Association of Revenue and Customs

Budget 2013 Submission

The Association of Revenue and Customs (ARC) is both an independent trade union and the HMRC section of the FDA, the trade union for senior managers and professionals in public service.

- ARC represents around 2,600 members in HMRC, at grade 7 and above, as well as trainees in grade 7 entry schemes.
- Our members are senior officials, lawyers and tax professionals, collectively taking responsibility for the collection of UK taxes, and tackling corporate tax evasion and avoidance, at the highest and most complex level.
- We articulate the views of the professional staff working in HMRC to collect taxes from individuals and businesses operating in the UK.
- We are partners with HMRC in the Consultation and Negotiation Agreement signed in May 2007. HMRC also recognises ARC as a stakeholder on professional matters within HMRC.
- ARC is firmly committed to the principles of equality and diversity in both employment and the delivery of services.

Executive Summary

HM Treasury defines the Tax Gap as "the shortfall resulting from fraud, error, non-payment and artificial avoidance schemes". In the UK it is estimated to be at least £32 billion per annum. Because £32billion of tax goes uncollected, this means that every adult pays an additional £1,000 per year in taxes.

Since 2009, ARC has been making the public case for sustained additional investment in HMRC because to do so would help address the current £100billion deficit. Closing the Tax Gap provides an alternative to public sector spending cuts or tax increases.

The Government have acknowledged ARC's 'invest-to-save' case when it comes to reducing the Tax Gap, investing £917m in compliance in CSR 2010 activity, and a further £150million in Budget 2012.

This investment has helped to significantly reduce the tax gap from £45billion in 2009/10 to £32 billion now. ARC believes a further targeted investment of £312million in HMRC will deliver additional revenues to UK plc of more than £8,206 million – a return on investment of more than 26 to 1.

HMRC's own figures show that almost £13bn is lost to indirect taxes (such as £9.6bn of VAT) and £18.7bn is lost for direct taxes, including:

£5.2bn	Incorrect tax returns from individuals and partnerships
£4.1bn	Company tax gap, £1.4bn in the UK's largest companies.
£3.2bn	People not reporting their income or gains (ghosts' and 'moonlighters')
£2.9bn	Incorrect PAYE returns from employers
£2.1bn	General avoidance (and is probably a higher figure)

Despite the critically important role of HMRC, it is set to lose an additional 13,000 staff over the Spending Review period: staff numbers will be down to 56,000 by 2014/15 compared with 96,000 in 2005. ARC believes that further cuts are not sustainable and will impact on revenues generated by HMRC.

ARC feels strongly that the Government should reconsider the scale of the proposed reductions in HMRC staffing and retain experienced staff. These are the very staff required to collect taxes at a time of public outrage over tax avoidance. As David Cameron has said: "*When some businesses aren't seen to pay their taxes, that is corrosive to the public trust."*

ARC also urges the Government to urgently address the significant pay disparities with the private sector (where tax experts can earn up to 65% more), to ensure that HMRC retains the skills necessary to reduce the tax gap and tackle complex avoidance schemes. And ARC urges the Government to withdraw changes to terms and conditions that are currently being proposed. If allowed to continue we believe HMRC risks a re-run of the damaging loss of resources seen in the 1980s when the Inland Revenue was losing 10% of its trained and experienced senior tax professionals each year.

Overleaf we set out our specific proposals for the three areas where further investment in HMRC over the next four years would help ensure the UK tax system reduces the Tax Gap:

A. Tackling avoidance and technical tax gaps
B. Investment in customer and agent support
C. Building future capacity within HMRC

