House of Commons

Treasury Committee

Tax Reliefs: Government Response to the Committee's Twentieth Report

Eighth Special Report of Session 2022–23

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The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury, HM Revenue and Customs and associated public bodies.

Current Membership

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Rushanara Ali MP (*Labour, Bethnal Green and Bow*)

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Publication

Committee reports are published on the Committee’s website at www.parliament.uk/treascom/ and in print by Order of the House.

Committee staff

The current staff of the Committee are Morenike Alamu (Committee Operations Officer), Bayley Hockham (on secondment from the Bank of England), Timothy Holmes (on secondment from HM Revenue & Customs), Dan Lee (Senior Economist), Aruni Muthumala (Senior Economist), Dixsha Patel (on secondment from the Financial Conduct Authority), Cameron Reckitt (on secondment from the National Audit Office), Dominic Stockbridge (Second Clerk), Adam Wales (Chief Policy Adviser), David Weir (Clerk), Maciej Wenerski (Committee Operations Manager), Richard Whisker (on secondment from the Bank of England), and Marcus Wilton (Senior Economist).

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You can follow the Committee on X (formerly Twitter) using @commonstreasury.

Eighth Special Report

The Treasury Committee published its Twentieth Report of Session 2022–23, *Tax Reliefs* (HC 723), on 26 July 2023. On 22 September, we received a letter from the Financial Secretary to the Treasury, Victoria Atkins MP, containing HM Treasury’s response to our Report. That response has been appended to this Special Report.

Appendix: Response from the Financial Secretary to the Treasury

Letter from the Financial Secretary

Dear Harriett,

I am writing in response to the Treasury Committee’s (the Committee) report of 26 July on Tax Reliefs. I would like to thank your Committee for its inquiry and its recommendations and I welcome the opportunity to respond.

In preparing this response, the Government has carefully considered the issues highlighted by the Committee in its report. The Government recognises the concerns raised and agrees with the focus on simplification of the tax system, limiting abuse and ensuring tax reliefs continue to achieve their policy goals.

In each of these important areas of focus, I would point to the considerable activity and procedures currently in place which already give strong effect to the Committee’s aims. By way of example, the number and range of tax relief evaluations (both cost and impact) published by HMRC has increased in recent years—with a specific and deliberate focus on the largest and most costly reliefs. Much of this is in place as a result of the previous helpful consideration and suggestions of the Committee and colleagues on the Public Accounts Committee.

Whilst agreeing with the Committee’s intentions, I am of the view that that this ongoing activity already delivers the majority of the Committee’s desired outcomes and that going further in the manner suggested would not always be the best use of resource and also have unintended consequences—whether that be the time of officials or the costs to external organisations and taxpayers. I also have specific concerns about some of the recommendations which are detailed in the annexed full response but in brief:

- A full review of all tax reliefs would impose significant uncertainty on the tax system, putting revenue at risk and altering business behaviour whilst they waited for such a review to conclude. Previous reviews by the NAO and PAC in 2020 focused only on non-structural reliefs.
- Constant reviews would essentially be creating uncertainty for taxpayers. This would particularly impact businesses which benefit from reliefs such as Full Expensing, the Annual Investment Allowance, R&D Tax Credits, Draught Relief, Film Tax Relief, Video Game Relief and Theatre Tax Relief. Any sudden

ambiguity around the operation of the reliefs, due to a widescale review, would be unlikely to be welcomed by the manufacturing sector, hospitality sector, the creative industries and many other sectors which utilise vital government reliefs.

- Costing all tax reliefs is not possible without collecting significant additional data from taxpayers — putting considerable further administrative burdens on them and limiting our overall simplification and admin burden reduction efforts.
- Classification of tax reliefs as government expenditure, or as a reduction in tax revenue, is not within HMT's control but is the responsibility of the independent Office for National Statistics (ONS).
- Any regular time-based assessment of whether reliefs should continue to exist creates inherent instability and uncertainty in the latter years of that cycle for all taxpayers claiming or considering claiming a relief.

Full detail on the Government's response to all the Committee's recommendation is in the appendix to this letter.

I look forward to continuing to work with the Committee as the Government delivers on its ambition for a simplified tax system which helps achieve its key policy objectives—supporting business investment, tackling abuse of the tax system and limiting taxpayer burdens.

Yours sincerely,

VICTORIA ATKINS MP

The Government's response to the Committee's recommendations

This appendix sets out the Government's response to each of the Committee's conclusions and recommendations. The Committee's text is in bold and italicised, and the Government's response is in plain text. Paragraph numbers refer to corresponding paragraphs in the Committee's Report.

