

Public Accounts Committee inquiry into large business tax compliance Comments by the Chartered Institute of Taxation

Executive Summary

- The costs of compliance and related reporting requirements to large businesses are already high and continue to grow.
- We share the NAO's support for the principle of cooperative compliance and broadly agree with them on ways in which HMRC's large business directorate can be made more effective.
- The customer compliance manager model generally works well although there are some concerns about CCMs being unable to resolve issues. CCMs are most effective when they understand the sector and stay in place long enough to understand the company.
- We are concerned about HMRC requesting considerable, and often seemingly excessive, amounts of information, at times overstepping their statutory powers and with little thought to the cost to business. Meanwhile businesses often struggle to get basic information from HMRC. HMRC need to be clear on the purpose of each data request and what they intend to do with the information and communicate this clearly to businesses.
- If a business has a cooperative relationship with HMRC and has achieved a low-risk rating this should be taken into account when considering compliance interventions.
- We would support extension of the cooperative compliance model and CCMs. Businesses which are large but not large enough to have a CCM currently have additional burdens without additional support.

1. Introduction

- 1.1. The Chartered Institute of Taxation (CIOT) is the leading professional body in the UK for advisers dealing with all aspects of taxation. We are a charity and our primary purpose is to promote education in taxation with a key aim of achieving a more efficient and less complex tax system for all. We draw on the experience of our 20,000 members, and extensive volunteer network, in providing our response.
- 1.2. CIOT's objectives include a tax system where there is a fair balance between the powers of tax collectors and the rights of taxpayers, and responsive and competent tax administration, with a minimum of bureaucracy. HMRC's approach to compliance impacts on both.
- 1.3. We welcome the PAC's inquiry into large business tax compliance, recognising the significance of large businesses' contribution to the total tax revenue collected by HMRC. We also welcome the associated National Audit Office (NAO) report, to which we contributed.

- 1.4. We agree with the NAO that the principle of cooperative compliance is a good one and that this has benefits for businesses as well as for HMRC. Most large businesses want to file correct tax returns and achieve certainty in relation to their tax affairs and a cooperative compliance approach feeds into that.
- 1.5. Broadly we support the recommendations set out in the NAO report as to actions that HMRC's large business directorate should take to improve its efficacy further.
- 1.6. The committee should also consider the changing landscape of large business and international taxation. The experience of our members is that changes in the international tax framework (anti-hybrid, corporate interest restriction, Pillar Two etc) together with a change in corporate culture means that there is less appetite in large businesses for aggressive avoidance than there was ten or fifteen years ago.
- 1.7. Members report that this change has probably come about in response to increased international cooperation on tax measures and a shift in public opinion, rather than directly in response to HMRC's compliance activity. However, UK compliance requirements such as publication of a tax strategy and the Senior Accounting Officer rules have had an impact, fulfilling the policy objective of getting tax 'into the boardroom'. Additionally, HMRC approaches such as the modernisation of the Business Risk Review process, now known as BRR+, have helped HMRC and businesses focus on risk.
- 1.8. It should also be recognised that the costs of compliance to large businesses are significant, particularly because of recent international tax reforms (country by country reporting and Pillar 2 etc.) and evolving UK requirements (for example around transfer pricing documentation), which all require extensive data collection, analysis, supporting calculations and documentation to reach appropriate filing positions. Such measures represent an enormous administrative burden on in-house tax teams, and expensive external advice is normally required.