ARC COSTED PROGRAMME TO REDUCE THE UK TAX GAP	Cost	Projected yield over 4 years to 2016/17
A. Tackling avoidance and technical tax gaps		
1. 100 additional senior tax professionals to be deployed as customer relationship managers for 1000 corporate groups.	£25m	£485m
2. 50 additional senior tax professionals to be deployed as corporation tax specialists to challenge large business tax returns.	£12.5m	£510m
3. 200 additional senior tax professionals and 200 HO/SO tax professionals to challenge avoidance by large employers.	£82m	£1500m
4. 50 additional tax professionals to challenge avoidance of indirect taxes by large businesses.	£12.5m	£500m
5. Support for front-line compliance staff through increased travel budget and additional support staff.	£34m	£130m
6. 20 senior tax professionals to tackle technical tax gap.	£5m	£500m
7. Additional legal resources, 150 trained lawyers and 50 legal assistants, to accelerate litigation of the Tribunal backlog and accelerate yield.	£45.5m	£2000m
Total	**£216.5m**	**£5,625m**
B. Investment in customer and agent support		
8. Business expansion unit of 6 senior tax professional staff.	£1.5m	£35m
9. 250 SO/HO customer and agent support staff.	£40m	£1,000m
Total	**£41.5m**	**£1035m**
C. Building future capacity		
10. Recruit an additional 200 graduates each year to train as senior tax professionals. (Yields will quickly build to over £1billion per annum as these trainees complete their training and develop into experienced tax professionals**).**	£40m	£300m
11. Recruit 50 chartered tax advisers and train to become senior tax professionals.	£12.5m.	£1000m
12. Internally recruit 50 SO/HO tax professionals and train to be senior tax professionals.	£2m.	£300m
Total	**£54.5m**	**£1600m**
Overall Total	**£312.5m**	**£8,260m**

Economic background

1. ARC is pleased to submit its views on the 2013 Budget. The economic news over the last year has been mixed. In 2011 the Office of Budget Responsibility (OBR) predicted 490,000 job losses in the public sector by 2015. The latest estimate is a fall in general government employment of 900,000 between 2010–11 and 2017–18. But the Institute for Fiscal Studies (IFS) has recently noted that "if the trend of larger cuts to the paybill continues to 2017–18, the total fall in general government employment would reach 1.2 million in 2017–18."[1] Economic growth has been virtually nil over the last 36 months, although there are some signs it will recover in 2013, and the deficit is reducing[2].

2. The deficit has been reduced by increasing taxes (79% of planned increases will be implemented by April 2013) and cutting public spending (21% achieved for the same period)[3], but there has been little growth in tax revenues, even declines, reflecting the trends in the real economy.[4] ARC believes that these trends mean HMG should take additional steps to address the gap in revenue collection.

Revenue shortfall – the Tax Gap

3. Every developed economy has a tax gap. It is the difference between the amount of duty and tax due under the law and the amount taxpayers pay voluntarily. HMRC describes the Tax Gap as "*the shortfall resulting from fraud, error, non-payment and artificial avoidance schemes"*.

4. HMRC recently estimated the size of the UK tax gap in 2010/11 as over £45bn, made up of avoidance, evasion, attacks by criminal gangs (like carousel fraud) and non-payment. (Other commentators have estimated it as even higher.) HMRC managed to reduce that gap by nearly £13bn through its compliance efforts in 2010/11. That yield from compliance work in 2011/12 increased to £16.6bn. But, whatever forms the cheating takes, the result is the same; there is less money to pay for vital services such as schools and hospitals and honest taxpayers end up paying more. The gap is equivalent to an extra £1,000 of tax for every adult in the country.

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[1] http://www.ifs.org.uk/budgets/gb2013/gb2013.pdf, p180
[2] http://www.hm-treasury.gov.uk/as2012_statement.htm, "In 2009-10, the country was borrowing £159 billion. This year, we are borrowing £108 billion"
[3] http://www.ifs.org.uk/budgets/gb2013/gb2013.pdf,
[4] http://budgetresponsibility.independent.gov.uk/pubs/Jan-2013-PSF-Commentary-1.pdf, e.g. there has been a 7.6% drop in corporation tax receipts.

