



HM Revenue
& Customs

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BY EMAIL

Date 29 March 2023

Dear Dame Meg,

Thank you for your letter of 17 March.

I am sorry for the distress and inconvenience this issue has caused Mr Lake's constituent. We contacted his constituent directly to apologise and to assure him that we had taken urgent action to prevent further disruption. We have taken action to prevent any further correspondence from HMRC, or debt collection agencies acting for us, being sent to the customer's residential address.

Once we have completed our investigations into what occurred, we will write to Mr Lake's constituent with an explanation of the circumstances that led to the incident, and we will offer compensation for the time it took us to resolve the matter after he had drawn it to our attention.

I can provide the Committee with an update on what we know so far and the steps we are taking to prevent this from happening again. For ease, I will follow the structure of the questions you posed in your letter.

What have been your findings to date into this case?

Over a 6 month period, starting in September 2022, around 11,000 VAT registered businesses varied their registration to change their address to the residential address of Mr Lake's constituent. Our investigations so far have found no evidence of fraud or fraudulent intent. We have a good understanding of the ways in which fraudsters try to abuse the VAT system, and this particular incident does not have the hallmarks seen in VAT frauds.

2,356 of the businesses have a tax debt and, as noted above, we have acted to prevent any further contact with this address in relation to these debts.

How many of the companies with outstanding VAT registered to this address are or have sold goods in the UK without paying VAT?

We have compared the data we hold to information provided by online marketplaces and have confirmed that around 70% of the businesses using the address operated on those marketplaces.

Legislation introduced in January 2021 made online marketplaces liable for the VAT on sales made via their platforms by businesses established overseas. In respect of the businesses using this address, our initial analysis indicates that the legislation has operated as intended, with VAT on 95% of the sales by these traders through the online marketplaces being accounted for by the marketplaces. The remaining 5% may relate to sales of goods that are not subject to online marketplace liability and we are continuing to investigate this to ensure the correct VAT treatment has been applied.

There is no evidence that the remaining 30% of businesses registered at the address have sold goods in the UK or have any outstanding VAT to pay. We will continue to monitor the situation and take action, such as de-registration, where appropriate.

Why have your systems failed to identify the number of companies registered to this address and the huge volume of letters being sent?

The risking rules built into our VAT Registration Service cover both applications for VAT registration and variations to existing registrations, such as changes to business addresses. However, it is not unusual for multiple businesses to operate from one address and, as the address used was not the subject of any transaction monitoring or watchlist, the risking rules did not identify the issue.

What requirement is there to provide proof of residence at a UK address when registering for VAT?

There is no requirement to provide proof of residence at a UK address when registering for VAT.

Where an application for registration or a variation of a registration hits certain risking criteria, additional checks are undertaken, which can include requesting evidence to prove that the business is located at the principal place of business address provided. This process applies to both UK-established and overseas businesses.

In our January report on HMRC performance in 2021-22 we recommended that lessons be learned from other tax authorities such as Germany. What lessons have you learned?

HMRC has well-established links with overseas tax authorities, through the OECD Forum on Tax Administration, the Joint Chiefs of Global Tax Enforcement (the J5 community) and our extensive Fiscal Crime Liaison Officer network. HMRC works with partner tax authorities to understand the changing nature of criminal threats and the capabilities needed to counter them, including how other tax authorities manage VAT registrations to prevent fraud. We are working with J5 colleagues (US, Canada, Australia, Netherlands) plus Germany to see if they wish to participate in a joint review of the approach to VAT (and equivalent) registrations risking. We are aiming to complete this work by March 2024.

What changes are you making as a result of this case and what assurances can you provide the Committee that all suitable controls and detection mechanisms are being put in place?

In the light of the emerging findings from this incident, we are reviewing our operational processes for managing high volume address changes, including understanding any vulnerabilities in our systems associated with this behaviour. We expect this to be completed within 3 months.

We have updated guidance on the requirements a business must meet in order to be treated as UK-established - [Charging VAT when using an online marketplace to sell goods to customers in the UK - GOV.UK \(www.gov.uk\)](#)

Conclusion

Our investigations are still ongoing, and we are taking this incident very seriously. But I hope you are reassured that our investigations to date have not uncovered any evidence of a fraudulent attack.

Yours sincerely

A handwritten signature in black ink, appearing to read "Harra". The signature is written in a cursive style with a large, looped initial "H".

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY