evidence they require is proportionate and relevant to the claim and ensure there is clear guidance as to what documents they would accept as evidence. HMRC should also ensure there are both digital and paper routes for the provision of evidence and that any evidence is processed in a timely manner.
- 1.7. If HMRC require supporting evidence prior to processing claims, they need to consider what they will do with the evidence they receive. At present, HMRC tend only to ask for evidence if they decide they wish to check a particular claim. One option is for there to be an accompanying undertaking by HMRC that they will check the evidence in all cases. In this case, they would only pay out claims that they were satisfied were accurate, and this would provide certainty to taxpayers that HMRC would not ask for the tax refund back at a later date. This would be an important safeguard for taxpayers. This would place a burden on HMRC and probably mean that it would take longer for HMRC to process repayments. The question for taxpayers is whether the added certainty outweighs the longer wait to receive a repayment.
- 1.8. Although a requirement to provide supporting evidence places a burden on the taxpayer, it also serves to protect the taxpayer, particularly those who are targeted by unscrupulous HVRA firms. This type of requirement is likely to disrupt the business models of HVRAs, such that they are unable to submit claims without the full consent and awareness of a taxpayer. It may also go some way to discourage erroneous claims by focusing people's mind on the validity of the claim. Provided HMRC have the capacity to administer an additional information requirement effectively, and the taxpayer journey does not become so onerous as to discourage genuine claims, we welcome this proposal.
- 1.9. While we think that some of the proposed changes to the rules relating to revenue correction notices may be helpful, of greater concern to us is the fact that HMRC are arguably not making effective use of their existing powers. The proposed changes, even if they result in improvements, will not be of assistance if HMRC fail to make use of their powers under s. 9ZB of the Taxes Management Act 1970.

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- 1.10. It is not clear to us how the introduction of a partial enquiry would assist HMRC in tackling high volume, low value inaccuracies. There are a number of grey areas that would cause practical difficulties. We do not view this as a worthwhile change for either HMRC or the taxpayer.
- 1.11. It is not clear to us how a new power requiring taxpayers to self correct their return would interact with the current powers under s. 9ZB of the Taxes Management Act 1970, in respect of income tax. This potential new power could be used in a similar way to one to many campaign letters; but it would impose statutory obligations on the taxpayer. We understand that there are often low response rates to one to many campaign communications. HMRC need to carry out work to understand the reasons for these low response rates. Otherwise there are significant reputational risks for HMRC from this proposal.

2. About Us

- 2.1. The Low Incomes Tax Reform Group (LITRG) is an initiative of the Chartered Institute of Taxation (CIOT) to give a voice to the unrepresented. Since 1998, LITRG has been working to improve the policy and processes of the tax, tax credits and associated welfare systems for the benefit of those who are least able to pay for professional advice. We also produce free information, primarily via our website www.litrg.org.uk, to help make a difference to people's understanding of the tax system.
- 2.2. LITRG works extensively with key stakeholders such as HM Revenue & Customs (HMRC) and other government departments, commenting on proposals and putting forward our own ideas for improving the tax system. LITRG also considers the welfare benefits system, and other related systems, to the extent that they interact with tax.
- 2.3. The CIOT is a charity and the leading professional body in the United Kingdom concerned solely with taxation. The CIOT's primary purpose is to promote education and study of the administration and practice of taxation. One of the key aims is to achieve a better, more efficient, tax system for all affected by it – taxpayers, advisers and the authorities.

3. Introduction

- 3.1. We welcome this opportunity to comment on potential changes in HMRC's approach to correcting taxpayer inaccuracies. We note that this consultation is happening at Stage One of the Tax Consultation Framework, where HMRC set out their objectives and identify options.
- 3.2. This consultation follows the call for evidence published in February 2024 that invited views on the possible reform of HMRC's enquiry and assessment powers.³ It focuses on the proportionality and

³ <https://www.gov.uk/government/calls-for-evidence/the-tax-administration-framework-review-enquiry-and-assessment-powers-penalties-safeguards>

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efficiency of HMRC's current correction powers and seeks views on their potential modernisation and reform, as well as the potential for a new power that would require taxpayers to self correct their return.

- 3.3. We think HMRC should continue to carry out work on reviewing the overarching tax compliance framework and tax administration framework, as explored in the calls for evidence of 2021 and 2024. Nevertheless, as noted in our response to the 2021 call for evidence on reform of the tax administration framework,⁴ we think it is important that HMRC continue to address and fix problems with the existing system in the interim where harm is being caused to taxpayers, while working towards longer term change. This is to ensure that trust between HMRC and taxpayers does not break down during the time taken to design and implement a new system.
- 3.4. As an organisation, LITRG does not cover the whole spectrum of HMRC taxes – we mainly concern ourselves with income tax, National Insurance contributions, capital gains tax, inheritance tax, VAT and council tax, and in particular those taxes as they affect taxpayers who are unable to afford to pay for professional tax advice. On the other hand, we come across interactions between the tax system and other related systems, such as those for welfare benefits.
- 3.5. As the consultation document points out, there are a few opportunities to make HMRC's powers more consistent across taxes. Given our areas of interest, we do not comment definitively on the opportunities, benefits and risks of aligning the powers in question across all taxes. We can see that there would be advantages for HMRC, the tax profession and some taxpayers if there was alignment across all taxes, for example of revenue correction notice conditions. However, this is likely to have little benefit for individual taxpayers, whose tax affairs are likely to be simpler and are less likely to cut across several tax areas.
- 3.6. We recognise the increase in volume of low value inaccuracies that HMRC are seeing both in claims for tax relief and via tax returns. However, we would have liked the consultation document to include some information around the nature and scale of the problem. It is not clear from the consultation that HMRC have analysed and identified what is driving this increase in inaccuracies. We think it should be possible for HMRC to identify different problem areas, segmenting populations both by type of claim or inaccuracy. In addition, for income tax and self assessment, HMRC should be able to identify claims and returns that are submitted by taxpayers represented by agents that do not use nominations, those that are submitted by HVRAs that make use of nominations, and those that are submitted by wholly unrepresented taxpayers. Segmenting populations in this way should assist HMRC in determining why the inaccuracies are arising and how to tackle them. For example, in the case of wholly unrepresented taxpayers, better guidance and tax education may be an important part of the solution. Where the inaccuracies are driven by HVRAs, then HMRC need to focus on activity to tackle HVRAs.
- 3.7. From our experience, we think it is likely that, to some extent, the increase in low value inaccuracies is driven by HVRAs. Some HVRAs are using taxpayers as a conduit for making unfounded claims, for example, for Enterprise Investment Scheme (EIS) relief or travel and subsistence relief. They are also