5. HMRC's figures show that almost £13bn is lost for indirect taxes (such as £9.6bn of VAT) through general non-compliance, evasion, failure to register, hidden economy, avoidance, legal interpretation and other criminal attacks. £18.7bn is lost for direct taxes, including:

£5.2bn	Incorrect tax returns from individuals and partnerships
£4.1bn	Company tax gap, £1.4bn in the UK's largest companies.
£3.2bn	People not reporting their income or gains (ghosts' and 'moonlighters')
£2.9bn	Incorrect PAYE returns from employers
£2.1bn	General avoidance (and is probably a higher figure)

Closing the Tax Gap

6. ARC has been advocating proposals to close the tax gap as an alternative to public sector cuts or tax increases. ARC members are engaged in tackling the biggest tax risks, whether as tax professionals, policy makers, lawyers, accountants or managers. In a very real sense they deliver for the nation. Their work brings in the lion's share of the nearly £13bn tax gap closure delivered by HMRC in 10/11 and £16.6bn in 11/12. The total annual cost of running HMRC is £3.6bn in return for which the nation benefits from total tax revenues of £470bn.

7. The annual cost of compliance work is around a quarter of this and yielded over 17 times that amount in additional taxes that would not otherwise have been collected. In other words, this work is remarkably cost effective. At the top end the yield can exceed 180 times the cost. Even at the lower end of this scale an ARC member earning £50k pa can expect to generate additional yield of over £1.5m each year; a return of at least 30 times the cost - enough additional revenue to pay the salaries of 50 nurses or all the teachers in two medium-sized schools. And for every £1 of additional yield the Exchequer benefits again, via an additional £1 through the deterrent effect of this work both on the subject of the compliance intervention and on those who might be tempted to cheat on their taxes.

8. As part of CSR 2010 ARC welcomed the decision to re-invest £917mn of the cuts HMRC will make into front line compliance activity. That "reinvestment" was expected to generate £7bn per annum by 2014/15. On any measure this is a spectacular return on an investment of under £250m per year over the four years of the Spending Review (SR) period to 2015/16. David Gauke (Exchequer Secretary to the Treasury) recently confirmed this was being delivered "*HMRC results have shown that it can deliver the additional yield. As the hon. Member for Newcastle upon Tyne North (Catherine McKinnell) noted, in 2011-12, it delivered*

£16.6 billion against its targeted increased yield of £15 million, and is on course to deliver an additional £17 billion this year."[5]

9. Indeed, ministers have already accepted the logic to this argument and made further reinvestments in HMRC. In two separate tranches funding of around £150mn is being used to tackle tax avoidance and evasion, and improve the detection of avoidance and evasion, both offshore and onshore, especially in the affluent customer segment. Whilst these reinvestment packages are welcome, ARC still believes that more could and should be done. HMRC will still have to make an overall net reduction of over £2bn by 2014/15. This means losing an additional 13,000 staff over the SR period, taking staff numbers down to 56,000 by 2014/15 compared with 96,000 in 2005. Those areas of compliance work that do not benefit from reinvestment, such as corporate avoidance, dealing with errors and mistakes, technical and procedural advice, employment duties and ghosts/moonlighters, do not benefit from these packages and face significant cuts of up to 25%.

10. We believe the tax gap arising from these unfunded areas is certain to increase as further cuts are layered on top of those already achieved since 2005. ARC welcomes the news that HMRC was spared any further cuts in the 2012 Autumn Statement[6] but urges the Government to go further. It should reconsider the scale of the proposed reductions in HMRC staffing and retain experienced staff, not release them. We also urge them to take up the opportunities suggested below, in a relatively small additional investment package to address some specific areas.

