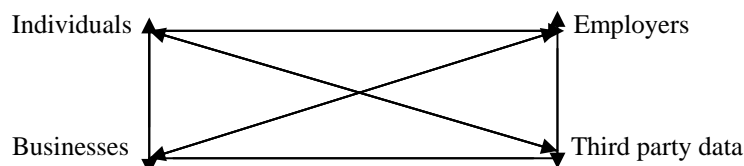


Connect

HMRC's new computerised risk assessing tool for select compliance enquiries

Ever considered how tax enquiries are selected in 2013. Old traditional reviews have been replaced by a new powerful systems integrated computer – 'Connect' *developed using a software tool from Detica, a BAE Systems company and SAS* – which can cross-match over a billion pieces of data and now forms the main tool directing 13,000 front line local compliance officers to target their activities on areas most likely to yield a high return.



Connect uses clever analytics to spot connections that show true levels of income and spending to identify those evading their taxes. It draws from vast information on people living in Britain – from bank accounts (with legislation currently being introduced to obtain bulk data on businesses accepting credit and debit cards), links to 26 separate databases such as the electoral roll, Companies House, and detail from returns for Income Tax, Corporation Tax, VAT and Inheritance Tax.

According to Mike Hainey, who works in HMRC's Risk and Intelligence Service as Head of Data Analytics, Connect has already generated around £2 billion in additional tax yield – a return of more than 40 times the initial investment – and is used in almost three-quarters of all risk profiles in HMRC. Without Connect it would have been impossible to compare information, too complex and time consuming by traditional methods. Government expects extra tax revenues of £22 billion a year by the end of 2014/15 from £994 million reinvested to tackle tax avoidance, evasion, criminal attack and debt by increasing the number of specialists working on compliance, improving their skills and investing in data and technology.*

Personal Tax Compliance Connect efficiently matches to taxpayers the tens of millions of pieces of information HMRC receives every year on interest paid from banks and other financial institutions, automatically prioritising cases to ensure investigators focus on those most likely to lead to a tax loss.

Fraud Tax losses arise not only from failure to pay the correct amount of tax, but also from organised criminal gangs who attack UK Income Tax Self-assessment (ITSA), Tax Credits and VAT systems to fraudulently extract money from the exchequer via the use of false identities. Criminals continually evolve their methods to try and work around HMRC controls, estimated losses from these being in the region of £5-6 billion a year. **

Self Assessment Repayment Fraud Connect has been central to considerably reducing fraud, for example in the three months ending February 2010 Connect identified over 600 ITSA fraud attempts. Connect has enabled HMRC to get ahead of the game by quickly bringing together past and current Self-assessment fraud intelligence, identify the evolution of new trends and patterns in Self Assessment fraudsters' methods, taking earlier action to protect revenue and defend against future attacks. Based on this analysis a set of warning indicators was developed to track changes in fraudster behaviour as they occur.

Tax Credits Connect enables HMRC to intervene more quickly to prevent tax credit fraud. In 2011/12, losses of £1.49 billion in personal tax credit payments were prevented from being lost to error and fraud, a 40 per cent improvement on 2010/11** , although a recent report by the national Audit Office shows there is still more to be done.

HMRC cite the example of successfully stopping an ongoing revenue loss of around £3.5million per year. Intelligence received showed the Tax Credits system was under sustained and organised attack by a group of named individuals but to close down the fraud HMRC needed to quickly identify the wider network of those involved and block any further payments. Connect quickly highlighted the various identities and addresses the named individuals were using. Further analysis via Connect of those linked to the named group revealed an exceptionally complex network of over 150 individuals in

receipt of tax credits, linked to different addresses. The power of Connect helped reveal these hidden relationships enabling HMRC to quickly understand the full extent of the fraud and take action to prevent further loss.

Vat Fraud Attacks by fraudsters contribute to the estimated £9.6 billion of the UK tax gap that relates to VAT[‡], often registering under multiple false identities. Connect allows investigators to visualise and explore multiple VAT registrations linked by common threads of information by instantly drawing together information from across HMRC and displaying it in an easy to understand format on one screen. For the first time HMRC has access to this information before fraudsters can submit their first VAT claim enabling claims to be proactively blocked and attacks prevented at an early stage.

A 15-strong criminal gang were convicted and sentenced for attempting to defraud more than £176 million in VAT, through complex mobile phone trading scams - Missing Trader Intra-Community (MTIC) fraud. The gang claimed to have sold four million mobile phones worth £1.7 billion. But in many cases the phones did not exist. In an attempt to make the trade appear legitimate, more than 5,700 fake business transactions were created, to claim large amounts of VAT. The first arrests were made within three weeks of the enquiry starting, preventing the attempted £176 million fraud. HMRC also prevented the payment of fraudulent VAT repayment claims totalling £109 million submitted by companies linked to the fraud.*

Estimating the UK Tax Gap Besides identifying high risk cases for intervention, Connect can also be used to estimate the extent of the UK Tax Gap, which HMRC currently estimate at £32billion, of which evasion, hidden economy and criminal attacks amount to £14billion, 46%.*

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*HMRC 2013 budget document *Levelling the playing fields*

**HMRC 2012 Annual Report

‡HMRC Oct 2012 *Measuring Tax Gaps*

Con Kelly is AAT representative on HMRC's Compliance Reform Forum (CRF). HMRC recently invited CRF representatives to a presentation on Connect and the purpose of this article is to share the information with AAT members.