



National Audit Office

**REPORT BY THE  
COMPTROLLER AND  
AUDITOR GENERAL**

**HC 677  
SESSION 2010–2011  
17 DECEMBER 2010**

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**HM Revenue & Customs**

# Managing civil tax investigations

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National Audit Office

**HM Revenue & Customs**

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**Report by the Comptroller and Auditor General**

HC 677 Session 2010–2011  
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Amyas Morse  
Comptroller and  
Auditor General

National Audit Office

15 December 2010

In 2009-10, HM Revenue and Customs collected £435 billion in tax. Protecting tax revenues against fraud and evasion is essential for the tax system to operate fairly and support the Government's economic and social objectives.

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This report can be found on the National Audit Office website at [www.nao.org.uk/Civil-Tax-2010](http://www.nao.org.uk/Civil-Tax-2010)

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# Summary

**1** In 2009-10, HM Revenue and Customs (the Department) collected £435 billion in tax. Protecting tax revenues against fraud and evasion is essential for the tax system to operate fairly and support the Government's economic and social objectives. Most taxpayers seek to comply but a minority deliberately evade their obligations. In 2008-09, the Department estimated that the UK tax gap – the difference between the tax payable if all obligations are fully met and tax actually collected – was around £42 billion. It estimated £15 billion was due to fraud, evasion and criminal attack with the remainder due to error, non-payment and avoidance.

**2** The Department's objective is to improve the extent to which individuals and businesses pay the tax due. It employs various methods to do this, from supporting those who want to comply through to identifying those who evade and imposing civil and criminal sanctions. Civil investigations are an important element of the work to tackle serious non-compliance aimed at recovering tax evaded and imposing financial penalties. They sit alongside criminal investigations, undertaken with a view to prosecution, and a range of other work designed to prevent revenue loss. The Specialist Investigations and Local Compliance Directorates, which form part of the Enforcement and Compliance business area, conduct most civil investigations (Figure 1 on page 12).

**3** The Department's aims, as announced in its 2011-2015 Business Plan, are to be more efficient, more flexible in dealing with its customers and more effective in bringing in revenue. It plans to invest in work against tax avoidance and evasion to bring in an additional £7 billion of tax revenue a year by 2014-15. It plans to achieve this by using its understanding of customer needs and behaviour to focus its efforts where they will have the greatest effect.

**4** This report examines whether the Department is managing its civil investigations efficiently and effectively by making best use of resources to maximise levels of compliance and tax revenue. Part One examines the results of civil investigations and Enforcement and Compliance's approach to managing investigation resources. Part Two assesses whether the system for referring cases of suspected serious non-compliance is operating effectively. Part Three examines the approach to managing civil investigations, focusing on the civil investigation of fraud procedure, a key mechanism for investigating serious fraud and evasion. Part Four evaluates whether the Department is maximising the impact of civil investigations by applying appropriate sanctions, collecting debts promptly and sending strong deterrent messages to potential evaders. Appendix One contains our methodology.

## Key findings

### On managing civil investigation resources

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We examined how the Department monitors the impact of its civil investigations and makes resource allocation decisions. We examined the approach to civil investigations within the broader context of the Department's management of its compliance and enforcement resources.

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**5 The civil investigation directorates have delivered increasing levels of yield [paragraphs 1.10-1.12].** In 2009-10, they generated yield of £8.5 billion, an increase of 49 per cent in real terms since 2007-08. Yield is the estimate of additional tax arising from compliance work. The two directorates have delivered year-on-year increases in yield and, over the same period, reduced their expenditure by 10 per cent in real terms to £567 million. The return on enforcement work has increased from 9:1 to 15:1. These directorates undertake a range of enforcement activities and it is not possible to state the return specifically on civil investigations.

**6 The Department's performance framework has not captured the full impact of civil investigations and other enforcement work [paragraphs 1.5-1.9].** The Department has used yield as its primary measure for monitoring the impact of civil investigations. Yield is the most readily measurable element of performance and provides a hard measure of the value of investigation work. However, used alone, it does not capture the full impact of investigations, such as the effect on taxpayer behaviour, or encourage preventative work to improve compliance. The Department plans to introduce a broader range of performance metrics in 2011 to assess the impact of its enforcement activities in the context of its new strategy for tailoring work according to the needs, abilities and motivations of customers.

**7 Enforcement and Compliance has not had all the management information necessary to manage civil investigation resources effectively [paragraphs 1.13-1.22].** It has monitored progress towards targets but has not established sufficiently detailed information on the cost-effectiveness of different types of enforcement activity or productivity. Limited information on the capacity of investigation teams has restricted its ability to compare performance across directorates. To date, the civil investigation directorates have generally outperformed their yield targets by over 10 per cent. Enforcement and Compliance has set much higher targets for 2010-11 to achieve the Department's three-year target to reduce tax losses. It is also strengthening its management of resources by refining its approach to annual budgeting; rolling-out a case management system to collect more detailed management information; and developing a resource allocation model. The Department is therefore in a transition phase but there is further to go. In particular, a better understanding of the returns on compliance and enforcement activities would inform decisions on how to deploy resources to best effect.

## On referring cases for civil investigation by specialist teams

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We examined whether the system for escalating potential cases of serious non-compliance was operating effectively.

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**8 The system for escalating cases for investigation has yet to become fully effective [paragraphs 2.4-2.9].** The introduction of the referral system has enabled the Department to refer promptly some 4,000 cases a year to specialist teams to consider the need for criminal and civil investigation. The number of referred cases has fallen by 13 per cent since 2008. In 2008-09, 20 per cent of referrals were adopted by specialist civil investigation teams with the remainder returned to the originating officer to pursue. The Department has not set a benchmark for the expected adoption rate and has not assessed the reasons for rejection, which would provide insight into the quality of referrals. This would help it judge whether the referral system is operating effectively in focusing specialist resources and handling cases appropriately. The Department is introducing changes by March 2011 to increase the throughput and quality of referred cases.

**9 The Department routinely assesses the threats to tax revenue and is exploiting new information from the referral system to refine its understanding of evasion [paragraphs 2.10-2.14].** Enforcement and Compliance assesses continually the risks and threats to the tax system. It uses this knowledge to inform its strategic priorities; take action on threats; inform the choice of compliance campaigns; and identify cases for compliance checks. The Department uses intelligence from various sources and is making increasing use of data from the referral system to improve its risk profiling. Further use of this growing body of empirical evidence would help the Department refine its understanding of the characteristics of serious fraud and there are opportunities to extend its modelling work on attitudes that are driving evasion.

## On managing civil investigations of fraud

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Our analysis focused on the Department's management of civil investigations of fraud, which is a key mechanism for penalising serious fraud.

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**10 The Department could reduce the time taken to complete civil investigations of fraud [paragraphs 3.5-3.11].** The investigations are often complex and involve detailed examination of a person's tax affairs. In 2009-10, the average elapsed time of these investigations was 25 months, compared to an internal target of 18 months. Investigation teams completed 25 per cent of cases within the target time, while 15 per cent of investigations took over three years. There were also wide variations across civil investigation teams in the average elapsed time of completed and live investigations. Our analysis showed the need to exert more management pressure to reduce elapsed times and potential to re-model the civil investigation of fraud process.



**11 While civil investigations of fraud yield good returns, the Department has identified the need to improve their wider effectiveness [paragraphs 3.4, 3.12-3.14].** Investigation teams have made over 900 settlements over the last three years, resulting in yield of £294 million. In 2009-10, the average yield per investigation was £329,000 – nineteen times their cost – reflecting the larger amounts of tax at stake and their potential. The Department reviewed the process but has limited trend data on its effectiveness in encouraging disclosure and cooperation. It is considering how to increase its wider deterrent effect and has identified the need to underpin investigations with a credible threat, including prosecution or the use of insolvency powers, in cases of non-cooperation.

### On maximising the impact of investigations

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Punishing evasion and deterring non-compliance are key components of an effective enforcement regime. Focusing mainly on civil investigations of fraud, we assessed how the Department applies penalties; seeks prompt payment; and promotes awareness of its sanctions.