11. ARC believes that far more can be done to reduce the size of the Tax Gap. It cannot be right that, at a time when every family in the UK is being asked to make significant personal sacrifices to reduce the deficit, tax cheats are depriving the Exchequer of over £32bn each year. The recent public and Parliamentary outrage over tax avoidance and evasion demonstrates that people want a tax system that is fair to all. As David Cameron told the World Economic Congress in Davos in January 2013 "*When some businesses aren't seen to pay their taxes, that is corrosive to the public trust. When shadowy companies don't play by the rules, that drives more box ticking, more regulation, more interference and that makes life harder for other businesses to turn a profit. That is why I want this year's G8 to bring a new focus on these issues: trade, tax, transparency."* [7] This can only be achieved if there is international consensus and if HMRC has modern laws and sufficient resources to tackle tax avoidance and evasion across all sectors.

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[5] http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130205/halltext/130205h0001.htm#13020531000001, p20

[6] "It was decided that we would exempt HMRC from cuts imposed on other Departments in the 2012 autumn statement". http://www.publications.parliament.uk/pa/cm201213/cmhansrd/cm130205/halltext/130205h0001.htm#13020531000001, p20

[7] http://www.number10.gov.uk/news/prime-minister-david-camerons-speech-to-the-world-economic-forum-in-davos/

Giving the Treasury the tools for the job

12. HMRC staff need the right tools to do their jobs. HMRC's ability to deal with multinational corporates, and in particular issues around transfer pricing, has been in the headlights. ARC calls for a review of the impact on the UK tax base of new forms of technology, the capacity of businesses to incorporate in a choice of jurisdictions, and growing use of offshore intermediaries. Along with other fiscal authorities, the UK may be losing its ability to match tax revenues with the economic substance of trading and investment activity.

13. The OECD recently reported on Addressing Base Erosion and Profit Shifting[8], calling for governments and the business community to work with the OECD to draw up an Action Plan to further quantify the corporate taxes lost and provide concrete timelines and methodologies for solutions to reinforce the integrity of the global tax system. On transfer pricing they believe "*that the returns related to these brands and patents should be attributed to the locations where the real economic activities take place… We should at least make sure that where the activities take place, that is where the profits go, and not to some sham company in a low tax jurisdiction*."[9]

14. ARC is encouraged by the Chancellor's active steps to work with the OECD and other nations to modernise the laws that apply to international trade, via the group sponsored by the OECD. In line with the Prime Minister's aspirations we welcome the news that the UK will chair a committee set up by the OECD looking at "transfer pricing". We urge that HMRC goes further and takes a leading role, providing the nucleus of a Secretariat to help develop a new international consensus.[10]

15. Such reforms are now increasingly accepted as necessary by all sides to the debate, including the Government, HMRC, business and the tax professions. HMRC's Director-General of Business Tax (and a member of its Executive Committee) told Sky News "'*Yes we do need to change the rules, we need to make sure those rules keep up to date with changing business practice, and in particular in the case of multinationals we have to do that at an international level. Things like the transfer pricing rules and tax planning opportunities which involve profit-shifting offshore – we've got to do that with other countries*. "[11] Richard Woolhouse, head of tax and fiscal policy at the Confederation of British Industry (CBI) commented "*Some of the recent high profile examples have arisen because of developments in the digital economy where it is often difficult to value particular*

[8] http://dx.doi.org/10.1787/9789264192744-en
[9] http://www.oecd.org/taxpubliccommentsreceivedonthediscussiondraftonthetransferpricingaspectsofintangibles.htm
[10] http://www.bbc.co.uk/news/uk-21482242
[11] http://www.taxjournal.com/tj/articles/we-need-change-rules-multinationals-says-hmrc-business-tax-chief-05022013

business activities in a simple way. In many cases, the tax system is lagging behind commercial reality and what is needed is multinational action coordinated by the OECD to update the rules on how business activities are taxed internationally. In particular, the current [OECD project on transfer pricing and intangibles] will lay down a much more robust framework. "[12] The Head of Tax from PWC told the Public Accounts Committee "*we are seeing a lot of discomfort, unrest and unhappiness around the fact that businesses are selling a lot in the UK, but they are not seeing the profit. Part of the reason for that is the way in which the international rules were designed, which puts the value in different places, because they were designed for different purposes. One of the debates that we need to have now, whether it is at the G8 or the OECD, is about the modern world and where the best place to apportion value is. How do you get tax and profits in the right place?"* [13]

