

Insights

COVID-19: IMPACT ON HMRC'S UK COMPLIANCE ACTIVITIES CONTINUES

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SUMMARY

We recently wrote about data published by HMRC in August 2020 which provided some insight into the impact of Covid-19 on HMRC's compliance activities. Since then, on 5 November 2020, HMRC published more recent data for the period July to September 2020, key aspects of which we summarise below. The recent data reveals some of the challenges that HMRC continues to face in respect of its compliance activities; it perhaps exposes just how prolonged and significant the impact of the pandemic could be on the UK's tax authority.

Compliance checks

HMRC's recent data shows that the number of compliance checks opened by HMRC increased by 45% in Q2 2020/21, compared with Q1 2020/21. HMRC opened 27,000 compliance checks in Q1 and 48,000 in Q2. This increase in checks is likely a result of both the re-allocation of resources which may have been initially deployed to respond to the pandemic earlier in 2020, and the inevitable pressure on HMRC to increase revenue in light of the government's fiscal response to Covid-19.

Taxpayers should be aware of this increase in checks. Unfortunately, the data does not reveal whether the additional compliance checks in Q2 2020/21 were focused on any particular areas of compliance.

Compliance yield

HMRC's compliance yield (amounting to total revenues brought in from HMRC's compliance activity) for the first half of 2020/21 is considerably less than that generated in the same period last year – for Q1/Q2 2019/20 HMRC's compliance yield was nearly £21 billion; for the same period this year, HMRC's compliance yield was around £11.8 billion. This represents a c.45% drop and provides some insight into the magnitude of the current challenges faced by HMRC. However, despite this significant drop, HMRC's compliance yield for Q2 2020/21 was c.£400 million more than HMRC had

forecasted, and HMRC's compliance yield will likely increase as the number of compliance checks continues to increase.

Statutory reviews

The number of statutory reviews conducted by HMRC during the first half of 2020/21 is considerably lower than the number conducted in the same period in 2019/20. In Q1/Q2 2019/20, HMRC conducted 12,953 reviews; in Q1/Q2 2020/21, HMRC conducted just 3,179 reviews.

However, interestingly, the number of reviews where HMRC's decision was upheld is significantly higher for the first half of 2020/21 compared with the same period in 2019/20. In the first half of 2019/20, HMRC's decision was upheld in only 32% of cases, with HMRC's decision being cancelled in 56% of cases. Contrast this with 51% of decisions being upheld for the first half of 2020/21, with 40% being cancelled.

As above, there have been far fewer reviews in 2020/21 compared with 2019/20, but the significant increase in "upholds" thus far in 2020/21 is interesting nonetheless.

Litigation

The number of litigation cases HMRC has had during the first half of 2020/21 is less than half that of the same period last year, although HMRC's success rate continues to remain high. HMRC recorded 470 litigation cases for Q1/Q2 2020/21. This is less than half of the 1,052 cases recorded for the same period last year. While HMRC's success rate for Q2 2020/21 remained high at 85.8%, the number of cases going through the courts continues to be lower than in 2019/20. This is demonstrated by the number of cases won and lost by HMRC in the first half of this year – in Q1/Q2 2020/21, HMRC records that it won 378 and lost 70 cases; compare this with Q1/Q2 2019/20, where HMRC records that it won 752 and lost 222 cases. However, per our previous blog, the numbers of cases listed in the First-tier Tribunal (Tax Chamber) are increasing, with 37 listed for week commencing 9 November 2020.

The published data also shows that there has been an increase in HMRC's criminal compliance activities in Q2 2020/21 compared with Q1 2020/21; however, overall there is far less activity when compared with the same period last year. For example, the number of prosecutions increased from 14 in Q1 2020/21 to 47 in Q2 2020/21, but this was far below the number of prosecutions for 2019/20 which averaged c.173 prosecutions per quarter.

Comment

The data published by HMRC shows that the impact of Covid-19 has been significant. While Q2 2020/21 has brought some uptick in HMRC's compliance activities compared with Q1 2020/21, the numbers are far from those achieved in 2019/20. It remains to be seen how quickly HMRC will be able to resume the productivity levels it sustained pre-pandemic.

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