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**12 The Department needs a clearer picture of the penalties imposed on civil investigations [paragraphs 4.2-4.10].** There are provisions to reduce penalties to reflect taxpayer cooperation and disclosure, and the nature of errors and omissions. The Department has quality assurance arrangements to review penalties imposed on individual cases but has not analysed the level of penalties applied across civil investigations for variations between local offices; types of investigation; or trends over time. On civil investigations of fraud completed in 2009-10, the average penalty was 21 per cent of the tax due. Twenty eight per cent of these investigations involved a penalty of less than 10 per cent, half of which involved no penalty. In June 2010, the Department commissioned a review of the new penalty regime, which came into force for tax returns from April 2008, and is implementing changes to achieve quicker and more consistent penalty decisions.

**13 The Department does not routinely monitor whether tax and penalties due from completed investigations have been collected [paragraphs 4.11-4.14].** The Department usually seeks an upfront payment from taxpayers under investigation and pursues outstanding tax, interest and penalties on settlement. It does not specifically prioritise tax and penalties due from investigations for debt recovery, although that might happen as debts are prioritised by risk and value. It could not trace whether payment had been received on 27 per cent of the outstanding tax due on civil investigations of fraud passed for collection in 2008-09 as it was not possible to reconcile case management and accounting databases. Of the £58 million that could be traced, 84 per cent had been collected. As part of a broader set of metrics planned for 2011, the Department plans to measure the ‘cash collected from interventions’.

**14 The Department has used campaigns to raise awareness of its enforcement activities in targeted high risk areas [paragraphs 4.15-4.18].** The Department has focused its campaigns on specific high risk groups, such as offshore evasion and health professionals. New legislation has allowed the Department to make arrangements to publicly name those caught deliberately evading tax and to monitor more closely their future compliance.

### Conclusion on value for money

**15** Over the last three years the return on the Department's civil investigation directorates has increased from 9:1 to 15:1, reflecting a reduction in resources deployed and increasing levels of revenue generated. These directorates have also delivered a range of other activities to prevent future tax losses and improve taxpayer compliance. The Department is making important changes to gain a better understanding of its performance and strengthen management of enforcement resources. These improvements in performance and work underway represent significant steps towards achieving value for money. Greater value could be obtained from exploiting more fully the potential of civil investigations by ensuring dedicated investigation resources are deployed more closely to the risks; concluding cases more quickly; and strengthening their deterrent effect. The Department also needs to better understand the relative returns and costs of different enforcement activities, including civil investigations, and their wider impact on compliance and taxpayer behaviour. The Department has begun to assess the impact of different resourcing levels on yield. This information, along with a better understanding of the capacity of investigation teams, will help the Department make more informed decisions on deploying resources and demonstrate its achievement of value for money.

### Recommendations

**16** Our recommendations aim to help the Department improve the efficiency and effectiveness of its civil investigations and refine further its approach to managing resources.

**a Enforcement and Compliance is not yet able to determine the most cost-effective use of resources.** It has taken steps to strengthen its management of resources, including developing a resource allocation model, but could go further by:

- building a better understanding of the return on different enforcement activities to assess the most cost-effective mix. To achieve this, it should develop more consistent data across directorates on the costs and impact of different activities. This involves developing a broader range of quantifiable outputs and, over the longer term, better measures of the impact on taxpayer behaviours and compliance; and
- assessing the performance and capacity of investigation teams by developing quality and efficiency metrics and establishing clear accountabilities for performance at operational level within directorates.

- b** **There is scope to improve the effectiveness of the referral system and improve the quality of cases referred for investigation.** Enforcement and Compliance should:
- in addition to proposed changes to the system, establish better management information to develop its understanding of the effectiveness of the system and treatment of cases;
  - use the growing body of empirical evidence, including feedback on completed investigations, to extend its modelling of evasion behaviours; and
  - assess the potential from its new risk modelling to generate more suspected cases of serious evasion specifically for specialist investigation teams.
- c** **Civil investigations of fraud have delivered good returns, but there is scope for them to achieve more.** Our analysis shows there is scope to strengthen the process. The Department should:
- reduce the average time taken to complete investigations by: ensuring disclosure reports are commensurate to the size and complexity of the investigation; seeking to work more closely with tax agents to improve the quality and completeness of disclosure reports; and ensuring a clearer focus in following up disclosure reports, identifying where interventions will add most value; and
  - ensure that the civil investigation of fraud procedure is widely understood by taxpayers and agents, and there is a credible deterrence to non-cooperation. It should monitor the level of voluntary disclosures and non-compliance, alongside time taken and penalty rates, to better assess the effectiveness of the process.
- d** **The Department does not have a clear picture of the penalties imposed on civil investigations.** It should rigorously apply its new penalty rules for those found to have evaded their obligations and strengthen arrangements to ensure that penalty reductions under the civil investigation of fraud procedure are applied consistently across directorates. It should also collect better management information on the application of penalties on all civil investigations to enable periodic review of the level of penalties and analysis of the factors influencing the penalty rates, such as voluntary disclosure and taxpayer cooperation.

- e** **The Department cannot easily trace whether debts from completed investigations have been paid in full.** It should strengthen its management of investigation debt by:

  - assessing how it could track cases as they are passed between different databases or periodically assessing a sample of cases;
  - ensuring that investigation debts are identifiable and given appropriate weighting in risk profiling, and extending the campaigns approach to investigation debts; and
  - developing closer liaison between debt management and investigation teams so that debt recovery actions are based on a better understanding of the taxpayer's financial position.
  
- f** **Maximising the deterrent effect from investigations is an important element of achieving value for money.** The Department should seek to raise awareness of its enforcement work and powers by targeting specialist or trade publications and developing closer partnerships with professional bodies and training institutes.

# Part One

## Managing civil investigation resources

**1.1** We assessed how the Department measures the impact of its civil investigations and allocates resources to this work. This Part:

- explains the broader context of the Department's compliance and enforcement work;
- assesses the contribution of the civil investigation directorates; and
- examines how the Department allocates resources and monitors the performance of civil investigation teams.

### The Department's approach to compliance and enforcement

#### Strategic objectives

**1.2** The Department has a strategic objective to improve the extent to which individuals and businesses pay the tax due. A key element is to close the tax gap, which is the difference between tax actually collected and the amount which, in the Department's view, should be paid if taxpayers met their obligations in full. The movement in the size of the tax gap is the optimal measure for gauging the Department's long-term performance in tackling non-compliance. The Department has improved its methodologies over time but the challenges in developing up-to-date estimates mean that other measures are also needed to assess performance in real-time.

**1.3** In 2008-09, the Department estimated that the annual tax gap was £42 billion (9 per cent of theoretical tax receipts). The Department estimates that some £15 billion of the tax gap is due to fraud, evasion and criminal attack, deriving from the non-compliance of approximately 5 per cent of individuals and 7 per cent of businesses and also from organised criminal activity. This equates to over 1.5 million individuals and some 300,000 businesses.

**1.4** One of the Department's targets has been to reduce tax losses by £7 billion by 2010-11. It uses a combination of measures to assess progress. For VAT and excise duties, where it has more established methodologies, it uses changes in the level of the tax gap. For other taxes, because of the difficulty in estimating the tax gap, it uses the movement in compliance yield, above an agreed baseline. Yield is the estimated additional tax generated from compliance activities.