16. The complex nature of cross border transactions, along with the complicated structures of multinational groups, and the current rules, makes ensuring the correct tax treatment of those transactions among the most difficult work of HMRC's professionals. Tackling that difficult work relies on a properly trained, skilled, developed and properly rewarded, cadre of senior professional staff. The teams we have in place are incredibly effective, and bring in hundreds of millions to the exchequer, but they cannot deal with everything. ARC's best estimate is that Transfer Pricing expert resource available in HMRC is barely four times that of a single multinational corporate – and HMRC deals with hundreds of such multi-nationals. Whilst the autumn statement will give HMRC some additional expertise, that will be nowhere near enough to match that available to corporates.

17. But we need more than modern laws. HMRC needs to invest in the right infrastructure to support its staff. This includes modern IT systems that are compatible across the Department, and compliance case management that speeds working, not delays it. Nor is it helpful to increasingly staff its main buildings on the basis nobody has a secure desk but must share, sometimes with ten people competing for six workstations.

Recognition and reward

18. ARC members still work incredibly hard and are seen as world class[14] but tell us they see little in the way of career prospects. Staff are publicly criticised by

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[12] http://www.internationaltaxreview.com/Article/3147959/CBIS-Richard-Woolhouse-calls-for-international-cooperation-to-tackle-tax-avoidance.html

[13] Q59, Kevin Nicolson, Head of Tax, PWC, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/uc870-i/uc87001.htm

[14] See, for example, comments from John Dixon, Head of Tax Policy, Ernst and Young. "I think, with respect, you are underestimating the skills and quality of HMRC representatives". Q145, http://www.publications.parliament.uk/pa/cm201213/cmselect/cmpubacc/uc870-i/uc87001.htm

political figures who distrust their abilities, at the same time staff do not seem to get Ministerial support. Regrettably, HMRC is still near the bottom of the Civil Service Engagement table. And low engagement and morale is not just an issue for junior staff. A recent FDA survey of SCS members showed 24% would like to leave their jobs as soon as possible. Even using the Government's own figures 20% would like to leave within 12 months - 5% as soon as possible and 15% within 12 months. HMRC and the unions are working to improve on that, but it will take some time to address the legacy of trust and engagement issues.

19. Accountancy firms and large corporates seek out senior expertise. As pay, pensions and conditions continue to be eroded in HMRC there is a real fear that with we will lose this precious resource over the next few years. Quite apart from the recent pay freeze and current 1% pay cap, the Hay Group reported last December to Cabinet Office on pay comparisons, as part of the review of Market Facing pay.

20. The table below compares market facing median total remuneration identified by Hay in each of 3 Zones for private sector jobs to median salaries at Grade 6 and 7 in HMRC (as at 31/12/2012). As the Hay report says, more senior roles tend to operate in national markets so a 3 zone model was adopted for grades SEO and above. The zones are:

Zone 3 = Central London, Zone 2 = Outer London, Zone 1 = the rest of the UK.
HMRC has two pay Zones – London and National

	Hay Zone 3 (Central London)	HMRC London	Difference (HMRC London to Zone 3	Hay Zone 2 (Outer London)	Hay Zone 1 (Rest of UK)	HMRC National	Difference (HMRC National to Zone 1)
Grade 7	£89,383	£54,453	(£34,930) (-64%)	£83,300	£74,967	£48,572	(£26,395) (-54%)
Grade 6	£109,304	£70,784	(£38,520) (-54%)	£95,841	£86462	£63,716	(£22,746) (-36%)