2. Customer compliance managers

- 2.1. As noted in the NAO report, the cooperative compliance approach is primarily supported by each large business having a customer compliance manager (CCM) who will build in-depth knowledge and expertise of the business. Structurally the CCM model is well received, and it can work well to give real time certainty.
- 2.2. The feedback from our members is that it is helpful for large businesses to have CCMs to facilitate a constructive working relationship with HMRC, and this may have a beneficial impact on the UK being seen as a place where multinational groups can do business, but it is difficult to discern whether the CCMs are effective at directly generating revenue for the Exchequer by identifying compliance failures.
- 2.3. In addition, there are some practical challenges. Our members echo the concerns highlighted in paragraph 3.8 of the NAO report around the lack of ability of CCMs to resolve issues. We welcome that HMRC is strengthening its CCM development programme.
- 2.4. Movement of CCMs from business to business also presents challenges to the efficacy of the model. We do not suggest that the CCM community is at fault, but it must be recognised that if a business has a new CCM on average every 12 months, who may or may not be familiar with the taxpayer's particular sector, it is not easy for the new CCM to fully appreciate the particular features of that sector or business. A quick turnover of CCMs also results in repeated requests for the same information which can be a waste of time and resources for the business and HMRC. We would welcome an increased focus on keeping CCMs in post for long enough to ensure knowledge of the business and the sector is developed.
- 2.5. Members also report challenges if their business is changing. The current model does not appear to anticipate or accommodate this. For example, when making a large acquisition or an anticipated significant change in business scale or model in the UK, businesses would like to discuss what might be required in the future to be able to 'hit the ground running' after the change, but achieving engagement around the future can be a challenge. For the largest businesses and projects, the new Advance Tax Certainty Service to be launched in

July 2026 should be helpful in this regard but there are many other cases which are not within scope of the service where dialogue would still be beneficial.

3. HMRC's approach to cooperative compliance - information

- 3.1. We agree with the key finding at paragraph 12 of the Summary in the NAO report that there is a perception amongst businesses, and advisers, that HMRC does not always operate compliance effectively in relation to requests for information. We welcome the recommendation that HMRC should improve how it communicates to large businesses the clear purpose of any data it requests as part of a consistent approach across compliance interventions and the NAO's recognition of the high administrative burden involved for businesses complying with information requests.
- 3.2. In addition to a lack of clear objectives about why information is required, some businesses report an overstepping of statutory powers as to the information sought by HMRC which can leave businesses in a quandary.¹ In such circumstances, businesses must consider whether to push back against requests for information and, if so, how. A distinction must be drawn between a statutory enquiry and other interventions and processes. For example, informal information requests can cause issues if the business has confidentiality obligations or data protection laws cover some of the data requested; this may lead a business to refuse to cooperate in the absence of a formal notice from HMRC. It is also difficult for businesses to deal with requests from HMRC for documents to which it is clearly not entitled within a BRR+ (or even statutory enquiry) framework. An example might be the business' Corporate Criminal Offence risk assessment document which summarises the risks posed by associated persons facilitating tax evasion. This document has nothing to do with the business' own tax position and is, therefore, out of scope of HMRC's information powers.
- 3.3. It can be difficult for businesses to decide whether to comply with informal information requests. The process can be unsatisfactory and often appears to be conducted with little heed to statutory frameworks. Businesses recognise that failing to comply with information requests is likely to result in a formal enquiry. Consideration of potential outcomes is a balancing act. Without a statutory enquiry, HMRC must issue assessments within the assessment time limits. With an enquiry, it has unlimited time to conclude on the tax due and issue a closure notice, but the business could apply to the tax tribunal to close the enquiry (which is not an option if the compliance check is not a statutory enquiry).
- 3.4. The business must weigh up the potential outcomes and the cost in deciding how to respond. We suggest that often these considerations are not reflective of the business' underlying approach to engaging with HMRC, which may well be focused on cooperative compliance. Our concern is that by pushing for an excessive amount of information in some situations, HMRC risks damaging business' enthusiasm for being/growing in the UK and damaging trust in HMRC. We suggest that HMRC should be more careful about asking for information informally and be clear in what they are asking for and why. HMRC should recognise the challenges it poses for business and not treat businesses with prejudice who choose not to provide the information.
- 3.5. In addition, whilst HMRC asks for large quantities of data from businesses, businesses often struggle to get basic information from HMRC, adding to frustrations. For example, a business may be suddenly told that a PAYE debt is on their account, but the CCM is unable to explain which period it arose in respect of and what it relates to while still expecting the company to pay it.
- 3.6. We agree that part of the challenge for HMRC is ensuring that its IT systems are effectively utilising the data that it receives for risk identification and profiling so that it is processing and utilising the additional information to good effect. It is important that HMRC focus on what they intend to do with the information (for example, will it be used to reduce the burden of enquiries?) and communicate this clearly to businesses.