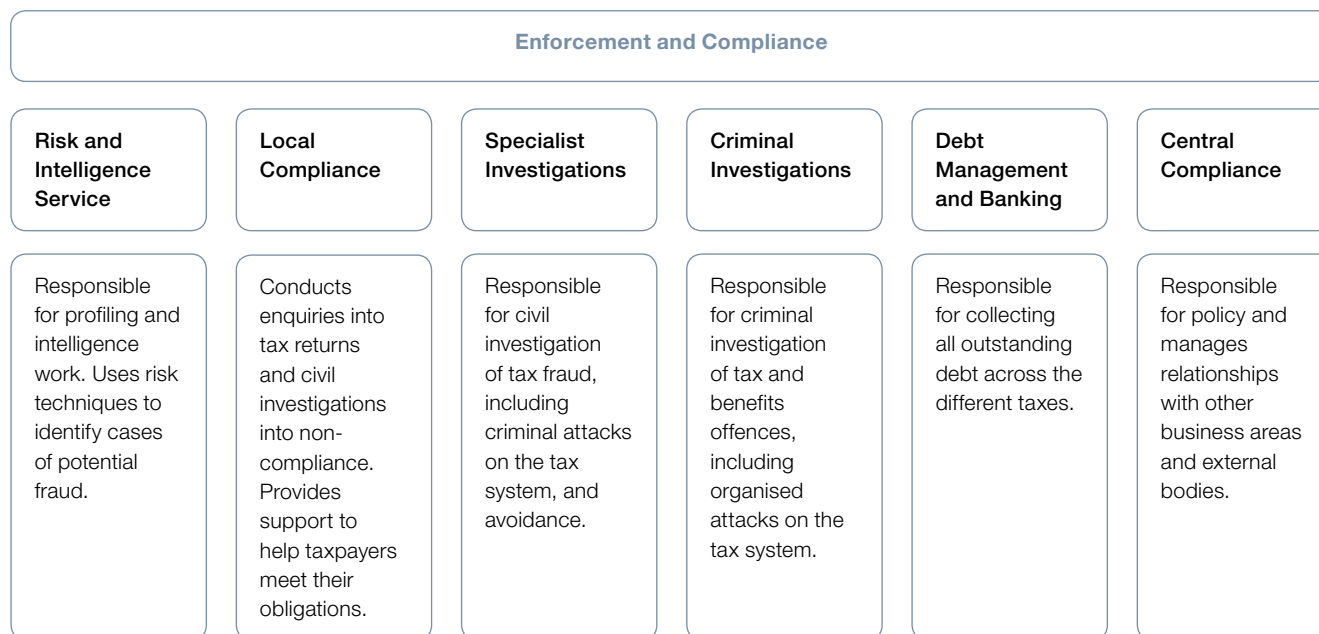
## Enforcement and Compliance's performance

**1.5** The Enforcement and Compliance business area undertakes a wide range of work to contribute to the Department's strategic objective, from helping people to understand and fulfil their obligations; conducting enquiries into suspected errors; through to civil and criminal investigations to tackle serious non-compliance. It has developed clear lines of accountability within the business area (**Figure 1**) and established a number of strategies to inform its approach. Enforcement and Compliance is consolidating its strategic approach within the Department's new customer-centric strategy.

**1.6** Enforcement and Compliance is currently devising plans to implement the Department's new business plan for 2011-15. The Department aims to be more efficient, more flexible in dealing with customers and more effective in bringing in revenues. It is seeking to remodel its services and invest in work against tax avoidance, evasion and fraud to bring in an additional £7 billion of tax revenues a year by 2014-15. It is using the new customer centric-strategy to tailor its interventions to specific customer groups and focus efforts where they will have greatest effect.

**Figure 1**

The Enforcement and Compliance business area



Source: HM Revenue & Customs

**1.7** Enforcement and Compliance has used 'yield' as the key measure for monitoring the impact of its activities. In 2009-10, it achieved yield of £8.5 billion, an increase of 49 per cent in real terms on 2007-08. The increase has been achieved with reductions of 8 per cent in expenditure and 16 per cent in the business area's workforce.

**1.8** Enforcement and Compliance also undertakes other important work to prevent future tax losses and increase taxpayer compliance, which does not generate yield. For example, reported achievements in 2009-10 included seizing more than 1 billion illicit cigarettes bound for the UK and preventing losses of over £1 billion in VAT repayment fraud. It has also supported various initiatives to improve its capability; for example, modernising its investigation powers and establishing a new penalty regime.

**1.9** While yield is the most readily measurable element of the impact of compliance and enforcement work, used alone, it does not provide a complete measure of performance. In particular, it does not:

- cover the full range of compliance and enforcement work; for example, it does not provide a measure of the impact of preventative work to increase compliance;
- measure the impact on taxpayer behaviours or indicate the impact on the overall level of tax compliance; and
- encourage a balance between meeting short-term priorities of generating tax revenues with longer-term outcomes of improving taxpayer compliance.

As part of the 2011-15 Business Plan, the Department intends to develop a new performance framework, from April 2011, to provide a broader set of metrics to capture the full impact of its work.

## The contribution of civil investigation directorates

**1.10** Two directorates – Local Compliance and Specialist Investigations – are responsible for conducting most civil investigations. These directorates are the main yield-generating directorates of the Enforcement and Compliance business area.

### Reported performance

**1.11** Local Compliance undertakes a wide range of enforcement activities. Between 2007-08 and 2009-10, the yield from its work increased by 59 per cent in real terms (**Figure 2** overleaf shows actual figures for each year). The increase in 2009-10 was mainly due to the expansion of priority work in assessing the validity of backdated VAT repayment claims, arising from changes in the cut-off period for submitting such claims. Excluding this yield, the Directorate achieved a 14 per cent increase over the period resulting from an increased focus on high risk cases and greater use of education and support in lower risk areas. The Directorate has also reduced expenditure over the three years, so the return, measured by the yield:cost ratio, increased from 8:1 to 14:1.

**Figure 2**

Civil investigation directorates: tax yield and expenditure 2007-08 to 2009-10

<b>Local Compliance</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
Yield (£m)	4,289	5,293	7,153
Net Expenditure (£m)	539	520	494
Yield:cost ratio	8:1	10:1	14:1
<b>Specialist Investigations</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
Yield (£m)	1,166	1,285	1,375
Net Expenditure (£m)	65	70	73
Yield:cost ratio	18:1	18:1	19:1
<b>Aggregate yield:cost ratio for both directorates</b>	<b>9:1</b>	<b>11:1</b>	<b>15:1</b>

**NOTES**

1 The directorates also undertake work that does not generate yield.

2 Net expenditure excludes costs recovered from other departments and third parties.

Source: National Audit Office analysis of HM Revenue & Customs data

**1.12** Specialist Investigations undertakes a range of civil investigations, including fraud, avoidance, insolvency and excise cases. Between 2007-08 and 2009-10, it increased its yield by 13 per cent in real terms and achieved a small increase in the yield:cost ratio to 19:1.