21. ARC urges the Government to act now to address these pay disparities, and withdraw the changes to terms and conditions that are currently being proposed. If allowed to continue we believe HMRC risks a rerun of the damaging loss of resources seen in the 1980s when the Inland Revenue was losing 10% of its

trained and experienced senior tax professionals each year. This exodus of talent was a direct consequence of huge disparities between the remuneration packages on offer from the 'Big 4' accountancy firms as compared with those on offer in Inland Revenue. The current disparities between public and private sector remuneration are at least as large as those that existed in the 1980s. The haemorrhaging of talent was only stemmed when significant pay increases were agreed for senior tax professionals working in Inland Revenue. Given current shortages and the demographic profile[15] a repeat of the 1980s exodus would have a disastrous impact on HMRC's ability to tackle the tax gap and on the Government's ability to reduce the deficit. ARC urges Government to act now to address these issues in order to prevent a repeat of the damaging loss of resources seen in the 80s.

ARC's proposition

22. We set out below our proposals for further investment in HMRC over the next four years to ensure the UK tax system is fair for all. There are three areas where we recommend further action:
    A) Tackling avoidance and technical tax gaps
    B) Investment in customer and agent support
    C) Building future capacity within HMRC

A. Tackling avoidance and technical tax gaps

23. The Customer Relationship Managers (CRM) model has delivered improved voluntary compliance, faster resolution of tax issues and improved customer satisfaction. We recommend engaging 100 additional Customer Relationship Managers (CRM) to extend the CRM model to a further 1,000 large businesses. This investment would cost c£25m, with a projected yield of £485m.

24. As noted earlier dealing with technical tax issues involving large businesses is some of the most complex work HMRC undertakes. An extra 50 additional senior tax professionals should be deployed as corporation tax specialists, and 50 additional tax professionals to challenge avoidance of indirect taxes. Projected costs are £25mn, with yield over 4 years of £1bn. And employing an extra 20 senior tax professionals to tackle complex technical issues at a cost of £5m would yield £500m over 4 years. So the total cost of £30m for 120 extra senior tax professionals engaged in these areas of work would lead to a total yield of £1.5bn over 4 years.

[15] Over half HMRC's staff are over 45 and 18% aged over 55, with around 30% of Grade 6 and above over 55, http://www.hmrc.gov.uk/about/eqact2010-workforce.pdf

25. The PAYE process generates revenues of £240bn each year. HMRC estimate the Tax Gap attributable to this area as £2.9bn per annum. Many commentators believe this Tax Gap will increase as a result of further avoidance, driven by recent increases in NI and Income Tax rates. Yet the resource allocated to this area of compliance work is already small in comparison with other areas and will decrease further as a result of planned spending cuts. ARC suggests 200 additional senior tax professionals and 200 HO/SO tax professionals to challenge avoidance by large employers. The estimated cost is £82mn with a projected total yield of £1500m.

26. Our members report that increasingly they cannot undertake local visits, to meet customers and their advisors, so are unable to settle cases quickly and effectively. They point out that they have insufficient clerical or administrative support. They believe that their private sector counterparts are not being paid to do such things as photocopy files or arrange travel. Increased investment in properly funding compliance and investigation support teams will improve the quality of their work, release the time of skilled tax professionals and reduce the time taken to resolve enquiries. Support for front-line compliance staff will cost £34mn and yield £130mn over 4 years.

27. ARC welcomes the recent increase in planned levels of criminal prosecution but HMRC's Litigation and Settlement Strategy envisages taking decisive action where HMRC discovers avoidance and evasion. The NAO report 'Tax Avoidance: tackling marketed avoidance schemes' points out that "HMRC has 41,000 open avoidance cases relating to marketed schemes used by small businesses and individuals, and has yet to demonstrate whether it can successfully manage this number down." [16] It can take years to litigate a case to a successful conclusion because there are insufficient legal resources to pursue these cases at pace. A recent estimate suggested that it will take HMRC 34 years to pursue all currently outstanding tax appeals through the tribunal system. ARC calls for additional legal resources in the form of 150 trained lawyers and 50 legal assistants, to accelerate litigation of the Tribunal backlog and accelerate yield. The cost is estimated at £45.5mn, although recruitment may not be easy in view of recent pay changes, and the projected yield £2bn.