⁴ <https://www.litrg.org.uk/submissions/call-evidence-tax-administration-framework-review>

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using nominations to divert some or all of the resultant tax refunds to the HVRA. Sometimes, the taxpayer engages the HVRA to claim a tax refund, but they are unclear what the HVRA is doing on their behalf. But also, in many cases that we come across in our work, the individual taxpayer is not even aware the HVRA has acted on their behalf until HMRC contact them.⁵ This is due to loopholes and inadequacies in the various systems that mean HMRC are not able to tell whether taxpayers have seen, understood or authorised claims and returns that are submitted in their name. We also feel that to some extent, HMRC have been slow to take robust action quickly once large scale problems have been identified which has allowed a greater number of taxpayers to be affected.

3.8. HMRC have taken some good steps towards closing down such issues within the tax relief claim form space within recent years. However, a significant compliance challenge relating to unfounded claims in self assessment tax returns remains. This includes the resource involved in formally enquiring and trying to recover tax relief which was not due and which the taxpayer may not have received. Many of the taxpayers affected are vulnerable and ultimately, these issues could affect trust in the tax system. We think it is incumbent on HMRC to be transparent about this issue, to allow stakeholders to comment coherently.

3.9. So, in addition to considering the options in this consultation document, we think HMRC should be regularly checking HVRA processes end-to-end for compliance with basic standards for agents and electronic communications processes.⁶ This should be done for all new HVRA and then again periodically. Every different route used by a HVRA should be checked in full. If an HVRA is acting non-compliantly, HMRC should use their powers and deal with them appropriately; this may include refusing to process any further claims submitted by that HVRA. In cases of fraudulent behaviour, penalties and fines may not be enough if the HVRA are limited companies, have few assets and are easily foldable – the insolvency regime is there to act as the ultimate backstop. In very serious cases, HMRC should therefore consider other forms of action. We set out the example of the United States of America (USA) in our response to the 2022 consultation document on protecting customers claiming tax repayments.⁷ This would tackle the problem at its root and send a strong message that such behaviour will not be tolerated.

⁵ We provide examples of anonymised queries that have been submitted to our website over the past few years in Appendix 1 below. This is also demonstrated by the tribunal case of Mr Robson, who successfully appealed against discovery assessments in relation to claims for Enterprise Investment Scheme relief: *Robson v HMRC* [2023] UKFTT 226 (TC).

⁶ <https://www.legislation.gov.uk/ukxi/2003/282/contents/made>

⁷ Raising standards in tax advice: protecting customers claiming tax repayments: Para. 4.26 ff: <https://www.litrg.org.uk/submissions/high-volume-repayment-agents>. In summary, we note that the USA take the view that personal identification fraud, which seems similar to some of the HVRA activity seen in the UK, is an attack on the US tax system. Rather than trying to claim back money from the individuals taxpayers that have been victimised, the US Department of Justice puts the people responsible for committing the fraud in prison.

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- 3.10. As noted above, the consultation does not include evidence and data to support the proposed policy changes and new policy. Before proceeding with any of the proposals, we think it is important that HMRC clearly identify the risk, the scale, the drivers and the cost of the existing problems. This will assist HMRC in determining whether the proposal will address the problem effectively and efficiently. It will also ensure that the change is worthwhile in the context of a longer-term overarching reform of the tax administration framework.
- 3.11. In our response below, we consider each of the reform opportunities in turn. However, in providing input, we are not endorsing the four proposals. We remain of the view that HMRC could make better use of their existing powers to tackle non-compliance.