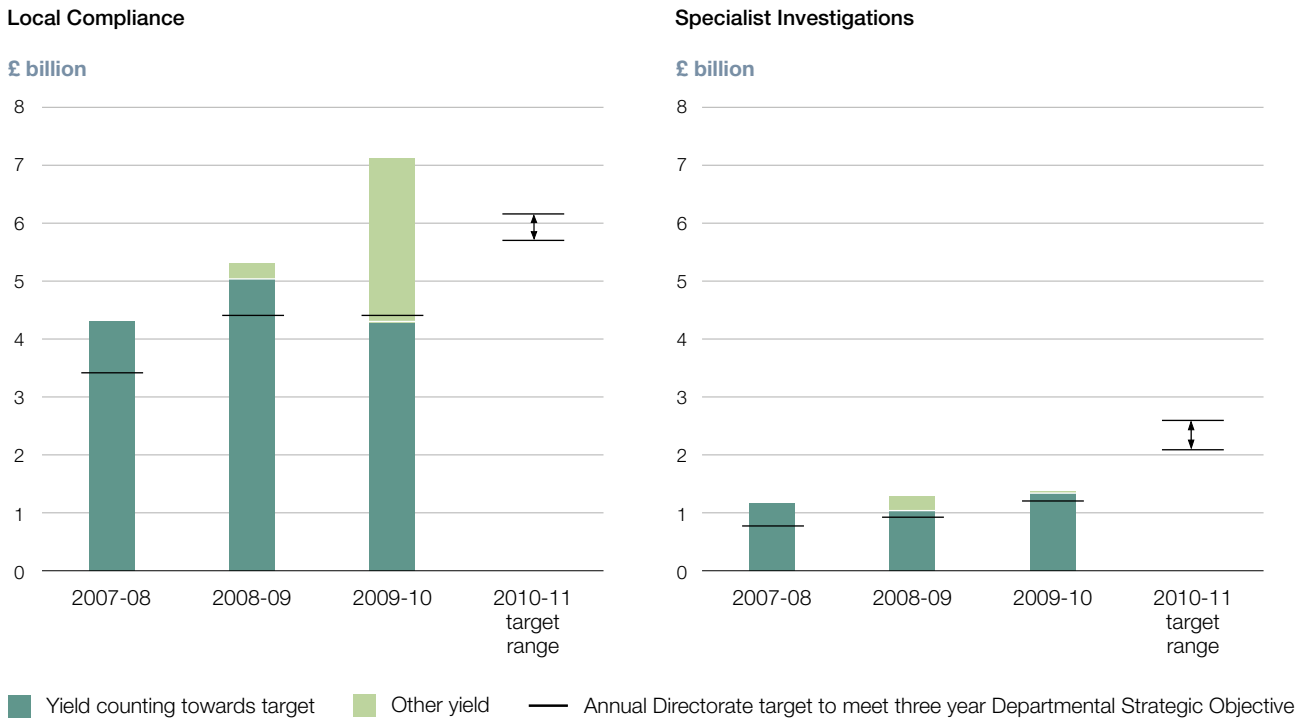
## Performance against yield targets

**1.13** Enforcement and Compliance set high level targets for directorates based on the progress required to meet its strategic objective of reducing tax losses by £7 billion over the three years to March 2011. In 2008, it estimated the progress required each year across different taxes and set annual yield targets for directorates. As Enforcement and Compliance has had less resource and fewer staff over the last three years, it has sought to achieve targets by delivering performance improvements through various change initiatives designed to strengthen capability and ways of working.

**1.14** Local Compliance exceeded its yield target by at least 15 per cent in 2007-08 and 2008-09, but narrowly missed its target in 2009-10 when it deployed resource on other priority work (**Figure 3**). Specialist Investigations exceeded its target by at least 13 per cent each year. Both directorates have generated additional yield that does not count towards the Department's target and undertaken work to prevent revenue loss. Enforcement and Compliance has set much higher targets for 2010-11, which represent the progress now required in the final year to meet the three-year Departmental target. The 2010-11 target was also set as a range to incentivise delivery of the upper figure.



**Figure 3**  
Performance against targets



**NOTE**

1 Only yield that contributes to a reduction in the tax gap counts towards the Department's Strategic Objective. In 2009-10, Local Compliance generated £2.1 billion of yield that related to the prevention of overpayments of VAT claims (paragraph 1.11).

Source: HM Revenue & Customs

**1.15** The civil investigation directorates translated their high-level targets into operational targets for their teams, based on estimates of the expected yield from ongoing investigations and planned work. To ensure that operational targets are sufficiently challenging, the directorates require a better understanding of the capacity of investigation teams and the returns from different types of work. Our analysis of the performance of Local Compliance civil investigation of fraud teams showed that there were wide variations in their workload; for example, in terms of number of cases or settlements per investigator; and the average yield per investigator. The Specialist Investigations directorate did not collate equivalent information as their investigation teams undertake a mix of avoidance and evasion cases.

## **Monitoring costs and performance of civil investigation directorates**

**1.16** Enforcement and Compliance spent £1 billion on the wide range of enforcement and compliance activities in 2009-10. Directorates bid each year for resources to deliver their yield targets and other work commitments. Enforcement and Compliance also re-allocates staff, as needed, to tackle identified high risk areas; for example, the scrutiny of VAT repayments. It monitors monthly the spending of directorates against budgets and their progress towards targets.

**1.17** While Enforcement and Compliance has collected management information to monitor performance, it has limited information to judge the most cost-effective mix of activities across directorates. For example, it has been unable to establish detailed cost information on different enforcement activities, including unit costs, as cost data is based on teams which may undertake a range of activities. Management information is also drawn from a number of disparate systems which means it is difficult to aggregate performance data consistently to make comparisons across directorates. The Department is addressing this by rolling-out a single case management system that should make it easier to extract consistent information on the cost and return on civil investigations, thus enabling a more detailed analysis of performance and better comparisons between teams.

**1.18** The existence of different data systems also restricts the Department's ability to monitor progress towards yield targets in real time. Internal Audit highlighted that inconsistencies in 'yield' definitions made meaningful comparisons of performance between directorates difficult. It also found that the Department needed to make manual year-end adjustments to remove duplications in reporting. To establish trend data, we also made a number of adjustments to the Specialist Investigations yield figures to take account of internal reorganisations and present its performance on a consistent basis (Figure 2). The Department is standardising the definition of yield in developing new performance measures for 2011.

**1.19** Within directorates, the management information on the performance and capacity of investigations teams is inconsistent, restricting their ability to understand capacity and compare the cost-effectiveness of investigation teams. For example, Local Compliance has collated more detailed information on the efficiency and outputs of its civil investigation teams. Specialist Investigations established a regional structure in 2010 and has refined the management information needed.

**1.20** Enforcement and Compliance has recognised the need to strengthen its understanding of performance and is implementing a number of initiatives to improve its ability to make more informed resource allocation decisions. In particular, it is developing a resource allocation model to compare the return from different activities and consider the impact of different case mixes on yield. So far, it has used the model to estimate the potential impact of different resourcing levels. The next step is to use the model to inform resource allocation decisions across directorates. It will be important to refine further the model's assumptions by considering the expected yield:cost ratio from different types of investigation; and understanding better the wider impact on customer behaviour.

**1.21** Enforcement and Compliance has also sought to strengthen its management of resources by:

- revising the annual budgeting process to introduce greater challenge to directorates' resource bids – directorates now have to justify bids from a zero-base and demonstrate the contribution to targets;
- creating a cross-directorate team to develop a more coordinated approach to planning;
- seeking to improve the link between resources and performance by introducing more quantifiable measures of productivity; and
- implementing a longer-term enforcement and compliance strategic workforce plan to align the workforce with future operational needs.

**1.22** In 2009, the Department introduced 'performance hubs' to improve the quality and accessibility of management information. The Enforcement and Compliance hub includes high level performance results; risks to the business; and workforce statistics. The introduction of performance hubs has increased the focus and time spent by senior management on performance issues. The NAO review *Performance Frameworks and Board Reporting*<sup>1</sup> found that the key to an effective performance measurement framework was a comprehensive but concise view of performance. While the information in the hubs represents a marked improvement on previous information, it lacks a focused 'end to end' view of enforcement and compliance work; for example, by establishing key input and output metrics on the key stages of investigations. Directorates should establish better metrics on the performance of their teams and ensure data can be aggregated consistently to inform Board reporting. Enforcement and Compliance will also need to refine its management information to monitor progress against the new performance framework, to be introduced in April 2011, and establish baseline metrics to assess its achievements.

<sup>1</sup> National Audit Office, *Performance Frameworks and Board Reporting*, 2009.

# Part Two

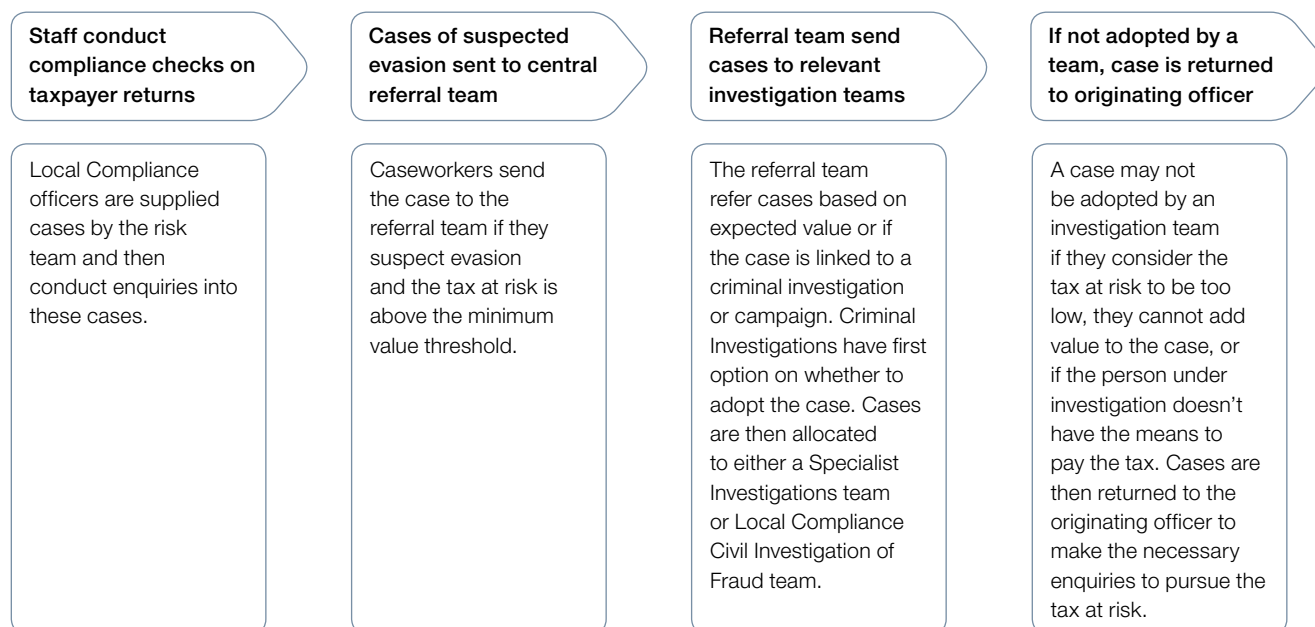
## Referring cases for civil investigation

