

# Customer compliance: How HMRC's compliance yield is split by business area and how we categorise tax under consideration from large businesses

## Compliance yield breakdown in 2017-18

HMRC has previously reported its compliance results under the headings of cash expected, revenue losses prevented, future revenue benefit, product and process, and since 2015, Accelerated Payments. We still report these in HMRC's Annual Report and Accounts 2017-18, but we also report, below, from which specific directorate the compliance results were delivered, and the head of duty under which the risks tackled were identified

In its 2014-15 Standard Report, the National Audit Office (NAO) said that there were inconsistencies between how we recorded future revenue benefit (FRB) and product and process yield<sup>1</sup>. FRB was reported in the year the compliance intervention concluded, whereas product and process yield is reported when the product or process change has an impact on Exchequer receipts.

At the beginning of the Spending Review 2015 period (2016-17 to 2019-20), and responding to the NAO's recommendation, we started recording FRB for the future year or years in which the FRB has an impact on Exchequer receipts.<sup>2</sup>

The tables below show the compliance yield generated by HMRC during 2017-18, broken down by directorate. All figures include the future revenue benefit element of compliance yield, based on HMRC's old reporting methodology which results in the total yield generated using the old methodology of £30,350 million<sup>1</sup> compared to £30,292 million using the new methodology reported in the 2017-18 Annual Report and Accounts.

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<sup>1</sup> These classifications are explained further in [HMRC's Annual Report and Accounts 2017-18](#)

<sup>2</sup> A [technical paper](#) accompanied our [2015-16 and 2016-17 Annual Report and Accounts](#) explaining how HMRC planned to change how it reports FRB and the impact of the change compared to the original method. The 2017-18 technical paper that accompanies our 2017-18 Annual Report and Accounts provides an update on that reporting approach for FRB.

<b>Large Business Directorate</b>	
<b>Tax regime</b>	<b>2017-18 (£m)</b>
Corporation Tax and Petroleum Revenue Tax	2,882
VAT interventions	3,617
Employer compliance	374
Excise	1,373
Diverted Profits Tax	161
Customs and international trade	59
Other compliance activities	247
Accelerated Payments	12
<b>Total</b>	<b>8,727</b>

<b>Wealthy and Mid-Sized Business Compliance<sup>3</sup> Directorate</b>	
<b>Tax regime</b>	<b>2017-18 (£m)</b>
VAT interventions	1,999
Self Assessment non business	1,186
Employer compliance	381
Corporation Tax enquiries	388
Capital Gains Tax enquiries	75
Construction industry reviews	9
Self Assessment business	41
Other compliance activities	270
<b>Total</b>	<b>4,349</b>

<sup>3</sup> WMBC deals with wealthy individuals (both high net worth and affluent), mid-sized businesses as well as public bodies and specialist employer compliance.

<b>Individuals and Small Business Compliance Directorate</b>	
<b>Tax regime</b>	<b>2017-18 (£m)</b>
VAT interventions	1,755
Excise interventions	1,264
Self Assessment non business	455
Self Assessment business	533
Corporation Tax enquiries	228
International trade	212
Construction industry reviews	61
Employer compliance	64
Capital Gains Tax enquiries	62
Other compliance activities	211
<b>Total</b>	<b>4,844</b>

During 2017-18, the total Diverted Profits Tax yield across HMRC, including additional amounts of Corporation Tax resulting from behavioural change, totalled £388 million.

<b>Counter-Avoidance Directorate</b>	
<b>Tax regime</b>	<b>2017-18 (£m)</b>
Accelerated Payments	782
Other heads of duty	258
Income tax	753
Corporation Tax	67
<b>Total</b>	<b>1,860</b>

<b>Fraud Investigation Service</b>	
<b>Tax regime</b>	<b>2017-18 (£m)</b>
Civil investigations	2,655
Criminal investigations	2,810
<b>Total</b>	<b>5,465</b>

<b>Other Customer Compliance Group activities</b>	
	<b>2017-18 (£m)</b>
Product and process revenue	<b>3,373</b>
UK Border Force	<b>247</b>
Other compliance activities <sup>4</sup>	<b>1,485</b>
<b>Total</b>	<b>5,105</b>

<sup>4</sup> This includes: other activities in relation to Risk and Intelligence Service activities, debt collection work and other personal tax compliance activity.

## HMRC's approach to tax compliance and large businesses

HMRC's Large Business Directorate works with around 2,000 of the UK's largest and most complex businesses to make sure they pay the correct amount of tax at the right time. We subject large businesses to an exceptional level of scrutiny: we actively investigate the tax affairs of around half of the UK's largest businesses at any one time.

Between 2010 and 2018, we collected and protected an additional £62 billion from large businesses, money that would otherwise have gone unpaid.

The department's compliance strategy is based on directing our efforts where we think there's the greatest risk of tax being unpaid.

With large businesses, the money involved and the complexity of the tax affairs means we take a very hands-on approach. We assign a senior tax expert called a Customer Compliance Manager (CCM) to each of the UK's largest companies. Their primary role is to make sure the business pays everything they owe. CCMs are experts in their field and build an in-depth knowledge of the business and the sectors they operate in. They are also supported by other tax specialists, and can call on data analysts, solicitors, audit specialists, trade sector experts and forensic accountants.

