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Fiscal Collapse? Britain's HMRC Tax Authority In Meltdown. Impacts on Funding Schools, Hospitals and vital Public Services.

By True Publica
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Yesterday the Tax Justice Network was in the UK Parliament to launch a report it had co-produced with the Public and Commercial Services Union. The report, entitled "HMRC, Building an Uncertain Future" is a study of HMRC's (the UK tax authority) reform plans which it is calling "Building our Future".

The report published yesterday analysed the proposed reforms at HMRC by looking at the history of the department's reform programmes and using a survey of 2000 HMRC staff who are members of the PCS Union. Although the report only deals with the UK tax authority, the findings may seem familiar to many tax authorities around the world who have faced austerity drives in recent years. In this article report author George Turner sets out some the issues.

Reform at HMRC

Since the HMRC was formed in 2006 as a merger between the Inland Revenue and HM Customs, the department has been subject to a series of internal reorganisations and change programmes. The current proposals formulated by HMRC management, Building our Future (BoF), are the most radical and far reaching changes proposed so far.

The department says that BoF is part of a drive to become the most 'digitally advanced' revenue service in the world. In the 'vision' of HMRC management this digital new world will almost entirely eliminate phone and postal enquiries from members of the public and small businesses. There will be much less need for staff to process forms or speak to taxpayers, who will be delighted to interact solely with a computer. As a result staff will be freed up to work on more complex issues. This will mean staff being moved away from boring administrative jobs and retrained to tackle tax avoidance and evasion.

That is the spin. In reality the changes mean redundancy for thousands of employees and the closure of 170 HMRC offices located around the country. All remaining staff will be moved to 13 regional centres and 4 specialist centres, many far away from the people they are supposed to serve.

The plans are nothing new. Since 2006 HMRC have spent billions in an effort to move tax payers to automated, digital services. At the same time they slashed staff numbers arguing that an increase in the uptake of digital services would lead to fewer demands on staff time.

Unfortunately for taxpayers, the department got their forecasts wrong. The public kept

calling and mailing kept arriving. The reductions in staff numbers meant that the department became overwhelmed and standards of service to taxpayers collapsed.

Management failure piles pressure on staff

To compensate for these failures management responded by heaping yet more pressure on staff, introducing a system of staff appraisals called performance management review.

This system, which pitted staff against each other in an attempt to drive up performance, was developed by the private sector in the 1970s. It had already been abandoned by most companies that had adopted it by the time HMRC implemented it due to being ineffective. This and other management initiatives have simply led to more time lost to form filling and administration, further damaging the departments capacity to tackle tax evasion.

To make matters worse, promised increases in staff numbers in the compliance department have not materialised. As a result, the department fell drastically short in their efforts to combat offshore tax evasion though several high profile disclosure schemes run by the department.

The staff that have remained at HMRC are poorly paid and under trained. According to research carried out for our report, most people working at HMRC are paid less than the UK average wage and less than half the salary of an employee of a big four accountancy firm. The department also spends far less per employee on training than the big four.

Today, the department is at breaking point. A decade of reforms that have failed to deliver, coupled with a series of further failures in the management of contracts and staff have wrecked confidence in management. Staff are hugely demoralised,25% want to leave the department immediately or within a year and the department scores below average in almost all of the measures on the Civil Service's annual staff survey. The public image of HMRC has been severely damaged by a string of highly critical reports from one of the few bodies that provides any oversight to the department, Parliament's Public Accounts Committee.

Cutting costs and corners

How did this department, which is so essential to the functioning of government, manage to get itself in such a position?

One answer is that improvements in service quality have never been at the heart of HMRC's many change programmes. Instead, cuts in the HMRC budget have been the primary driver of change, and the promise that change could still deliver the service required on a lower budget have simply been a useful (if inaccurate) justification for those cuts.

Long before the period of austerity started in 2010 HMRC was facing real terms cuts to its budget. Today, the budget in cash terms is the same as was available to the two pre-merger departments in the year 2000. That is before we take into account the substantial cost of inflation (around 40%). As a direct result of these cuts, the numbers of staff employed by HMRC has fallen drastically and is scheduled to fall further to fewer than 50,000 under BoF; less than half the department's size at the time of the merger.

But rather than fighting to make sure that that the department is adequately resourced to do the job required, management have sought to demonstrate to government how they are

doing a great job on fewer resources. Our report found mismatches in the way that the department collected statistics on enforcement and tax collections which appeared to show that management were cherry picking facts and figures to make sure that the department is presented in the most favourable light to the government.

An essential government service at risk

HMRC is unique among government departments in that its function is to raise the revenue which is used to support public spending; on schools, hospitals and other vital public services. Our report shows that in the judgement of many experienced tax inspectors and customs officials, the Building our Future plans pose a serious risk to tax collection in the UK, and with it, our public services.

The closure of so many offices will mean that large parts of the country, including major cities and ports, will be left without any visible HMRC presence. In Scotland there will be no HMRC presence North of Glasgow. In England there will be no office East of London, South of London or West of Bristol. The whole of Wales will have one office in Cardiff. Northern Ireland will have one office in Belfast.

This will create significant difficulties for HMRC staff, who are often required to visit businesses and ports to carry out their work. In addition, by abandoning so many parts of the country the department risks losing huge numbers of experienced staff.

Time to act

At a time of government imposed austerity, when the public have a vanishing tolerance for tax evasion and tax avoidance, Ministers can no longer ignore the ongoing crisis at HMRC. It is now time for the government to stop the HMRC Commissioners' from putting our tax collection system at risk though Building our Future, and to engage seriously with the staff on building a properly resourced tax collection system, able to take on the many challenges posed by tax havens, secrecy and international tax avoidance and evasion in the 21st Century.

Download the full report from the PCS website here.

Articles by: True Publica