

PAC pulling no punches

The Public Accounts Committee has slammed HMRC's 'kid gloves' approach to tax gap and criminal prosecutions, writes Simon Watkins of TaxWatch

A political scuffle has erupted over HMRC's customer service, following the release of a Public Accounts Committee (PAC) report accusing HMRC of deliberately "[degrading](#)" their telephone services to force taxpayers to shift to electronic communication channels.

Outgoing head of HMRC, Sir Jim Harra has refuted this accusation as "[baseless](#)" in his initial retort. TaxWatch has repeatedly highlighted the desperately poor levels of customer service and their knock on effects for voluntary compliance. Although the situation has improved recently with lower waiting times and higher success rates, albeit from a record low base.

Whilst this continues to be a problem for HMRC, what is more interesting to TaxWatch is the criticisms made in the PAC report over the recent release of the offshore tax gap and falling prosecution rates. TaxWatch submitted evidence to the enquiry, drawing on our research insights within our [SOTA](#) report, and we are heartened that the Committee agreed with our concerns, many of which formed the basis for their recommendations.

How low can HMRC go?

The Committee highlights serious concerns about HMRC's "implausibly low" estimate of the offshore tax gap as well as its approach to criminal prosecutions. [Their report](#) raises particular concerns about HMRC's declining use of criminal prosecutions and its apparent reluctance to take a more aggressive stance against tax evaders.

The PAC's findings strongly align with our previous research and recommendations in this area. TaxWatch has long called for publication of the offshore tax gap, as well as greater transparency around the tax gap, and advocated for HMRC to develop a clear strategy for reducing it. We also share the view that HMRC's estimates grossly under-estimate the scale of the [offshore tax gap](#).

The Committee makes some important recommendations calling on HMRC to set ambitious targets for compliance yields that would enable annual reductions in the tax gap.

HMRC already has targets for its compliance work, which it met for the first time in five years, in 2023-24, although this was in part due to the large amount collected from the Bernie Ecclestone case. When setting targets for compliance yields it is also important to note that HMRC has now been tasked with reducing the tax gap, rather than keeping it steady in proportionate terms. To this end HMRC has received funding for 5,000 additional compliance officers and expects to bring in £6.5 billion in additional tax revenue by 2029-30. However, as both the PAC report and TaxWatch's previous research suggest, without a clear strategy for deploying these resources and a more robust approach to criminal prosecution, these measures may fall short of their potential impact.

The Committee also recommended that HMRC develop a more accurate estimate of the offshore tax gap and create a standalone strategy to reduce it. The offshore tax gap published by HMRC contains [significant omissions](#), excluding offshore assets held by companies as well as trusts. For the offshore tax gap to be effectively measured, HMRC will have to put far more effort and resources into identifying areas of risk and measuring the gap between what tax should be collected and what is being collected.

Not using its powers

The report highlights that criminal prosecutions by HMRC have fallen dramatically in recent years, with only 344 prosecutions in 2023-24 compared with 691 in 2019-20.

HMRC's explanation, that it reserves criminal prosecution for "the most serious and high-value cases", raises questions about its broader enforcement strategy. As the PAC points out, there have never been any prosecutions under the criminal facilitation of tax evasion offense. This appears to be part of a broader pattern as the number of HMRC investigations into serious tax fraud and avoidance has fallen to a six-year low.

The fall in prosecutions could have serious implications for HMRC's claim that its prosecution powers act as a 'deterrent' to potential abuse and could breed a culture of non-compliance. HMRC has admitted as much, accepting that falling prosecution rates could reduce the deterrent effect, but has cited the limited

evidence relating to the deterrent effect and criminal prosecutions. More evidence is therefore required to assess the potential impact of the 'deterrent effect'.

The PAC recommends that HMRC:

- Research which interventions are most effective in achieving deterrence.
- Develop a strategy to maximize the effectiveness of both civil processes and criminal prosecutions, including considering setting a target for prosecutions.

The PAC's concern about potential trade-offs between civil and criminal routes is particularly noteworthy. There is an inevitable trade off between civil and criminal approaches to compliance. While civil settlements may bring in more immediate revenue, this approach could undermine the deterrent effect of criminal sanctions in the long term.

Conclusion

The PAC report represents a significant challenge to HMRC's current approach to tax enforcement. Its recommendations, if implemented, would represent a major shift toward the more robust enforcement regime that TaxWatch has long advocated for. As we have consistently argued, effective tax enforcement requires both accurate measurement of the problem and a willingness to use the full range of enforcement tools available, including criminal prosecution where appropriate.

- [Simon Watkins](#) is a Research Analyst at TaxWatch