**2.1** This Part examines the effectiveness of the Department's system for referring cases of suspected fraud and evasion to investigation teams.

**2.2** Referring suspected evasion cases promptly to specialist investigation teams is important in ensuring the appropriate treatment of cases, prompt collection of taxes and effective use of resources. The Department established a central case referral system in 2007 to increase consistency in case escalation and gather intelligence to inform the national picture of risk. It also ensures that cases are considered for possible criminal investigation. The mandatory system replaced a system of locally based liaison officers and referral is based primarily on the estimated value of tax at risk (**Figure 4**).

**Figure 4**

How the referral system works



Source: HM Revenue & Customs

**2.3** In 2010, the Department recognised the need to improve the effectiveness of the referral system and reviewed its operation. We analysed data on the volume and nature of referrals and drew on the Department's review to assess whether the system was meeting its objectives.

### The referral of cases

**2.4** The introduction of the referral system has ensured that large numbers of cases are considered promptly for potential investigation. The Department's review concluded that the system had met its original objectives in escalating cases according to the referral criteria. The referral team met its performance target of referring cases within five days throughout 2009-10.

**2.5** The Department's ability to identify serious non-compliance cases is largely based on the quality of its risk profiling and the ability of its caseworkers to identify potential fraud and evasion. In 2008-09, caseworkers conducted enquiries on 265,000 cases, selected because of an identified risk of underpayment of tax and identified suspicions of fraud and evasion above £10,000 in nearly 4,500 cases. The number of cases escalated has, though, fallen from an average of 380 per month in 2007-08, to 330 per month in 2009-10, a reduction of 13 per cent (**Figure 5** overleaf). The Department's review identified factors that would contribute to this reduction:

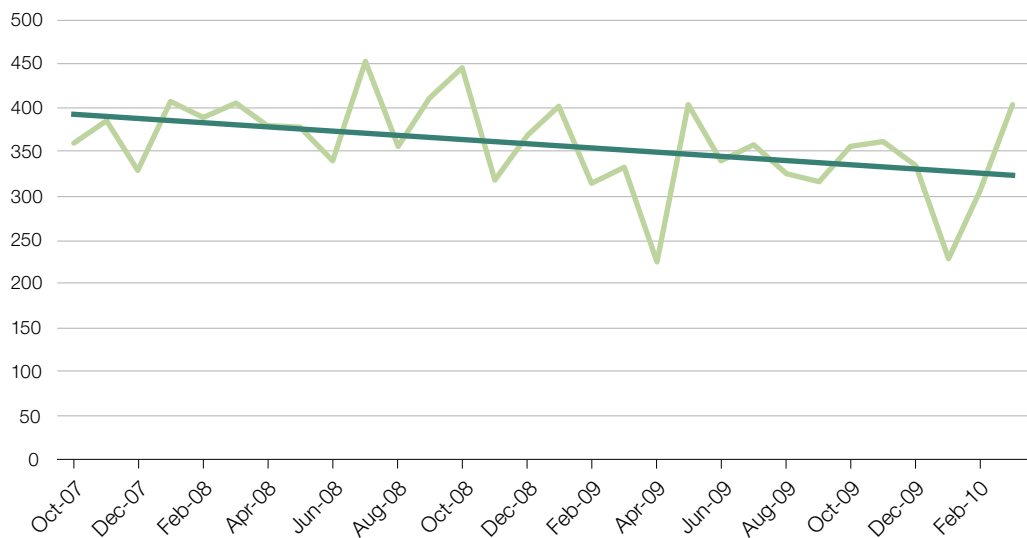
- disillusionment amongst caseworkers with the process, caused by the return of cases not suitable for investigation, increasing the risk of the system not being used; and
- despite being mandatory, the referral system was not used across the whole Department.

We also found that the existence of yield targets can act as a disincentive to escalate cases for investigation by specialist teams.

**2.6** The Department's aim is to focus specialist investigation resources on higher value or more complex cases, and ensure more routine cases are processed quickly. The specialist investigation teams decide whether to begin an investigation depending on their assessment of the value and quality of the case. Our analysis of 2008-09 data showed that teams adopted 480 of the 2,420 cases referred to them, an adoption rate of 20 per cent. They deemed that the remaining 80 per cent were not suitable for specialist investigation and returned these cases to the originating caseworker to pursue the tax irregularities identified.

**Figure 5**

The trend in number of referrals

**Number of referrals**

Source: National Audit Office analysis of HM Revenue & Customs data

**2.7** The Department chose not to set a benchmark for the expected adoption rate and has not analysed the reasons that cases are rejected to form a view on the quality of referrals. Its review identified a number of factors affecting quality:

- while the guidance includes a definition of evasion, there was confusion among caseworkers about which cases to refer;
- the absence of a clear and consistent approach to feedback and quality control; and
- unclear arrangements for using the system have led to inconsistency in the quality of referrals across the Department.

**2.8** The decision on whether to proceed with an investigation rests with specialist investigation teams and is based in part on their capacity to undertake the work. Our analysis of the workload of investigation teams showed wide variations in the number of live investigations per investigator. Better information on the capacity of investigation teams and an understanding of the reasons for rejection would enable the Department to better determine whether cases are being handled consistently and appropriately.

**2.9** The Department plans to introduce changes to improve the effectiveness of the referral system by March 2011. It plans to communicate the importance of the process to ensure it is used as intended; revise the referral form to encourage consistency and quality in submissions, and to act as a case tracking tool; provide guidance on referrals; and refine the thresholds so that the escalation of cases is consistent with the increasing emphasis on customer behaviour. The proposed changes should help the Department to refine the operation of the referral system.

## Intelligence gathering

**2.10** The second objective of the referral system is to gather intelligence to inform risk assessments.

**2.11** The Department routinely assesses the threats to tax revenues and produces the National Risk Overview, which analyses risks across taxes and customer groups. It analyses risks using data and intelligence from various sources. Risk assessments are used to inform strategic thinking on its priorities, including the choice of campaigns to target high risk groups and the creation of taskforces to tackle identified threats to the tax system, such as VAT missing trader fraud.<sup>2</sup> The Department also uses intelligence on evasion to generate cases for enquiries and compliance checks.

**2.12** In 2009, the Department produced a National Picture of Evasion, which highlighted that the lack of data and systematic analysis restricted its knowledge of evasion risks. The availability of data from the referral system offers the Department greater opportunity to refine its understanding of the attitudes that are driving evasion. The system provides statistics on the source of referrals; the expected value of tax at risk; the tax involved; and nature of the business. The Department is now able to use this additional information to identify the characteristics of known evaders and identify similar high risk cases across taxpayer populations.

**2.13** In 2010, the Department's Risk and Intelligence directorate utilised referral data to develop new behavioural models to assess risks in two taxes. There are opportunities for further analysis of evidence from the referral system, exploiting feedback from completed investigations as it becomes available, to refine this modelling and extend the approach to other tax regimes.