4. Amendment to conditions for making claims

4.1. *Q.1 What are your views on introducing additional information requirements to other claims for tax reliefs and allowances?*

- 4.1.1. HMRC's general approach to claims for tax relief and allowances is to 'process now, check later'. This approach may create a perception among taxpayers that once they have submitted a claim and it has been actioned by HMRC, this means that the claim has been agreed or approved. In addition, as discussed earlier in this submission, some HVRAs have been exploiting this approach – LITRG has been drawing attention to the problems associated with the behaviour of HVRAs for several years.
- 4.1.2. As noted in the consultation document, HMRC have already introduced additional or up front information requirements in respect of some claims for tax relief, for example, Form R40 claims in respect of Payment Protection Insurance (PPI) tax relief and Form P87 claims in respect of tax relief on employment expenses. We hope that HMRC are making use of data and insights from these changes to inform their consideration of the proposal.
- 4.1.3. Provided HMRC have the capacity to administer an additional information requirement effectively, and the taxpayer journey does not become so onerous as to discourage genuine claims, we welcome this proposal.
- 4.1.4. There are two elements to consider. There is the question of whether HMRC should require supporting evidence upfront, and there is also the question of whether HMRC should actually check all the evidence they receive in detail before processing a tax relief claim.
- 4.1.5. It is arguably unusual that taxpayers in general do not have to provide supporting evidence when making claims for tax relief, so we do not think it is unreasonable for HMRC to request supporting evidence as a general principle. However, HMRC would need to make sure that the evidence they require is proportionate and relevant to the claim and ensure there is clear guidance as to what documents they would accept as evidence. HMRC should also ensure there are both digital and paper routes for the provision of evidence. Providing clear guidance as to what evidence is required should also help ensure that taxpayers provide sufficient evidence, without providing too much, such that HMRC become unable to process claims efficiently.

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- 4.1.6. The approach to the second question determines whether the taxpayer can be certain their claim has been accepted once HMRC have processed it. If HMRC have asked for supporting evidence prior to processing the claim, one option is for there to be an accompanying undertaking by HMRC that they will check the evidence in all cases. If this was the case, HMRC would only pay out tax refunds in respect of claims that they are fully satisfied are valid and accurate. This would provide certainty to taxpayers that HMRC would not enquire into the claim or ask for the tax refund back at a later date. This would be an important safeguard for taxpayers.
- 4.1.7. However, an undertaking by HMRC to fully check the evidence for each claim before paying a tax refund would create a significant administrative burden for HMRC. There is a question as to whether HMRC have the resources to allow them to carry out the checks that would be required, and what the effect would be on timescales for processing claims. Therefore, another option would be for HMRC to require information, but to provide no undertaking to check it. Instead, they could carry out checks on certain claims, according to risk analysis. In this case, HMRC would be able to revisit claims that have been processed if they later decided to check the accompanying evidence. This would mean that, as with most claims under the current system, the taxpayer would not be certain that HMRC have accepted their claim just because they have processed it. The benefit would be that HMRC should be able to process claims more quickly than if they were to carry out full checks on all claims. However, an information requirement may, in itself, go some way to discourage erroneous claims, which may reduce the administrative burden on HMRC.
- 4.1.8. In any case, HMRC need to be absolutely clear about their approach to an evidence requirement, so that they understand what they are trying to achieve and what that means for their processes and systems. They also need to make it clear to taxpayers whether the provision of evidence means that a processed claim is fully approved, or not. Taxpayers welcome certainty, so if the provision of evidence upfront could provide them with certainty that, their claim, once processed, is fully and finally accepted as valid, they might be willing to accept the accompanying administrative burden and possible delay in receiving the repayment.
- 4.1.9. HVRA's are responsible for the submission of many claims for income tax relief for individual taxpayers. In cases that we have come across, HVRA's have submitted claims with minimal input and/or little or no awareness from the individual taxpayer. This means the claims have not been approved by the affected taxpayers. Many of those claims seem to pass the risk analysis and get processed. However, once checked properly, HMRC realise they are inaccurate or entirely unjustified. HMRC then pursue the taxpayer for the over-repayment of tax, even though the taxpayer has either received only a percentage of the repayment or in some cases, no repayment at all. An upfront information requirement is likely to disrupt the HVRA business model which would arguably protect taxpayers from disreputable businesses. However, we have made the point in previous submissions that without some HVRA's some taxpayers would get no refund at all as they would not know about the possibility of claiming. For those taxpayers some refund is better than none. We would hope that reputable HVRA's would adapt to an evidence-based model. It would be helpful to understand if HMRC have seen a reduction in tax relief claims from HVRA's in respect of PPI and employment expenses following the changes referred to in paragraph 4.1.2. We also think HMRC should do some research to understand what impact this has had on taxpayers and their

access to refunds overall. HMRC should take such data into account when considering extending an evidence requirement to other claims.

4.2. ***Q.2 Are there cases where this approach would be particularly helpful for customers?***

4.2.1. HVRAs are not only submitting standalone claims for tax relief, for example on form P87, but are also submitting self assessment tax returns in bulk for all available tax years to generate refunds of PAYE. So there can be significant amounts of tax at stake. However, the taxpayer generally only sees a percentage of the tax refund; in some cases, they do not actually receive any of the refund.⁸

4.2.2. In cases where HVRAs are currently taking advantage of individual taxpayers and HMRC processes, an approach involving additional or upfront evidence requirements would be helpful to taxpayers, see paragraph 4.1.9. This is because, although such a requirement places a burden on the taxpayer to provide or obtain supporting evidence, it also serves to protect the taxpayer. This type of requirement is likely to disrupt HVRA business models, such that they are unable to submit claims without the full and aware consent of a taxpayer.

4.2.3. Ideally, such additional information requirements would be accompanied by clear guidance, for example, around self assessment and attachment of evidence expectations to place taxpayers in a better position to be prepared and self-serve. This would also help to ensure that HMRC only receive information and evidence that is proportionate and relevant to the claim.