¹ HMRC's information powers are set out in FA 2008 Schedule 36.

4. Legislative powers to tackle egregious behaviour

- 4.1. It is acknowledged by HMRC that most large businesses are open and transparent in their dealings with HMRC and much work has been done in recent years to foster a tax administration relationship of cooperative compliance. However, there is a small pool of taxpayers which are resistant to openness with HMRC, and we encourage HMRC to use its powers to tackle this population. Therefore, we welcome the recommendation that HMRC explores any barriers to using more of the legislative powers it has to tackle egregious behaviour, including using its special measures regime.
- 4.2. Targeted action is often preferable to general actions that can have the unintended consequence of increasing the compliance burden on compliant taxpayers without changing the behaviour of the non-compliant businesses. As we discuss further in the paragraph below, we would encourage HMRC to demonstrate in its compliance activity that, while ensuring that there is appropriate assessment of any risks, it values cooperative and collaborative businesses. There should be more careful targeting of those large businesses that do not wish to act in a compliant and co-operative basis with HMRC.

5. Value of 'low-risk' rating and cooperation

- 5.1. The NAO report notes the role of the business risk review process (BRR+) in HMRC's compliance approach. We understand that the purpose of the BRR+ is to enable HMRC to identify tax risks and non-compliance and target its interventions accordingly. Our member feedback is that the boards of companies subject to BRR+ typically take the risk rating very seriously and compliant taxpayers strive for a low-risk rating. It is something they often refer to in their annual reports and tax strategy.
- 5.2. However, recently, it has become more difficult to ascertain the benefits of a low-risk rating for the business, as some of HMRC's recent compliance activity is taking place across the board, to all companies, regardless of their risk profile.
- 5.3. One example is a recent One-to-Many (OTM) campaign directed at large businesses and their agents regarding claiming of management expenses, an area of law that is far from clear. It is not clear to us why companies with CCMs should receive OTMs. We suggest that the cooperative compliance model should be able to operate so that the CCM to the business identifies whether the risk identified by the OTM campaign is relevant to that business and, if it is, addresses it through CCM engagement, rather than sending a generic OTM letter. It is important for HMRC to understand that the impact on taxpayers of receiving an OTM letter is often disproportionate to any potential beneficial outcome for HMRC, particularly if it is not relevant to the business. For a well-run group, it is a significant exercise to consider and respond to an OTM, involving, amongst other things, ascertaining whether the OTM is relevant and how to respond, a report to the risk committee and taking steps to alleviate any concerns. Further, we understand that in some instances, this particular OTM letter was sent to the 'wrong' company within a group (that is, a company that would not be claiming management expenses), suggesting that HMRC did not use the information about the group that it has via the CCM relationship. This general approach that ignores information HMRC has is not a helpful way to deal with large businesses, particularly those that have a low-risk rating, and is the antithesis of collaborative working.
- 5.4. A similar recent example of where, we suggest, HMRC has not fully considered the impact on businesses, or made full use of the information it has available to it through its cooperative compliance model, is an initiative called Project Snowball. Project Snowball started last year and is an audit-led, cross-tax review for large businesses involving a multi-day, in-person assessment across Corporation Tax, VAT, Employer Duties and International Trade, supported by pre-visit information requests.
- 5.5. We understand that Project Snowball seeks to give HMRC a comprehensive view of how tax numbers are generated through examining governance, control effectiveness and end-to-end data flows. This seems to be a potentially useful exercise – as well as giving HMRC some insight into how systems work to help with risk review and compliance risk, it could also help HMRC understand the challenges of changing/using systems to

obtain and collate tax information in the manner which is required by the many reporting requirements/obligations.