**2.14** The Department has used intelligence to generate cases directly for investigation teams, although the large majority of civil investigations are generated through the referral system. The use of behavioural modelling offers the opportunity to better identify cases where evasion is high probability or high value, and potentially identify more cases of serious fraud and evasion directly for specialist investigation teams.

<sup>2</sup> Missing Trader fraud is a type of VAT fraud, which involves a business obtaining a VAT registration number in the UK for the purposes of purchasing goods free from VAT in another EU member state. The business sells the goods at a VAT inclusive purchase price in the UK and then goes missing or defaults without paying the output tax due to the Department.

# Part Three

## The management of civil investigations

**3.1** The purpose of civil investigations is to tackle deliberate tax evasion in cases where the Department does not propose a criminal investigation, with a view to recovering the tax, charging interest and imposing a financial penalty. To evaluate the Department's approach, we focused on civil investigations of fraud. These investigations are a key mechanism for penalising serious fraud and are targeted at a small high risk minority who deliberately set out to evade their obligations.

**3.2** This part covers:

- the results of civil investigations of fraud;
- the time taken to complete these investigations; and
- the effectiveness of the procedure.

### Civil Investigations of Fraud

**3.3** Following the merger of the former Inland Revenue and HM Customs and Excise, the Department introduced the civil investigation of fraud procedure to bring a consistent approach to investigating serious fraud. All potential cases are first considered for possible criminal investigation and, if not appropriate, the Department can apply the civil investigation of fraud procedure. This offers the taxpayer an opportunity to make a full and complete disclosure of irregularities in their tax affairs, at their own expense. In return, the Department offers not to pursue criminal charges for the tax offences being investigated and will reduce penalties to reflect the level of cooperation and the nature of the offence.

**3.4** In 2009-10, the Department finalised 350 settlements on 265 civil investigations of fraud which generated £115 million of tax yield – an average of £329,000 per settlement (**Figure 6**). We estimated that the total cost of these investigations was £6 million, resulting in an estimated yield:cost ratio of 19:1. The average value of settlements has increased in real terms by 4 per cent since 2007-08. The Department uses the procedure where it believes there is clear evidence of evasion and specialist investigation resources are needed to establish the tax at risk and reach settlement. It agreed a settlement in 94 per cent of investigations completed in 2009-10, with 6 per cent not identifying tax irregularities.



## The time taken to complete investigations

**3.5** Civil investigations of fraud are complex and involve a detailed assessment of the taxpayer's affairs. In 2009-10, these investigations took, on average, 25 months to complete, compared to the Department's internal target of 18 months. We analysed the length of investigations and found that 25 per cent were completed within 18 months and a further 20 per cent within two years. However, 15 per cent of investigations took over three years to complete (**Figure 7**). In addition, the Specialist Investigations directorate concluded a further 23 investigations, one third of its total, started under the previous regime for civil investigation of fraud and these investigations took, on average, six years to complete.

### Figure 6

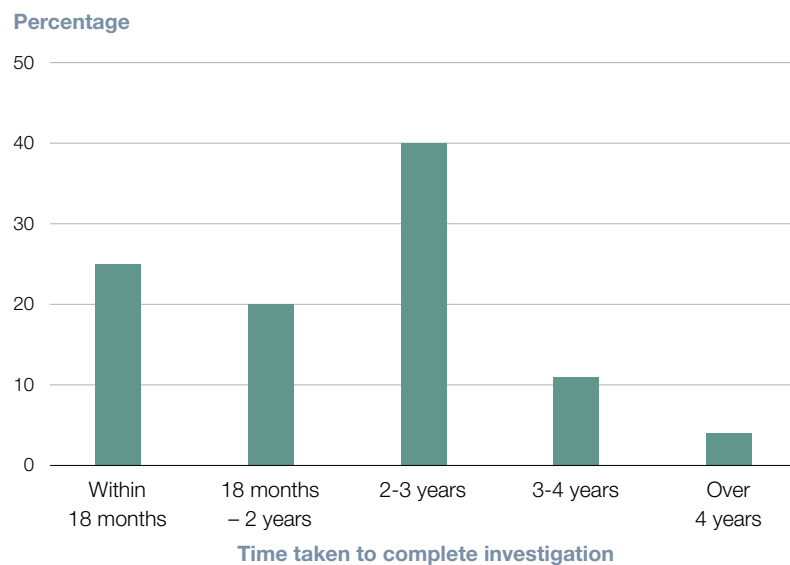
Results of civil investigations of fraud

	2007-08	2008-09	2009-10
Number of settlements	319	250	350
Yield (£m)	£97m	£82m	£115m
Average yield per case (£)	£303,000	£327,000	£329,000

Source: National Audit Office analysis of HM Revenue & Customs data

### Figure 7

Distribution of investigations settled in 2009-10, analysed by time taken



Source: National Audit Office analysis of HM Revenue & Customs data on 265 cases settled

**3.6** We analysed how the time is spent on civil investigations of fraud and found:

- although the Department recommends that a decision on whether to proceed with the investigation should be taken within ten days, the initial review took, on average, 65 days to complete. A decision was made within ten days on just 10 per cent of cases, with one third taking over 60 days and 13 per cent over 100 days. More than ten days is often needed to obtain relevant data and complete necessary checks but delays can also result from problems with the quality of information submitted. There is scope to reduce the time taken by closer monitoring of decision times and improving the quality of referrals. The Department has introduced a new database which should help reduce the time needed to obtain relevant information;
- following initial discussions with the Department, the taxpayer usually commissions an agent to produce a disclosure report, setting out full details of their tax affairs. We found that it took, on average, a further 237 days to obtain the disclosure report, compared with the Department's target of 180 days. In some cases, it may not be possible to provide information within this timeframe because, for example, of the need to obtain overseas bank statements. Our analysis showed, however, that it took longer than 180 days in 77 per cent of cases, with 8 per cent taking over one year; and
- following receipt of the disclosure report, the Department took, on average, a further 335 days to complete its investigation and agree the settlement with the taxpayer.

**3.7** We held focus groups with investigators in four teams to explore the potential to conclude investigations more promptly. The suggestions included:

- introducing two-tier disclosure reports tailored to the size and complexity of the investigation. At present, the 180 day target is not adjusted to reflect the size or complexity of the case;
- working more closely with tax agents<sup>3</sup> to provide greater upfront advice on the Department's technical and evidence requirements, to improve the timeliness and quality of disclosure reports; and
- a more focused approach to settling cases, prioritising the additional evidence needed to conclude the case.

**3.8** The Department has undertaken work to map customer journeys and estimate the main cost drivers of its interactions with taxpayers. Enforcement and Compliance has not conducted a similar exercise to explore the scope to reduce the length and cost of civil investigations of fraud, without impacting on the settlement achieved. There is scope to evaluate the final settlement stage of investigations, after receipt of the disclosure report, as this is where the bulk of the Department's input is incurred.

<sup>3</sup> Our report on *HMRC: Engaging with Tax Agents* examined the Department's wider arrangements for working with tax agents.

**3.9** The Local Compliance directorate has eight investigation teams which undertake civil investigations of fraud. The Directorate monitors their performance, including time taken to conclude investigations. This showed wide variations:

- the average elapsed time of completed investigations ranged from 618 days to 822 days, a variation of 33 per cent;
- the average age of open investigations ranged from 397 days to 538 days, a variation of 35 per cent; and
- the proportion of live investigations over two years old varied from 12 per cent to 39 per cent.

The Local Compliance directorate has set an objective to reduce the elapsed times of civil investigations of fraud to two years. In the Specialist Investigations directorate, the progress of investigations is monitored within teams and it plans to introduce, by March 2011, targets to reduce elapsed times.