HMRC's approach is in line with internationally recognised best practice. We continue to enhance our cooperative compliance model by further engagement with other fiscal authorities. This enables us to share best practice, to work more efficiently with multinational enterprises (MNEs), as well as to ensure greater transparency, building public confidence about the integrity of both the UK and global tax systems.

In 2017-18 our Large Business Directorate achieved yield of £8.7 billion, as shown in the first table above.

## **Tax under consideration**

Tax under consideration is an estimate of the maximum potential additional tax liability in each case before we have carried out a full investigation of the specific facts or analysis of relevant law. It is not actual tax either owed or unpaid, it is a tool to guide our enquiries to focus on the most significant risks that exist at any particular time with the largest businesses.

In many cases, when we have looked at the full facts it becomes clear that there is some lesser liability or even no further liability at all. Tax under consideration will naturally vary from time to time as outstanding issues are settled and new risks are identified. The total is a snapshot of work in progress at a given point. Tax under consideration covers all taxes and duties, including Corporation Tax, VAT, PAYE and National Insurance Contributions.

A snapshot, as at 31 March 2018, of the tax under consideration figure for enquiries by HMRC's Large Business Directorate is shown in the following table.

<b>Inaccuracy Category</b>	<b>Tax Under Consideration</b>
Accounting Standards	£335,209,955
Apprenticeship Levy	£13,592,468
Avoidance	£1,341,225,816
Bank Levy	£11,965,057
Capital Allowances	£619,243,571
Classification	£827,590
Company Structure	£17,856,340
CT Capital Gains	£626,293,053
CT Correction and Validation work	£10,500,000
Customs Procedures with Economic Impact	£4,963,785
Earnings	£188,166,588
Employment Issues	£415,627,626
EU Issues	£559,394,010
Expenses	£4,465,395
Financial	£1,766,251,835
Gaming Duty	£5,246,577
Group Litigation Order	£1,023,757,636
Incomplete or Incorrect Returns	£1,625,336
Input Tax Overclaimed	£1,026,697,582
Intangible Asset Regime	£622,797,705
International	£2,271,131,709
Leasing	£621,807,466
Loss Relief	£546,322,880
Management Expenses	£81,969,935
Oil CT Ring Fence	£139,234,383
Other Issues	£1,051,202,046
Output Tax Underdeclared	£2,457,999,985
Partial Exemption	£432,310,151
Patent Box	£77,609,000
Post Return Amendment	£27,061,531
Post Transaction Issue	£106,900,000
Pre Return Work	£25,080,387
PSA/Dispensation	£29,922,873
R&D claims	£413,972,626
Research & Development Expenditure Credit	£87,196,012
Refused Repayments	£1,659,503,737
Registered Trader	£1,919,836,276
Single Market	£960,000
Statutory Allowances / Reliefs	£35,635,923
Trading & Comps - Receipts & Deductions	£986,716,669
Transfer Pricing and Thin Capitalisation	£6,115,872,350
Valuation	£57,095,471
Voluntary Disclosure	£18,383,292
Workers from abroad	£16,827,519
<b>Total</b>	<b>£27,776,260,146</b>

The recorded location of the ultimate parent of each group of companies covered by the Large Business Directorate as at 31 March 2018 is shown below. We have taken 'company' as referring to a 'business' as recorded on the HMRC system – in most cases a 'business' will actually be a group of companies.

The table below shows the location of parent companies as at 31 March 2018.

<b>Recorded location of the parent of the group</b>	<b>Tax under consideration (£m)</b>
UK	£17,462,604,966
Non-UK	£10,221,603,455
Associated with multiple customers with UK and non-UK parented businesses	£92,051,725

### **Length of time taken to resolve enquiries involving large businesses**

At any given time, around half of the largest businesses are under enquiry, often covering multiple issues and years. We record our enquiries into tax issues as 'risks' and, if a single issue covers multiple years, we record this as a single risk.

Risks cover all taxes and duties, including Corporation Tax, VAT, PAYE and National Insurance Contributions. HMRC will be actively working open risks towards resolution, and our statistics include those where this requires litigation. Risks are recorded as closed when the issue has been resolved. The stock of risks will continuously change as risks are concluded and new risks are identified and opened.

By engaging with businesses in real time, Customer Compliance Managers identify emerging tax risks and resolve tax disputes at the earliest opportunity.

Our stock of open risks is increasingly characterised by complex and novel areas of tax law, including instances where customers are challenging HMRC's opinion of where legal boundaries lie, or which require litigation to conclude. These risks will typically take longer to resolve.

For enquiries that concluded during 2017-18, the average length of time taken to settle an enquiry was 13 months. In 2017-18, Large Business Directorate reached decision point on risks within 18 months in 84% of cases.

### **Customer Compliance Managers**

We manage the tax compliance of large businesses through Customer Compliance Managers (CCMs) because the tax at stake, their size and complexity, and the significant risk these businesses present to the Exchequer, mean that this is the most cost-effective way of ensuring they pay the right amount of tax.

The number of CCMs working in the Large Business Directorate as at 31 March 2018 was 176.