4.3. ***Q.3 How could any additional administrative costs be kept to a minimum?***

4.3.1. One means of keeping administrative costs to a minimum is to focus on educating taxpayers about claims for tax relief and allowances, and raising awareness about the risks associated with using HVRAs. We know that HVRAs are good at reaching taxpayers, so HMRC would need to step up and fill that gap effectively, for example by harnessing the power of social media and investing money in advertising as the HVRAs do. It might not be easy for some taxpayers to evaluate the quality of the service that a tax agent offers, or to perhaps recognise when something is too good to be true. HVRAs provide a disproportionate amount of information to taxpayers, particularly via social media. Some of this information is helpful, as it raises awareness of certain tax reliefs and allowances. But it may also make false claims, for example, about the likely amount of tax relief available. The guidance available on GOV.UK is not sufficient to counteract this.

4.3.2. Many individual taxpayers that are digitally capable are likely to have digital documents and supporting evidence. Therefore, ensuring there are secure digital channels available for digitally capable taxpayers to provide supporting evidence will remove the need for them to print documents. Postal routes will continue to be necessary for those who are digitally excluded, and who are therefore more likely to have paper supporting evidence.

⁸ We have come across business models where HVRAs ask taxpayers for their bank details once HMRC have paid the tax refund to the HVRA. Since the taxpayer often has no awareness of the tax refund claim and does not know the HVRA, they refuse to provide their bank details and do not receive any of the tax refund.

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- 4.3.3. One option might be to consider a ‘halfway house’ option. HMRC could place more emphasis in their guidance and on forms on the need for supporting evidence to be available in case they ask for it. This could include the incorporation of a box on claim forms, which the taxpayer would have to complete – this would be confirmation that the taxpayer has supporting evidence and is able to send it to HMRC if requested. This could perhaps be accompanied by a clear right for HMRC to request the supporting evidence before processing the claim and a system of spot-checking the evidence. There would need to be awareness-raising that HMRC carry out spot checks. There could also be links to further guidance on the type of evidence required. This might encourage unrepresented individual taxpayers to think more about their claim before submitting it. This approach would minimise HMRC’s administrative costs, as they would not be receiving information in respect of every claim. However, given there is more concern about the behaviour of HVRAs than that of unrepresented taxpayers, there is a significant risk that HVRAs would simply tick the box anyway, and HMRC would be no further forward in tackling the problem.
- 4.3.4. Another option might be to give HMRC the power to implement an evidence requirement for all claims made by a particular HVRA, if HMRC have identified an issue with claims submitted by that business or perhaps require any new HVRAs to submit evidence with all claims for the first year.
- 4.3.5. A complementary approach might be for agents who wish to receive tax refunds on behalf of their clients via nominations to undergo various checks. In particular, we suggest HMRC should request evidence of the end to end process for signing a customer up to the HVRA’s services, at a company level, so that HMRC can tell that taxpayers have knowingly agreed to the submission of the tax refund claim, have agreed and signed the nomination and understand what is happening. This should help HMRC identify whether they should be dealing with such an HVRA, and/or whether they should be following any nomination in respect of a tax refund for all individuals using that HVRA. HMRC’s approach would need to be robust to ensure that it is not possible for HVRAs to manipulate the process for the purpose of the checks.
- 4.3.6. If changes are made, with a view to addressing the exploitation of the ‘process now, check later’ approach, it is essential that HMRC take steps to anticipate and plan how to deal with changes in the practices and behaviour of HVRAs.

5. Reform of Revenue Correction Notice (RCN) conditions

5.1. ***Q.4 What are your views on aligning the conditions for when HMRC can make corrections, so that they are the same across relevant regimes?***

- 5.1.1. We can see that there would be advantages for HMRC, the tax profession and some taxpayers if there was alignment of conditions for when HMRC can make corrections across relevant regimes. However, this is likely to have little benefit for individual taxpayers, whose tax affairs are likely to be simpler and are less likely to cut across several tax areas.
- 5.1.2. We think that the current conditions for when HMRC can make corrections under income tax self assessment are reasonable, since they allow HMRC to make a correction both when there is an

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obvious error and where there is reason for HMRC to believe the tax return is incorrect. We recognise the advantages for all parties in having a swifter means of correcting lower value errors and obvious errors without the need for HMRC to open an enquiry.

5.2. ***Q.5 What are your views on aligning the ways that revenue correction notices can be rejected, so that they are the same across relevant regimes?***

5.2.1. We can see that there would be advantages for HMRC, the tax profession and some taxpayers if there was alignment of the ways that taxpayers can reject revenue correction notices across relevant regimes. However, this is likely to have little benefit for individual taxpayers, whose tax affairs are less likely to cut across several tax areas.

5.2.2. However, given the move to digital services, we think it would be reasonable for HMRC to add a digital or online channel for taxpayers to reject a correction of an income tax self assessment tax return. The paper route should continue to be available.

5.2.3. If evidential requirements are introduced, then we think HMRC should review the current 30 day deadline for rejecting a revenue correction notice. We explain further in our response to question 6 below.

5.3. ***Q.6 What are your views on introducing a mandatory requirement for taxpayers to provide evidence to support a rejection of a revenue correction notice?***

5.3.1. It is not clear from the consultation document how widespread the problem of unsupported rejections of a revenue correction notice is. It seems odd for a taxpayer to reject a revenue correction notice without providing some sort of explanation to HMRC. We would have thought that unrepresented taxpayers are more likely to ignore revenue correction notices (through a lack of understanding) rather than reject them. As noted above in relation to HVRAs, we feel HMRC should gather more evidence of the nature and scale of the problem before proceeding to make any changes to get a better understanding of why people reject correct notices.

