

The all seeing eye – an HMRC success story?

Paul Rigney looks at HMRC's success with its Connect computer system.

TEN SECOND SUMMARY

- 1 HMRC received an award for the Connect data warehousing and analysis project.
- 2 Connect combines a range of data from various sources and automatically collates information from more than 30 databases.
- 3 The planned quarterly returns should enable information cross checking at an earlier stage.

When discussing HMRC and new computer software programs most professionals groan with dread. For example, real time information (RTI) did not cover itself in glory and digital quarterly returns now loom on the horizon. But an innovation that seems to be terrifyingly efficient is the one professionals may well have been happy to see fail – Connect.

When HMRC's IT team collected their award for the Best Big Data project at the UK IT Industry Awards recently, it was for its Connect data warehousing and analysis project. This was the culmination of an initiative conceived as far back as 2005, when the Inland Revenue was merged with Customs & Excise.

The merger had been the long-overdue catalyst for a rethink of the way in which both organisations handled fraud detection. The merger of the two revenue-collecting departments offered the opportunity to put together a business case for a more sophisticated approach, using the latest data warehousing technology and analysis tools; hence Connect was born.

Three into one

Connect's success is due to the three distinct functions brought together in one operating system: streamlined data collection, analysis and storage.

The front-end comprises what HMRC has called the integrated compliance environment (ICE), a graphical tool from Detica that enables investigators to put together information around entities. This is combined with the analytical compliance environment (ACE) that analysts and statisticians use to put together risk profiles and interrogate large volumes of data.

At the rear-end, SAS Institute provides the data warehousing, while DAN – the data acquisition and networking system – provides the extraction, transformation and loading capabilities for taking the data items in different formats and transforming them into a structure that the data warehouse can store and make available for analysis.

Connect enables HMRC not only to have a single view of a taxpayer, but it is also able to incorporate a wide range of data from other sources, using not just departmental data but commercial data – bought-in information. Connect now automatically collates information from more than 30 databases.

The real world view

The aim of Connect is to identify the real-world "views" that enable HMRC to make most sense of the data from a fraud and evasion point of view. Entities are put together so that the data can be analysed in different ways. So an individual would be one entity, a family would be another entity, and a company another.

Connect, therefore, identifies real-world entities in which data clusters around and looks at the commonality in those areas that link the entities together. From that, it becomes easier to extrapolate someone who was the director of a number of companies, his family connections and, say, the companies that his wife is a director of, as well as any family trusts. The data, in other words, could be clustered around these entities.

Indeed, the new system means that not only can HMRC analyse tax data, but also information from credit reference agencies and online social-networking information to pinpoint individuals and behaviours that may indicate tax fraud or evasion. Beyond financial transactions, the department is also taking a keen interest in lifestyles. HMRC would find out about someone who owned a couple of expensive cars, but reported a low income, because Connect receives ownership data supplied by the Driver and Vehicle Licensing Agency (DVLA). The taxman would then be likely to take an interest in their affairs.

Third-party sources

Automated tools are also used to keep an eye on online traders using sites such as eBay or



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AutoTrader, to evaluate whether or not sales activity qualifies as “business trading” or not.

HMRC also has powers to request one-off bulk data from third parties where there may be particular cause for concern. For example, insurance companies, hospitals, estate agents and dentists supplied information to assist with the Tax Health Plan disclosure opportunity.

The system also allows HMRC to “zoom in” and keep a close eye on taxpayers’ day-to-day activities. For example, officials can now track ticket sales and passenger information supplied by airline companies. Frequent flights are likely to raise questions about how an individual is funding a jet-set lifestyle, while regular trips to Panama are also likely to raise concerns.

Today, investigations that once might have taken weeks or even months to conduct can be carried out in a day – sometimes in just minutes. Indeed, many investigations would probably not have been launched because of the cost and complexity of putting together the data for analysis. HMRC employs more than 150 specially trained analysts to help glean insights from the information processed through Connect.

The cost of developing the system – some £80m since 2008 – was seen to be a high-risk investment. However, the £3bn of additional tax that the system has yielded to date, combined with the cost savings for investigations and the ability to intervene at an earlier stage, has made Connect a key tool for HMRC. More than 80% of all investigations undertaken by the department now follow potential leads generated by the system and it has been claimed that it holds more data than the British Library.

A targeted approach

Use of the Connect database is an example of the highly aggressive approach now being taken by HMRC to identify the underpayment of tax as the department is driven to meet government targets on tax avoidance and evasion.

While some of those targeted may be guilty of tax evasion, many more are likely to be innocent. Individuals and businesses may find themselves on the receiving end of a mass mailshot from HMRC asking them to review their taxes simply because they fit a particular profile. More unwelcome still, they may even find themselves singled out for a full investigation on the basis of the smallest piece of information for which there is likely to be a straightforward explanation.

Connect has also assisted the department in preventing the loss of £4.1bn in revenue as a result of criminal investigations into taxes and duties owed since April 2010. Further, the number of criminal prosecutions has risen from 165 to 1,165 a year in just four years.

Connect’s importance to HMRC will continue to grow with the planned introduction of quarterly returns under the proposed Making Tax Digital system when the cross checking of information will be carried out even sooner than at present.

Increasing work and costs

With Connect growing in strength, accountants in practice will see an increasing risk of additional work from information requests or formal enquiries into submitted returns and compliance visits.

All forward-thinking practitioners are now ensuring they have a tax fee protection scheme in place to protect themselves as well as clients from the additional time costs that arise from increasing HMRC activity. Much current HMRC enquiry activity can involve the additional time spent being written off. This may not seem to amount to a lot at first, with the occasional hour here and there; but over the course of 12 months the costs can start to mount up.

FURTHER INFORMATION

Qdos Vantage is the IFA’s approved partner for tax fee protection.

For more information, please call 0116 274 9123 or visit www.qdosvantage.com.