**3.10** The Department's approach to the Liechtenstein Disclosure Facility also suggests opportunities to reduce the time taken to conclude civil investigations of fraud.<sup>4</sup> In particular, on Liechtenstein cases, the Department has worked closely with tax agents to agree technical and process issues before submission of the disclosure report. The upfront investment has led to better quality disclosure reports and reduced the need for follow-up to collect additional evidence. As a result, the Department has concluded its early Liechtenstein cases in an average of six months from registration to settlement. It may not always be possible for investigators to work as closely with tax agents on civil investigations of fraud, for example on cases where there is denial of fraud and non-cooperation. However, the rationale of the civil investigation of fraud procedure is to offer taxpayers an opportunity to put right their tax affairs and, particularly in cases of voluntary disclosure, the two types of work have common processes.

**3.11** Reducing elapsed times would bring benefits for the Department in terms of lower resource costs per case, thereby releasing resources which could be deployed on additional investigations to generate additional revenue at no additional cost. Our initial estimate shows that, if the Department was to conclude its investigations within the target time of 18 months, it could potentially generate additional revenues of approximately £30-60 million a year. This partly depends on the amount of investigator time freed up from shorter investigations. Concluding cases more quickly could also improve the prospect of successfully collecting any tax and penalties due.

<sup>4</sup> The Department introduced the disclosure facility to encourage UK taxpayers with investments in Liechtenstein to come forward voluntarily and put right their tax affairs.

## The effectiveness of civil investigations of fraud

**3.12** The aim of the civil investigation of fraud procedure is to investigate serious fraud and punish evaders by imposing financial penalties. Its success is based on the premise that the Department's wider penalty policy presents a strong threat, creating the incentive for the taxpayer to disclose. In 2009, the Department reviewed the procedure and concluded that aspects of its implementation should be revisited to maximise effectiveness, and improve clarity and transparency for customers. The report highlighted that the procedure had a role in deterring serious fraud but it was important for potential fraudsters to be clear about the penalty policy and for the Department to use its prosecution policy, where appropriate, to underpin the civil procedure. The Department is considering how to maximise the procedure's effectiveness, including the wider use of prosecutions or insolvency powers when taxpayers choose not to cooperate. At present, under the legislation, the Department can only use criminal powers if it can prove the taxpayer has provided false information.

**3.13** The Department's primary measure of the effectiveness of the procedure is yield. The level of voluntary disclosure and taxpayer cooperation with investigations would also provide indicators of its effectiveness. In particular:

- the level of cooperation with investigations gives an indication of the effectiveness of inducements to resolve tax irregularities. The Department's data indicates that there was non-cooperation in 20 per cent of investigations, which raises questions over the effectiveness of the process in these cases, given its rationale is to encourage taxpayers to put right their tax affairs. Trend data is needed to review whether the level of cooperation is diminishing over time; and
- the trend in the number of unprompted voluntary disclosures gives an indication of the level of awareness of the Department's penalty policy and its deterrent effect. The Department does not, however, routinely collect this information.

**3.14** The Department has established a steering group and appointed a policyholder with specific responsibility for monitoring the civil investigation of fraud procedure. Its review in 2009 also recommended changes to management information to make it easier for the Department to assess the effectiveness of the procedure.

### Quality assurance

**3.15** The Department has established a tiered approach to quality assurance, comprising a mix of real-time review and checks on a sample of investigations. It has set up cross-directorate quality assurance teams to check that the correct processes are being followed when conducting investigations. In 2009, they found that processes were largely being followed correctly. Assurance reports are presented to the steering group and circulated to teams.

# Part Four

## Maximising the impact of civil investigations

**4.1** Deterring wrongdoing is an important element of an effective enforcement regime. Drawing on good practice on the components of an effective approach for deterring fraud<sup>5</sup>, we evaluated the Department's approach to:

- applying sanctions to punish non-compliance;
- collecting the tax and penalties due; and
- making compliance powers and sanctions more visible to potential evaders.

### Applying sanctions

#### The sanctions available

**4.2** The Department's policy is to tackle most suspected evasion and serious non-compliance using civil investigations that could lead to the imposition of financial penalties. Criminal investigations, with a view to prosecution are reserved for cases where the Department needs to send a strong deterrent message or where the conduct involved is such that only a criminal sanction is appropriate. For example, the Department has conducted criminal investigations into those who attack the tax system, such as VAT repayment fraud and organised tax credit fraud.

**4.3** On civil investigations, the Department imposes financial penalties of up to 100 per cent of the sum evaded and is required to reduce the penalty depending on the nature of the offence or if the person cooperates with the investigation. While individual cases are subject to manager review, the Department has not routinely monitored the application of penalties on civil investigations and does not have readily available data on the level and range of penalties applied across taxes or by type of investigation.

**4.4** The Government introduced a new penalty regime in 2008. It will take some time for the new arrangements to take full effect because of the elapsed times for completing investigations. The cases covered by our review therefore relate to the previous regime.

<sup>5</sup> National Audit Office and HM Treasury, *Tackling External Fraud*, 2008.

## Penalties on civil investigations of fraud

**4.5** We reviewed the imposition of penalties on civil investigations of fraud. Under this procedure, the taxpayer is given an opportunity to make a full and complete disclosure of all irregularities in their tax affairs and, in return, the Department offers not to pursue criminal charges for the tax offences being investigated and the prospect of reduced penalties. The maximum penalty is 100 per cent of the tax understated, although this is reduced if the taxpayer discloses details of irregularities and cooperates with the Department, and it depends on the seriousness of omissions (**Figure 8**). If the taxpayer makes a false statement or produces false documentation, the Department can investigate with a view to prosecution for the dishonest conduct.

### Figure 8

#### Reductions in penalties available for civil investigations of fraud

Reason	Maximum percentage reduction available
<b>Direct taxes</b>	
<b>Disclosure</b> – the extent of voluntary disclosure of irregularities.	30%
<b>Cooperation</b> – the extent to which information is supplied quickly; interviews attended; questions answered honestly and accurately; all relevant facts including full written disclosure provided; and tax is paid on account when it becomes possible to estimate the amount due.	40%
<b>Seriousness</b> – reflects the seriousness of omissions or errors.	40%
<b>Indirect taxes</b>	
<b>Disclosure</b> – the extent of disclosure of details of the true VAT liability.	40%
<b>Cooperation</b> – fully embracing and meeting responsibilities by, for example, supplying information promptly, including full written disclosure, attending meetings and answering questions.	40%

#### NOTE

1 This penalty regime was extant for civil investigations of fraud concluded in 2008-09 and 2009-10.

Source: HM Revenue & Customs Code of Practice 9 guidance

**4.6** The Department's review of civil investigations of fraud completed in 2008-09, covering 296 taxpayers, showed that the average penalty charged was 23 per cent of the tax due. We analysed the penalties applied on civil investigations of fraud completed in 2009-10 and found that the average penalty was 21 per cent of the tax due, 28 per cent of investigations resulted in penalties of less than 10 per cent of the tax due (**Figure 9**) and half of these investigations, 14 per cent, did not impose any penalty. The Department stated that this could arise in investigations where the suspicion of serious fraud is unproven. While reductions in penalties are to be expected, the Department has not analysed the factors that lead to different penalty levels; for example, by assessing the distribution of penalties by the size and age of cases, or the level of taxpayer cooperation and disclosure.

**4.7** The Department has quality assurance procedures to review the application of penalties on investigations and seek consistency across investigation teams. These include manager review of all civil investigations of fraud settlements and further review of a sample by senior managers. However, the Department does not compare whether penalties are being applied consistently across investigation directorates.