5.3.2. In relation to claims submitted by HVRAs, particularly those submitted without full knowledge or understanding of the taxpayer, we think a revenue correction notice offers the taxpayer a valuable opportunity to check their position. In some cases, it will alert them to the fact that an HVRA has submitted a return on their behalf.

5.3.3. If HMRC introduce a mandatory requirement for taxpayers to provide evidence to support a rejection of a revenue correction notice, they must offer a simple process to enable this. In some cases, it may be that an explanation would suffice, rather than documentary evidence. The process should allow for the provision of explanations and/or evidence to support a rejection.

5.3.4. We also think that the timescale for rejecting a revenue correction notice would have to be extended. It is currently 30 days. If the taxpayer has to gather evidence to support their rejection, this timescale should probably be significantly longer. Provision would also have to be made for taxpayers who have lost or damaged records and have provided estimates or need to provide estimates to support their rejection of the correction. In some cases, it might be difficult to find

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relevant evidence, if the taxpayer needs to prove they have not done something or have not received a specific type of income. For example, it may be difficult for a taxpayer to prove that they have not received any state pension in a tax year, because of deferral.

5.4. ***Q.7 Do you think this requirement should extend to HMRC explaining why a correction was made and what evidence is required?***

- 5.4.1. If a mandatory requirement is placed on taxpayers, we think there should also be a mandatory requirement for HMRC to both explain why they have issued the revenue correction notice (with supporting evidence where appropriate) and what supporting explanation or evidence they require from the taxpayer should they wish to reject it.
- 5.4.2. In our experience, even though it is not a statutory requirement, revenue correction notices often contain a short sentence setting out the reason for the correction. It would seem odd not to include at least some sort of explanation, as this information is likely to assist the taxpayer and minimise the chances of the taxpayer rejecting the correction for no reason.
- 5.4.3. A requirement to include a reason and list of suggested evidence would assist the taxpayer significantly, not only in terms of understanding why HMRC have issued the revenue correction notice, but also in terms of knowing what they need to do as a result of the notice. Unrepresented taxpayers do not understand all of HMRC's processes and notices. It is important to guide them through to enable them to comply. A clear explanation and guidance from HMRC might help them check their records and make a more reasoned decision as to whether to accept or reject the correction. It is possible that some unrepresented taxpayers reject or ignore revenue correction notices simply because they do not understand why HMRC have issued the correction or even what purpose it serves.

5.5. ***Q.8 What other ways could the revenue correction process be improved?***

- 5.5.1. We note the consultation includes no discussion of the use of the existing revenue correction notice powers and jumps straight to reforming them. Before this proposal is pursued further, we think HMRC need to explore the issue more thoroughly and obtain better data. In particular, HMRC need to understand the scale of the problem. How much have HMRC tried to use their revenue correction notice powers in the past? It would be useful to know what percentage of revenue correction notices are rejected, and what percentage of those relate to unrepresented taxpayers. HMRC could also usefully explore what the main errors are that lead them to issue revenue correction notices, under each tax head. For example, for income tax self assessment, are many of the errors in relation to tax returns submitted by HVRAs that contain erroneous tax relief claims? In essence, it is necessary to understand why HMRC think they are not effective and need to be reformed.
- 5.5.2. We are concerned that HMRC may not be making best use of their powers under s.9ZB Taxes Management Act 1970 (TMA 1970).⁹ And yet, if our understanding of the situation is correct, the

⁹ <https://www.legislation.gov.uk/ukpga/1970/9/section/9ZB>

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quickest and easiest way of tackling issues where HMRC think tax is at stake within the income tax self assessment regime is to use those existing powers. When interacting with HMRC over the past few years, we have come across the assumption from HMRC that the taxpayer will reject a revenue correction notice – and therefore HMRC perhaps do not issue as many of these notices as they could. We think this assumption may be unjustified. However, if this assumption persists within HMRC, would the introduction of evidential requirements make a significant difference? HMRC must make use of revenue correction notices under s. 9ZB in order for them to have any impact on the tackling of errors.

- 5.5.3. If HMRC could programme their system to flag up anomalous looking self assessment tax returns (for example, domestic employees with more than, say £1,000 of travel and subsistence expenses; lower paid employees with EIS/SEIS claims) and just remove the offending item using their powers under s. 9ZB, then that would be a huge step forward. If HMRC remove an item incorrectly, then the taxpayer can reject the correction. The revenue correction notice would act as a vital alert to the taxpayer that a tax return has been submitted, and/or provide them with a check and balance opportunity. This also means that HMRC can have confidence that the taxpayer is aware that an agent is working for them.
- 5.5.4. HMRC should consider possible changes to the process for revenue correction notices to allow taxpayers to report that they were not aware of a tax relief claim on their income tax return. This might mean that HMRC are perceived as helpful by taxpayers.
- 5.5.5. In summary, we strongly feel that exploration of existing data, and the running of some trials, perhaps on specific types of error, could help identify whether a new approach, such as that proposed, is needed.