The tax system is too complicated. The huge and seemingly ever-expanding suite of tax reliefs is an important factor in that complexity. We welcome, and will monitor, the Treasury's commitment to simplifying the tax system. That simplification cannot merely focus on proposed new policies. (Paragraph 8)

We recommend that the Government undertake a comprehensive and systematic review of existing tax reliefs to look for opportunities for simplification. In doing so, they should in particular look for ways of making it easier for taxpayers to adhere to the rules. (Paragraph 9)

The Government is already committed to simplifying the tax system and keeps all tax reliefs under review. In March, the Chancellor set out to the Treasury Committee his commitment to simplifying the tax system, and that he is taking personal responsibility for this work. The Chancellor has set a clear mandate to his officials to focus both on the simplicity of new tax policy design and on simplifying the existing tax rules and administration, asking for tax simplification to be considered ahead of every fiscal event.

The Government therefore welcomes the Committee's intention to monitor this but considers that most tax reliefs work well—in many cases specifically making tax simpler for citizens and businesses, and where issues exist review is already underway (e.g. Research and Development Tax Credits). The Government does not therefore feel a review of the kind recommended by the Committee would be an effective use of limited resources. While simplification is one of the Government's key objectives, it needs to be balanced against other important objectives of tax reliefs, such as supporting growth and employment.

A full review of all tax reliefs would impose significant uncertainty on the tax system, putting revenue at risk and altering business behaviour whilst they waited for such a review to conclude. It is worth noting that previous NAO and PAC reports on reliefs have focused on non-structural reliefs which are primarily designed to support government economic and social policy.

Constant reviews would essentially be creating uncertainty for taxpayers, particularly for those industries which benefit from such reliefs such as Full Expensing, the Annual Investment Allowance, R&D Tax Credits, Draught Relief, Film Tax Relief, Video Game Relief and Theatre Tax Relief. Any sudden ambiguity around the operation of the reliefs, due to a widescale review, would unlikely be welcomed by the manufacturing sector, hospitality sector, the creative industries and many other sectors which utilise vital government reliefs.

Improving the scrutiny of tax reliefs

Tax reliefs account for considerable reduction in tax revenue. They require adequate data to be collected and published to inform proper policymaking or accountability. However, the evidence shows that this is not happening. The disparity between scrutiny of tax reliefs and that of equivalent direct public expenditure is stark. (Paragraph 25).

There are 1,180 tax reliefs, but HMRC only publishes estimated cost data for 365, leaving 815 uncosted. We recommend HMRC publish cost data for all tax reliefs from the 2025/26 tax year onwards. (Paragraph 26)

The Government shares the Committee's view that collection and publication of data on tax reliefs, particularly non-structural reliefs, is essential to inform proper policy making and accountability. HMRC already publishes an extensive range of costings and impact evaluations for tax reliefs and will look to expand on these wherever possible without adding significant new reporting burdens on businesses and individuals that would be disproportionate to any benefits that might arise.

The majority of reliefs (841 of 1,180) are structural—establishing the scope/base of a tax (e.g. income tax personal allowance)—meaning many specifically keep individuals and businesses out of tax. Such reliefs are generally neither controversial or problematic. HMRC publishes detailed annual commentary on the most significant non-structural reliefs (those that cost over £500m a year). This includes:

- Distributional analysis for 30 of the 36 largest reliefs, where data is available;

- Cost trends over time for 12 of the 36 largest reliefs where the original forecasts overlapped with the period considered by the release. If these costs varied from forecasts, HMRC also explains why.

For most reliefs where HMRC does not currently publish an estimated cost, the information required to do so is not available. In large part, this is because many reliefs are specifically designed so that people who do not owe any tax are not required to engage with the tax system to claim the relief. Reversing this position to obtain the information required to estimate cost would place considerable additional new burdens on businesses and individuals that the Government does not feel proportionate or warranted, and would increase complexity in the tax system. Greater evaluation of structural reliefs would offer limited benefits to justify the additional burdens on taxpayers.

For non-structural reliefs (those with a specific behavioural policy aim) HMRC has made significant progress in publishing data on estimated costs, investigating 301 and publishing costings for 252. Of the remainder, costings for 22 reliefs could not be published as data is not available, while publishing data for 27 would be disclosive of the affairs of identifiable taxpayers.

We recommend the Treasury reclassify tax reliefs as Government expenditure. This would subject reliefs to established value for money assessment, leading to improved scrutiny and ultimately better policy. (Paragraph 27).