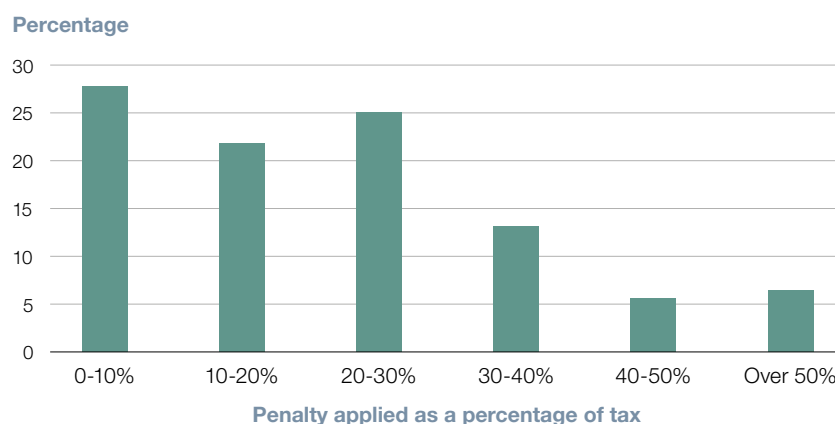
### The new penalty regime

**4.8** Following the merger of the Inland Revenue and HM Customs and Excise in 2005, the Department reviewed its investigation powers. Its aim was to modernise tax penalties, compliance checks and investigative powers, and align them across taxes. For tax returns from April 2008 onwards, penalties are based on the amount of tax understated and the nature of the behaviour that leads to the understatement, including the degree of taxpayer's concealment and extent of disclosure. The Department can apply a penalty of up to 100 per cent for deliberate understatement with concealment and staff will be required to make judgements on taxpayer behaviour when determining the penalty. Given the elapsed time in submitting tax returns and any consequent investigation, the Department has only started to apply the new penalties on VAT and excise cases.

**4.9** The Committee of Public Accounts has previously made various recommendations<sup>6</sup> on the use and monitoring of penalties in tackling non-compliance. Its most recent report on *Tackling the Hidden Economy* recommended that the Department should use the full range of penalties available under the new regime, and track the number and value of penalties levied. In response, the Department undertook to rigorously apply penalties available and to introduce systems to monitor the introduction of the new penalties regime.

**Figure 9**

Distribution of penalties applied on civil investigations of fraud, 2009-10



Source: National Audit Office analysis of HM Revenue & Customs data

<sup>6</sup> House of Commons Committee of Public Accounts report: HMRC: *Tackling the Hidden Economy*; 55th Report of Session 2007-08, HC 712; and *Management of Large Business Corporation Tax*; 30th Report of Session 2007-08, HC 302.

**4.10** In 2010, the Department conducted a post implementation review of the process for applying the new regime. The review highlighted concerns on the operation of the regime and led to an action plan, to be implemented by mid 2011, to simplify arrangements for staff. The Department's aim is for quicker and more consistent penalty decisions.

### Collection of tax and penalties due

**4.11** On civil investigations of fraud, the taxpayer is asked to make an upfront payment and further payments on account, which mitigates the risk of non-collection of tax and penalties. On settlement of the case, the Department issues a demand notice or assessment to collect the outstanding tax, interest and penalties. Local Compliance is piloting an arrangement to increase the collection of outstanding tax and penalties on settlement, and prevent debt arising.

**4.12** If the demand does not elicit payment, the investigator passes the case to the Debt Management and Banking Directorate to collect outstanding monies. The debt due from civil tax investigations is not specifically prioritised for collection, although this may happen as it is likely to be higher value or the debt may be pursued as part of a wider risk campaign. The Department is implementing a campaigns-based approach to debt collection across all major taxes, segmenting debtors according to risk and behaviour and targeting its work. It has not yet conducted a campaign focusing specifically on debts due from investigations but is considering this for 2011-12.

**4.13** It is recognised good practice to ensure that fines and other penalties are recovered promptly.<sup>7</sup> The Department cannot routinely determine the proportion of civil investigation of fraud debts that have been collected mainly because of difficulties in reconciling information on its case management systems and the debt management and accounting databases.

**4.14** The Department reviewed whether debt had been recovered on civil investigations of fraud completed in 2008-09. It was unable to trace 27 per cent of the £79 million of assessed yield. Of the £58 million that could be traced, £49 million (84 per cent) had been collected. The non-collection of tax and penalties undermines the effectiveness of the sanction and its wider deterrent effect, as well as limiting the actual return on investigations. From 2011-12, the Department proposes to measure the cash collected from interventions which could create stronger incentives for investigators to collect payments upfront or during investigations.

### Raising awareness of civil investigation powers

**4.15** An effective approach to deterrence involves convincing potential fraudsters that fraud is not worthwhile. The Department therefore needs to influence public attitudes and perceptions to deter those who might consider tax evasion. The Department had not undertaken any evasion-related advertising campaigns between 2007-08 and 2009-10 and, as a result, its civil investigation successes have received little publicity.

<sup>7</sup> National Audit Office and HM Treasury, *Tackling External Fraud*, 2008.



**4.16** The Department is planning to make greater use of marketing aimed at potential rule breakers. In 2009, legislation was introduced to enable the Department to publish the details of those caught deliberately evading tax of more than £25,000. The new powers apply to tax returns from April 2010 and mean that the Department can publish a person's details and the extent of their evasion. Those who make a full and timely disclosure of their evasion can avoid having their details published. From April 2011, the Department plans to publish a quarterly list on its website and issue accompanying press notices. The Department also plans a new initiative to closely monitor serious tax defaulters after investigation. It will require those who incur a penalty for deliberate evasion in respect of tax of over £5,000 to submit returns for up to five years showing more detailed information on their business accounts.

**4.17** Improving public awareness of the Department's civil sanctions and use of them can strengthen deterrence. Our review of published sources showed that overseas tax authorities have adopted various approaches to improve visibility of their enforcement work and remind the public that evasion is unacceptable. For example:

- publicising planned compliance activity – the Australian and Swedish tax authorities have published details of their compliance programme;
- issuing early warning of emerging tax issues – the Canadian and US tax authorities publish tax fraud alerts on their websites; and
- promoting coverage of successful cases – the Canadian tax authority targets media outlets and internet sites to obtain publicity for successes.

**4.18** The Department has increasingly used campaigns to target higher risk groups of taxpayers. The campaigns seek to raise awareness of sanctions among targeted groups and encourage taxpayers to voluntarily disclose omissions and errors in their tax affairs. This is followed up by coordinated compliance activity targeted against non-compliant taxpayers in the groups. Using campaigns is consistent with good practice on tackling fraud as they enable the Department to reinforce and encourage compliant behaviour in target groups.<sup>8</sup> Our report on *Tackling the Hidden Economy* concluded that the Department had achieved some success with its campaign on offshore investments.<sup>9</sup> The Department has since expanded its approach to run further campaigns on offshore investments and health professionals.

<sup>8</sup> National Audit Office and HM Treasury, *Tackling External Fraud*, 2008.

<sup>9</sup> Comptroller & Auditor General, *Tackling the Hidden Economy*, Session 2007-08, HC 341, National Audit Office, April 2008.

# Appendix One

## Methodology

1 Our research methods were:

Method	Purpose
<p><b>1 Cost data analysis</b></p> <p>Analysis of cost data and methods of calculating costs for investigation directorates, 2007-08 to 2009-10.</p>	To identify to what extent the Department understand the cost and return of their civil interventions.
<p><b>2 Performance data analysis</b></p> <p>Analysis of performance against targets for enforcement and compliance work in the three years to 2009-10.</p>	To understand how the Department measures performance; the adequacy of its data; and whether other measures should be used.
<p><b>3 Case data analysis</b></p> <p>Analysis of case data to determine the level of penalties, and the time taken at each stage of an investigation.</p>	To assess the level of penalties being applied, the scope to reduce the elapsed time of investigations; and the collection of tax and penalties.
<p><b>4 Review of governance structure</b></p> <p>Review of the governance arrangements for the Enforcement and Compliance business area, and an overview of the budget setting process.</p>	To assess the governance arrangements for enforcement and compliance work and whether these give a clear structure to the Department's approach to tackling evasion.
<p><b>5 Document review</b></p> <p>Review of corporate documentation covering strategy and operations; and internal planning and research papers.</p>	To assess the cost, performance, governance and strategic context of the Department's approach to evasion.
<p><b>6 Interviews</b></p> <p>We conducted around 40 semi-structured interviews, involving managers and frontline staff in investigation teams, and officials working on strategic matters.</p>	To gather evidence on the Department's goals; the efficiency of its operations; and governance arrangements.
<p><b>7 Focus groups</b></p> <p>We conducted focus groups across four regional offices which conduct civil investigations of fraud.</p>	To gather investigator views on the investigation process, the resource and support available to staff, the referral system and the deterrent effect of civil interventions.



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