- 5.6. However, businesses can be selected for Project Snowball irrespective of their BRR+ risk rating. We have raised concerns with HMRC about the burden on businesses of a Project Snowball visit, and the overlap with a BRR+ review, leading to unnecessary duplication. We suggested that if a business has achieved a low-risk rating, it should be able to place reliance on this on the basis that HMRC has done a thorough review. A further review conducted under another initiative such as Project Snowball could lessen the value of the BRR+ and therefore the management buy-in to achieving a low-risk rating and cooperative compliance.
- 5.7. HMRC encourages cooperation. Not cooperating can result in a worse BRR+ risk rating and future penalty positions can be affected by the overall compliance status of the business, including whether it had a low-risk rating. Similarly, Project Snowball is stated to be voluntary. However, HMRC have said that participation in Project Snowball, or a refusal of an audit, will be considered in any future penalty conversations if errors are subsequently identified. These outcomes are not unreasonable. But we suggest that HMRC should also ensure that cooperation, and a low-risk rating, is fully considered when planning compliance interventions. The work that a business has already undertaken to achieve its compliance status should be reflected in what else it is asked to do by HMRC. Otherwise, the result is a one-sided approach that undermines businesses' faith in cooperative compliance and reduces the incentive to engage collaboratively with HMRC.

6. Expanding to other businesses

- 6.1. We welcome the recommendation by the NAO around HMRC analysing its approach and potentially expanding cooperative compliance to more businesses, as well as the recommendation to build on areas of good practice and share these learnings with other HMRC directorates.
- 6.2. We have long commented on the growing list of tax rules and compliance burdens (including transfer pricing documentation rules, Pillar 2 and notification of uncertain tax treatment) that have in scope businesses that are above the threshold for small and medium enterprises (that is often used as the level at which the rules are imposed), but are not large enough within the UK's corporate tax compliance framework to be within the CCM regime. This introduces a significant disparity between businesses. Those without a CCM do not have access to the same level of help and guidance from HMRC as those who can speak to their CCM. It has always struck us as unfair to impose additional burdens on taxpayers without the same level of support.
- 6.3. It is very difficult for businesses that do not have a CCM to find someone within HMRC who is able to provide an answer to questions that the largest businesses could legitimately raise with their CCM. In this regard, HMRC's temporary Customer Compliance Manager (tCCM) programme has been well received. The tCCM is a time limited, one to one support arrangement available to certain mid-sized businesses that do not have a permanent CCM. The tCCM is designed to support specific business cycle events or one-off issues and is typically short term, ranging from a small number of calls through to a defined period of engagement. Eligibility aligns to mid-sized business criteria (broadly, turnover typically in the £10m–£200m range, with over 20 employees, or where the business otherwise sits within HMRC's Mid-Sized Business population), but businesses within the large business directorate but without a named CCM can also be in scope. The positive feedback about the tCCM program demonstrates a desire from businesses outside of the large business directorate for a more collaborative, real time engagement model.
- 6.4. The lack of a CCM or alternative route into HMRC can also be an issue for inbound groups, which although large, do not have a significant UK footprint. This can mean that these groups do not get the level of support they need due to the complexities arising because of their international affairs.
- 6.5. Further build out from the large business directorate around the cooperative compliance model and CCMs would be welcome, provided it is done after considering and implementing the suggested improvements to this model.

7. About us

- 7.1. The CIOT is an educational charity, promoting education and study of the administration and practice of taxation. One of our key aims is to work for a better, more efficient, tax system for all affected by it – taxpayers, their advisers and the authorities. Our comments and recommendations on tax issues are made solely to achieve this aim; we are a non-party-political organisation.
- 7.2. The CIOT’s work covers all aspects of taxation, including direct and indirect taxes and duties. Through our Low Incomes Tax Reform Group (LITRG), the CIOT has a particular focus on improving the tax system, including tax credits and benefits, for the unrepresented taxpayer.
- 7.3. The CIOT draws on our members’ experience in private practice, commerce and industry, government and academia to improve tax administration and propose and explain how tax policy objectives can most effectively be achieved. We also link to, and draw on, similar leading professional tax bodies in other countries.
- 7.4. Our members have the practising title of ‘Chartered Tax Adviser’ and the designatory letters ‘CTA’, to represent the leading tax qualification.

The Chartered Institute of Taxation
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