6. Introduction of a partial enquiry

6.1. *Q.9 What are your views on introducing a partial enquiry power to allow an enquiry into a specific issue?*

- 6.1.1. In respect of income tax self assessment, HMRC are governed by one set of enquiry rules. HMRC currently make use of their powers to open ‘aspect’ enquiries and ‘full’ enquiries. Aspect enquiries can morph into full enquiries. In some respects, it appears that the proposed partial enquiry power would effectively establish aspect enquiries on a statutory basis.
- 6.1.2. Arguably, introducing such a power would not be a simplification. There could be grey areas, such as whether a topic has been covered by a partial enquiry if HMRC later open a full enquiry. It might make more sense, therefore, to target such a power at very specific areas.
- 6.1.3. It is not clear to us how the introduction of a partial enquiry power would lessen the resources required on the part of HMRC or the taxpayer. Overall we do not think this would be a worthwhile change in the context of longer-term overarching reform of the tax administration framework.

6.2. ***Q.10 In which circumstance do you think such a power might be deployed, and what would you see as appropriate taxpayer safeguards?***

6.2.1. Where HMRC have identified a high number of errors of low value across a group of taxpayers, if this is driven by HVRA activity, we think it would be more effective and efficient to tackle the HVRAs, rather than tackling individual taxpayers.

6.3. ***Q.11 What limitations do you think should be attached to the use of this power and why?***

6.3.1. This power could lead to disputes over whether a particular topic has already been covered in a partial enquiry, if HMRC later open a full enquiry. This question will not always be clear-cut.

6.3.2. HMRC will need to consider whether there should be a limit on the number of partial enquiries that they can open into a tax return. HMRC may wish to look into two separate points in a tax return, for example. There are practical considerations such as, should they be able to use a single partial enquiry to look at more than one point? If not, could they open two separate partial enquiries simultaneously? Or, would they be forced into opening a full enquiry to cover any more than one point or issue?

6.3.3. Given this consultation relates to proposals to deal with high volume, low value inaccuracies, we think it would be appropriate to consider whether there should be some kind of limit on the amount of tax at stake that a partial enquiry could cover.

7. **A requirement for taxpayers to self correct**

7.1. ***Q.12 What are your views on how this power could be used? Where do you think this power could be applied most and least effectively?***

7.1.1. We understand that HMRC are proposing this new power in order to address perceived issues with their existing correction powers, such as those under s. 9ZB TMA 1970. It is not immediately apparent why this power would be needed, or in which circumstances it would be used – we think that in areas where there are high volume, low value errors, HMRC already have powers to make corrections, that they are perhaps not making best use of (see paragraph 5.5.2 above). In addition, where those errors are driven by HVRA activity, as noted elsewhere in this response, we think HMRC should be doing more to tackle the HVRAs directly.

7.1.2. There is perhaps a suggestion that this power could extend to claims for tax relief (which could be made on Forms R40, P87 etc.), which would perhaps make it broader than HMRC's current revenue correction notice powers. This would mean that a significant population of taxpayers would be potentially subject to the requirement. Guidance and communications would have to be clear to enable this to work.

7.1.3. It would be helpful to understand where HMRC envisage this might be used. For example, it would not make sense to us to use this power where HMRC are able to correct an obvious error (such as a transposition error) or have sufficient information to enable them to make a correction using a revenue correction notice. We can see that it might be appropriate where HMRC think there is an

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error but they do not have enough information to allow them to make a correction. However, equally, such an error could, and perhaps should, be tackled by an enquiry.

7.2. ***Q.13 What are your views on the merits and challenges of requiring taxpayers to respond to the new notice and correct their own return?***

7.2.1. There would be significant challenges as this would be a new requirement. There would need to be very clear guidance and communications to raise awareness and support taxpayers who receive a notice requiring them to make a correction.

7.2.2. A notice requiring a taxpayer to self correct would need to be very clear about where HMRC believe there is an inaccuracy. This is because, the vast majority of taxpayers wish to get things right. So, if they have submitted an income tax self assessment tax return and signed the declaration thereon, they have submitted what they consider are the correct figures.

7.2.3. Such a notice is likely to drive customer contact, particularly from unrepresented taxpayers, who may not understand what figure they need to change, how to change it and why what they have done is not correct.

7.3. ***Q.14 What are your views on reasonable timeframes for a taxpayer to respond to a taxpayer correction notice and, subsequently, for HMRC to confirm its position?***

7.3.1. The timeframe would need to allow time for a taxpayer to digest the notice, review their tax return or claim, review their supporting calculations and documents, and if necessary seek guidance or advice. It could not therefore be as short as 30 days.

7.3.2. In addition, the timeframes should be balanced. So, if for example, the taxpayer has to respond substantively to a taxpayer correction notice within 60 days, then HMRC should have to confirm their position within 60 days of receiving the taxpayer's response.

7.4. ***Q.15 In addition to the above, what else might HMRC need to take into consideration when designing obligations?***

7.4.1. We understand that this power might be used in situations where HMRC would currently issue a one to many campaign (OTM) letter. HMRC generally use data and risk analysis to aid their targeting of OTM letters, but nevertheless, some OTM letters do not hit the right targets. Some taxpayers that have not made errors receive them. Could the introduction of a legal requirement to make a correction, with the accompanying incentives or penalties, create compliance issues where there is in fact no tax error? A taxpayer who erroneously received such a notice would probably develop a negative attitude towards HMRC.

7.5. ***Q.16 What are your views on any potential impacts, costs or burdens of introducing this approach?***

7.5.1. It would create an added burden for HMRC in terms of policing it. It is not immediately clear how this approach could add value to the existing suite of powers, which includes revenue correction notices and enquiries. We think consideration should be given to making more effective use of the powers under s. 9ZB TMA 1970, before exploring this option further. It may be that if HMRC make

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improvements to the revenue correction notice process, and endeavour to make better use of that power, that this approach is not necessary.

