



HM Treasury

HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

For enquiries about distribution of this and other DAO letters please contact the Treasury Officer of Accounts at TOAEnquiries@hmtreasury.gov.uk

www.gov.uk/hm-treasury

DAO 04/26

10 June 2026

All live DAO letters may be found at: www.gov.uk/government/collections/dao-letters

Subject: Tax Arrangements

Dear Accounting Officer

Contact

Central Government Bodies can get help with a tax issue from HMRC and should consider the guidance here: <https://www.gov.uk/guidance/get-help-with-a-tax-issue-as-a-public-body>.

For advice on the tax treatment of a new Government policy affecting citizens or businesses, Central Government Bodies can contact HMRC on ogdrequests@hmrc.gov.uk. The Tax Centre of Excellence, part of the Government Finance Function, can also offer tax advice and support to Central Government Bodies and can be contacted on Tax.CoE@justice.gov.uk.

For any enquires about Managing Public Money, contact TOAEnquiries@hmtreasury.gov.uk

Action

Accounting Officers should ensure that their organisations' tax arrangements, and those of their contractual partners, fully align with the principles and requirements set out in Managing Public Money, as supplemented by the guidance annexed to this letter. This should include early consideration of tax in any project or procurement.

Context

All public bodies have statutory responsibilities regarding the payment of tax, these will vary depending on the specific status of each body. Managing Public Money provides additional guidance for Accounting Officers on the appropriate approach to tax interactions for central government bodies.

The longstanding position is that “Public sector organisations shall not engage in, or connive at, tax evasion, tax avoidance or tax planning.”¹ Accounting Officers’ responsibilities to ensure value for money to the exchequer as a whole means that almost any attempt to reduce a tax liability by a public body represents a poor use of public resources. In respect of suppliers, there are more detailed requirements including the following:

“Central government bodies shall: base procurement decisions independent of any tax advantages that may arise from a particular bid” and “be vigilant in not facilitating tax arrangements with suppliers or their agents that are detrimental or disadvantageous to the Exchequer”.²

It is important that central government organisations give consideration to these expectations when determining the tax treatment of any arrangements.

The annex to this letter provides supplementary guidance on these principles and how these should be applied. These will be incorporated into the next update to Managing Public Money.



David Fairbrother
Treasury Officer of Accounts

¹ Paragraph 5.6.1 Managing Public Money [Managing Public Money.pdf](#).

² Paragraph A4.6.16 Managing Public Money: [Managing Public Money.pdf](#). This paragraph also requires that such bodies should “avoid contractors using offshore jurisdictions, consistent with international obligations and the government’s stated objectives on tax transparency and openness”, and “employ internal management processes to ensure that transactions that give rise to questions of propriety of tax arrangements are brought to the Accounting Officer’s or, if necessary, ministers’ attention”.

Annex: Tax arrangements in public bodies - supplementary guidance

Arrangements

- Central government bodies shall not implement any arrangements or adopt tax interpretations which could be reasonably be perceived as having a primary purpose of reducing the tax liability of either the central government body or any contractual partner concerned.
- Where more than one interpretation of the law might be applied to a position taken, a central government body shall choose the interpretation that it believes is, on balance, most likely correct. Any interpretation of the law should be based on all relevant facts and be the option that the accounting officer honestly believes is, on balance, the most likely to be found correct if the courts and tribunals were to consider the issue.³
- Central government bodies that are not government departments should consult with their sponsor department before implementing any tax outcome or structure which is non-standard.

Advice and advisers

- Central government bodies can access tax advice and support from the Tax Centre of Excellence (which is part of the Government Finance Function).
- Central government bodies should ensure they are properly resourced to manage their tax affairs. External advisers may have a legitimate role to play, and expert help can be useful and efficient, especially where insufficient expertise exists in-house. However, central government bodies should consult with their sponsor department before engaging any tax adviser that approaches them.
- Central government bodies should use tax advisers which are members of a recognised professional body.
- Central government bodies should not engage tax advisers on a contingent fee or commission basis: these types of fee arrangements are often, though not always, associated with more aggressive tax positions.
- When issuing instructions to advisers, Central government bodies should adopt a risk appetite which is appropriate given the Accounting Officer's duties, in particular being clear about their low appetite for 'non-standard' approaches and interpretations.

³ See Guidelines for Compliance 13: <https://www.gov.uk/government/publications/help-ensuring-documents-filed-with-hmrc-are-correct-and-complete-gfc13/purpose-scope-and-background-part-1>

Appeals

- Central government bodies should consult with their sponsor department prior to appealing any decision from HMRC and, where relevant, any decision by a Tribunal or higher court. If expenditure associated with any such appeal is outside the department's delegated authority limits, including if it constitutes novel, contentious or repercussive spend, the department will need to seek consent from the Treasury.⁴
- Central government bodies should make every effort to resolve disputes without recourse to litigation.

Transparency

- Central government bodies should be transparent around any uncertainties of tax treatment when filing returns and open and cooperative with HMRC during enquiries.

Procurement and contract partners

- Central government bodies shall establish the tax implications of major projects at an early stage of planning as part of scoping their financial impact and value for money. This should include taxes borne by the project and a reasonable understanding of how suppliers' tax costs have been factored into their pricing. Major projects have been known to fail due to increased costs when tax treatments have been explored at a relatively late stage in planning.
- Central government bodies must ensure procurement of temporary labour is through transparent, commercially viable supply chains, ensure pricing reflects all employment, tax and supplier costs and margins, and must take steps to assure tax compliance of direct and indirect suppliers. Employment tax and VAT liabilities can transfer to the public body where labour suppliers are tax noncompliant.⁵
- The Procurement Act 2023 includes further requirements in relation to the evaluation of suppliers' overall tax compliance.

Supply estimates

- Departments should ensure that they reflect these principles when determining the affordability of proposals against the budgetary and funding provision available within their supply estimates.

⁴ For further guidance, see DAO02/26: <https://www.gov.uk/government/publications/dao-0226-letter-novel-contentious-or-repercussive-spending>

⁵ See Guidelines for Compliance - [Help with labour supply chain assurance — GfC12 - Guidance - GOV.UK](#)