B. Investment in customer and agent support

28. HMRC should create a business expansion unit to examine the ways that HMRC can work with other government departments and businesses to support UK business. This might be through HMRC doing other audit/checking work, giving direct advice on inward investment, supporting the Department for Business, Innovation and Skills (BIS) and the Foreign and Commonwealth Office

[16] http://www.nao.org.uk/publications/1213/tax_avoidance.aspx

(FCO) in getting out the message that the UK is a good place to do business. Such a unit would be relatively small, 6 senior tax professional staff at a cost of £1.5m, yielding £35mn over 4 years.

29. ARC has noted with concern the increased volume of complaints from customers and agents, e.g. the poor telephone response rates, as highlighted by the Public Accounts Committee. Recent evidence to the Treasury Select Committee from external bodies and customers supports the view that HMRC is not able to provide the focussed, accurate and quick service to professional agents that its predecessor Departments used to give. HMRC has embarked on an ambitious Agents Strategy that recognises the essential role agents and intermediaries play in the efficient administration of the tax system, as well as the significant leverage impact from helping agents to help their clients get their tax right first time. But ARC members are unable to deal on a one-to-one basis with advisors and give the quick professional decisions that would make life simpler, easier and less stressful for many small and medium sized businesses. We recommend increasing the resources given to the current work and employ 250 SO/HO customer and agent support staff at a cost of £40mn, yielding over 4 years £1bn.

C. Building future capacity within HMRC

30. ARC welcomes the recent increase in HMRC's graduate recruitment programme. Until recently this had been neglected. Given the demographics in HMRC this has made planning very difficult. It also made it difficult to retain essential infrastructure including recruitment at graduate fairs, training and suitable development placements. HMRC should publish its plans for graduate recruitment over the next ten years.

31. Given the current demographic profile of the Department ARC believes there is no alternative to a sustained recruitment programme over the foreseeable future to redress the impact of many years of little or no investment. ARC believes 200 graduates per year is the minimum number required to maintain capability at current levels, which in itself is insufficient to tackle all aspects of the tax gap. On current plans HMRC will recruit 100 graduates each year. Recruiting an additional 100 graduates each year will cost c£40mn over 4 years. The projected yield over 4 years will be £300mn (but yield will quickly build to over £1bn per annum as these trainees complete their training and develop into experienced tax professionals). We also recommend exploring whether a shortened course offering some professional training can be offered to HO/SO grades.

32. In the short-term HMRC can accelerate the overall early return by a measure of external recruitment of tax professionals, such as qualified accounts and Chartered Tax Advisors. This will also allow a transfer of knowledge and skills to teams where training and development has been hit by cost cutting. Recruiting 50 chartered tax advisers to become senior tax professionals should cost £12.5mn and over 4 years yield £1bn.

Conclusion

33. Despite the Government's austerity programme the UK budget deficit is still estimated to be over £100bn. And at the same time HMRC's latest estimate of the UK tax gap is £32 billion (net after HMRC interventions). HMRC is on course to deliver the additional £7 billion each year to 2015 as part of the £917 million reinvestment programme. ARC believes that in achieving that, HMRC will have demonstrated what we have been saying consistently over recent years - that by investing in key personnel in HMRC, its main revenue raising department, the Government will be guaranteed a significant return; one it could use to draw down the deficit, to avoid further austerity measures, or to fund economic recovery and growth.

34. This paper has set out the union's compelling arguments for investing in HMRC. It has highlighted the scale and nature of the problems, considered the measures needed to address them and sets out an investment proposal, which demonstrates the substantial returns which would flow from even a modest investment.

35. But the scale of the budget deficit and the tax gap are such that modest investment is no longer enough. ARC believes this investment package demonstrates to the Government that now is the time for it to abandon caution, be bold, and back a cast-iron winner.