7.6. ***Q.17 What do you think would be an appropriate consequence for non-compliance with a notice, and what factors should HMRC take into consideration?***

- 7.6.1. The information in the consultation document suggests that this power may be used on a one to many type basis. Such letters are, by their very nature, less tailored and personal. It can be less clear to the taxpayer therefore that they need to act on the receipt of such a letter or notice. It is important that the wording in the notice is very clear.
- 7.6.2. We are also aware that some one to many letters go to taxpayers that have not made an error. A notice must make it clear what a taxpayer has to do if they do not believe the notice applies to them – to ensure they are not penalised for non-compliance with the notice when in fact there is no error to correct.
- 7.6.3. Depending on the requirements in the notice, a two-stage response process may be appropriate, with say a deadline for an initial response and a longer deadline for providing a detailed response or making the correction.
- 7.6.4. HMRC will also need to be clear as to what they will accept as evidence that the taxpayer has not actually made an error and so does not need to comply with the notice or make a correction.

7.7. ***Q.18 What incentives could HMRC provide to encourage the taxpayer to comply with a notice in the specified timeframe?***

- 7.7.1. Presumably, if a taxpayer made a correction following the receipt of a notice to self correct, this would be 'prompted'. Perhaps compliance within the specified timeframe could result in reduced penalties, based on the reduction available for being helpful.

7.8. ***Q.19 What are your views on the potential benefits and risks to this approach: for taxpayers, agents and HMRC?***

- 7.8.1. We understand that there are often high non-response rates in respect of one to many campaigns. These notices may suffer the same fate. Before taking this proposal further, we think HMRC need to explore why some campaigns suffer poor response rates. Causes may include incorrect data in respect of postal and/or email addresses, the fact that the target group are simply too busy to respond to something that is not a legal obligation, some recipients thinking it does not apply, poor targeting of the campaign, and some represented taxpayers being advised by their agents not to respond. In the last example, this is because one to many campaigns are not formal enquiries governed by statute – as a result, they are not covered by fee protection insurance.
- 7.8.2. The overall aim of this consultation work is to improve the customer experience and correct inaccuracies more effectively and efficiently. We are not convinced that this proposal will meet these aims.

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7.8.3. Would a simpler and more cost effective approach be to send out reminders of the amendment window to taxpayers that HMRC think may have made errors?

7.9. ***Q.20 What do you believe would be appropriate and proportionate taxpayer safeguards?***

7.9.1. There would need to be a safeguard such that if a taxpayer does not respond, but it turns out that they had not made an error, HMRC cannot issue a penalty simply for failing to respond to the notice.

7.9.2. There would also need to be safeguards around non-delivery of notices.

7.9.3. Time limits are an important safeguard, as honest taxpayers have a fundamental right to closure and certainty after a reasonable time period has elapsed.

LITRG

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Appendix 1

Examples of anonymised queries submitted to the LITRG website via the contact us facility during the years 2020 to 2024 inclusive (<https://www.litrg.org.uk/form/contact>)¹⁰

1. "A company called [company name] completed paperwork on my behalf without me knowing to gain access to my HMRC account. It was done via an ad onFaceBook. Luckily, I had already applied for marriage Tax allowance [...] however, we cannot get them off our HMRC account and I am concerned about my future employment as any tax rebate I am ever due will go to this company I have never even heard of?? [...]"
2. "I've been scammed via [company name] they submitted a claim on 13 dec I never signed anything nor appointed them and they've received my tax refund"
3. "I have have been a victim of fraud by [company name] who have claimed my p800 I have not signed anything and they have not contacted me to advise they have my money I did not give them any consent to act in my behalf"
4. "I am writing to you in regards to a company going by the name of [company name] forging my signature to claim two of my tax rebate cheques and trying to charge me a 52% fee and also asking for bank details and photo Identification for the rest of my money. I have no knowledge of ever dealing with these people for them to act on my behalf nor have I ever signed anything and I can prove the signature on their deed of assignment is not even close to my genuine signature on both my passport & driving license."
5. "Please help. A third party company is collecting my tax rebates and I have never appointed them. [...]"
6. ""On the [...] HMRC sent me a letter saying they owe me a rebate [...]. On the [...] [company name] sent me an E saying the have successfully applied for a rebate and have been sent a cheque for [...] by HMRC. I did not give the company permission to act on my behalf and have had no contact with them. They asked for bank details, photo ID and utility bill to make a payment deducting 52%. Believing it be a scam I didn't. I e mailed the company asking why they acted on my behalf and have had no response. On the [...] I eventually got through to HMRC. At that time the advisors said they were a bona fide company and the cheque had been issued to them. They advised me, unbelievably!, to send off the documents further exposing me to risk of fraud. This I have refused to do. I informed them that the Company had no permission to act on my behalf and any authorization to act had been forged and that they have been victims of fraud.. They advised me to send a letter to HMRC. [...] ""
7. "I have had to raise a complaint with HMRC regarding fraudulent activity relating to a tax rebate that was artificially triggered. Then paid out to a third party company called [company name]. It seems that somebody has calculated the rebate worth just over [...] by altering my income to a ridiculously

¹⁰ We have included the queries as submitted, without amending for errors in spelling, punctuation or grammar. We have omitted parts of some queries where the content is personal or not relevant.