We recommend that Government consider how to ensure that the relevant delivery department takes more responsibility for the budgeting for each non-structural tax relief, those designed to promote particular behaviours, in conjunction with the Treasury. This would be intended to promote increased Ministerial accountability and subject such reliefs to levels of Treasury oversight and spending control characteristic of departmental spending. (Paragraph 28).

The Government shares the Committee's view that scrutiny of tax reliefs is vital to ensure effectiveness but considers that the considerable existing level of Parliament scrutiny already afforded to reliefs and the application of Green Book principles via the Joint Tax Relief Framework and TIINs are already sufficient to achieve this.

Unlike many spending programmes, tax reliefs (both new and existing) are already subject to considerable Parliamentary scrutiny and the opportunity for external representation through the annual nature of the Finance Bill and its progress through Parliament.

Tax proposals are technically covered within the scope of the Green Book, so reclassifying tax reliefs as spending is not necessary. The Joint Tax Relief Framework and TIINs ensure that reliefs are subject to Green Book principles of clear objectives, rigorous options generation, robust economic appraisal and careful evaluation.

It is also important to note that tax and spend are qualitatively different. In a spending context, value is concerned with allocating public resources from a pre-determined budget. Tax reliefs on the other hand represent a reduction in the overall tax take. Tax changes do not involve alternative uses of a fixed budget, since they act dynamically on the economy as a whole. It would therefore not be appropriate to appraise their effects using the opportunity cost methods employed when comparing alternative uses of the budget. However, HMRC do estimate initial tax foregone and monitor its size after implementation.

Finally, the classification of tax reliefs as government expenditure, or as a reduction in tax revenue, for fiscal purposes is the responsibility of the independent Office for National Statistics (ONS). The ONS use international statistical guidance when they make these classification assessments (the European System of Accounts 2010, based on the UN's System of National Accounts 2008). It is worth noting that under ESA10 requirements, some tax reliefs are classified as government expenditure, such as payable tax credits like R&D tax credits.

Tackling the abuse of tax reliefs

Tax reliefs have been abused. The most straightforward way to reduce opportunities for such abuse is to simplify the tax system. Where tax reliefs are maintained, we recommend the Government monitor them for indications of abuse as part of ongoing review processes. The Government should seek and favour external consultation on potential abuse at both policy design and post-implementation monitoring phases. (Paragraph 37)

The Government takes abuse of tax reliefs extremely seriously and already acts to tackle abuse of tax reliefs whenever it occurs and considers that it already meets this recommendation.

During the policy making process HMT and HMRC work together closely, through the Policy Partnership, to ensure known risks from fraud and error are addressed. As part of the policy making process, the Government actively seeks views from external stakeholders, including tax experts and industry, to help understand how proposals will work in practice and opportunities for improvement.

As tax reforms are implemented, including new or amended reliefs, HMRC continually monitors changes in take-up and costs as part of tax administration. This analysis empowers HMT and HMRC to make timely and informed decisions where there are deviations from trends or indications of abuse, avoidance, or unintended behaviours, as well as direct its resources to build further evidence in the future. As the tax authority, HMRC uses a range of tools to intervene appropriately depending on the risk, from raising awareness to increasing compliance resource. Where necessary, the Government considers legal reform as part of the policy making process.

We recommend that the Government institutes a system of five-yearly reviews, incorporating public consultation, for tax reliefs. Where these reviews find tax reliefs which no longer achieve policy objectives, are vulnerable to abuse, or have estimated costs significantly higher than expectations, then the Government should commit to removing those reliefs. (Paragraph 51)

The Government again strongly agrees with the Committee about the need for consultation and structured review of tax reliefs. The extensive monitoring of reliefs undertaken by

HMRC and the annual process of The Finance Bill ensure that this is already achieved. The Government also has concerns that the Committee's specific suggestion would give rise to additional uncertainty for taxpayers.

As outlined above, the Government keeps all tax reliefs under review. New proposals are carefully scrutinised as part of the tax policy making and legislative processes.

In some cases, where reliefs are intended to simplify the system and alleviate burdens by removing taxpayers from the system, HMRC does not collect data, to minimise reporting requirements and achieve the simplification intent. In other cases, HMRC monitors day-to-day uptake of reliefs.

HMRC publishes detailed information around the largest 36 non-structural reliefs and has published evaluations of 26 reliefs since 2015. The evidence from this activity feeds directly into decisions by the Government on whether to retain, amend or remove reliefs.

While sunset clauses have also been used where appropriate (for example Energy Saving Materials relief), the Government also notes that a system of 5-yearly reviews for all tax reliefs would create new inherent uncertainty at the latter stages of that cycle for all taxpayers who may be claiming or considering claiming a relief.