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low amount, as well as adjusting other expenses and professional subscriptions. So that it appeared I was owed this large rebate. The. The cheque was sent to [company name] without me ever consenting to them acting on my behalf. I have looked at an advert regarding them looking into WFH payments but never ever knowingly signed up to them claiming any money for me. I have never received any contract or T&Cs regarding this. HMRC appear to have acted upon a Deed of Assignment - I am waiting after several weeks for a copy of this from HMRC. In the meantime when I reassessed to correct figures on my account HMRC then sent me an order to pay back tax that I have underpaid - which is the money they actually paid out wrongly and to [company name]. I have received several emails from [company name] asking for personal ID to pay [...] that they have saying it's what I am owed and they've gained for me. However I have not passed this information on to them and have asked for evidence of any contract, as well as the full amount to be sent to me or HMRC as a cheque. Somebody either in HMRC or somehow through [company name] has played with my figures to result in an artificially high rebate being triggered - then HMRC paid it out without my consent, now HMRC are asking me for it back. [company name] are not responding. I never received any money and when I go into my account on line I can see every interaction I make. The ones that caused the rebate have no reference or details of individual attached to the interaction. HMRC have not returned any evidence to me yet and therefore cannot provide details of who signed the Deed of Assignment or changed my figures in the beginning. The PAYE MANUAL states all signatures have to be witnessed and wet so they have acted upon invalid documentation and paid out before or without checking. [company name] use a non existent address with an invalid tel number and postcode, and misleading advert to represent HMRC, no conditions or cooling off period / contract was ever received by me. [...]"

8. "My tax rebate has been sent to a company that is unheard of to me. HMRC have informed me that i have signed a deed of assignment. I do not have any recollection of this. [...]"
9. "I found your article regarding tax rebates very interesting, I myself paid [company name] over [...] out of my rebate of [...]. I did not even authorize them to deal with my rebate, [...]"
10. "I have been the victim of a Deed of Assignment scam. The HMRC has paid my [...] refund to a company without my consent or knowledge. I am struggling to get it back or get my issue taken seriously by the HMRC. Action fraud say this is their mistake and their responsibility to get the money back from the company"
11. "Hi I recieved a letter from hm revenue telling me I was owed [...] for tax yr [...] then I recieved a text from [company name] telling me a cheque was sent to them and if I want to receive my money I have to pay them half why would the cheque not be directly sent to me I never asked anybody to act on my behalf to check if I was owed a rebate so I cant understand why they are constantly texting me thanks"
12. "Hello I would be grateful you could let me know if their has been any latest legislation regarding third party claim refund companies and the use of their assignments that they use as a binding agreement so HMRC have to send the refund to them, I have been a victim of crime with a company called [company name] who bought my personal details from another company and made a claim for a tax refund without my knowledge without no contract but had my signature so HMRC paid

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them [...] which I obviously never received any payment if because I had never heard of this company, I have no correspondence from them and the first I heard about them was from HMRC saying a payment had gone to them, I reported to the fraud action line and complained to HMRC but they have responded by saying they received my signed signature so had no choice but to send them the cheque, I asked for the company and any other 3rd party company to be removed from my file and they said they will make a note but if any other signed agreement comes through that will supersede any request I have made, how is that allowed when I have told them I was a victim of fraud and was scammed why can they not take my request as binding and not deal with any company going forward without contacting me first if they feel they have to, I am the tax payer what are my rights I have been s victim of fraud and yet HMRC say I can continue to be a victim because any other company that is now been passed my details can make a claim too Who can I contact regarding this because I do not believe HMRC will not help the tax payer in this instance”

13. “Tax refund been sent to a 3rd party who I have no knowledge at all on.”
14. “HMRC have paid my refund to [company name] without my knowledge/permission”
15. “My husband, [...] received a letter from HMRC, informing him he was due a tax rebate that would be sent to [company name] in the sum of [...]. My husband had never nominated this company to act on his behalf. Months later he received a cheque for [...]. They had taken over a [...] in fees. [...]”
16. “My tax refund was paid to a third party without my consent”
17. “I have received letters from HMRC regarding a payment to a company I don’t know! I do recall a call from someone saying I could be eligible, but told them NOT to bother! I feel wxploited”
18. “I have received a letter from HMRC saying a PPI cheque has been sent to [company name] but I have not received anything. I have not heard from [company name] is this a con?”
19. “HMRC - Instead of investigating themselves when an R40 has obviously been given to them which could not possibly be current as my PPI payout was some 8+ years ago, have sent my Refund to [company name] who are now trying to give me [...] out of [...]. I claimed my own refund online on my government gateway, there was nothing there advising that a rogue R40 had been received by HMRC but they were able to tell me today [...] after spending 2 full hours getting them on the phone (they apparently lost my call after the 1st hour, so i called them again) that the R40 had been submitted to them in [...]. I am so distressed i was waiting on those monies for xmas for gas and electric/shopping! i just feel sick to my stomach.”
20. “I had a tax refund of [...] but only received [...], when I looked into it. It said the refund was made to [company name] who I have never heard if before.. I google the company name and that is how I came across your company. It said if I needed help to contact you.. look forward to hearing from you.”
21. “I am concerned because a company I have never heard of are trying to claim a tax refund on my behalf and have forged my signature. My bank refunded me, and I don't have the info requested by the Inland revenue. If I had of taken up any company's offer they would have known.”