



**Full Length Research Article**

**PROJECT ZACCHAEUS, TELEMATIQUE LIMITED VS HMRC, PROJECT REPORT - PART 2**

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**ABSTRACT**

In this second part the author (A) continues to report findings from Project Zacchaeus where the author (A) analyses the performance of HM Revenue & Customs (HMRC) as the national tax collection authority for the United Kingdom according to a set of quality criteria defined in Part 1. Whereas Part 1 examined how HMRC sets its priorities and deploys its resources, Part 2 examines the competence of HMRC by comparison to another national tax collection authority, namely the US federal tax collection authority, the Inland Revenue Service (IRS). The IRS and HMRC are compared in terms of their number of employees, annual budgets, tax collected and number of Customers managed. The technique of What-If Scenario Analysis is then applied to illustrate the results of the comparison.

**INTRODUCTION**

Project Zacchaeus arose from the author (A)'s own experience of dealing with HM Revenue and Customs (HMRC) as an individual UK Taxpayer and as the Sole Director of a small UK company registered in England and Wales, *Telematique Limited* which led to the submission of seven Appeals to HM Courts and Tribunals Service (HMCTS) against HMRC between 05-Oct-2013 and 13-Dec-2014 (Ayad Al-Mukhtar (Alexander Wain), 2015). The case is progressing in the English Courts and at the time of writing the final Tribunal Hearing has not yet been scheduled. A's experience described in the previous paragraph seemed highly unusual and statistically inexplicable. HM Revenue & Customs as the national tax collection agency for the United Kingdom is responsible for policing the tax affairs of 32,518,000 taxpaying entities (Ayad Al-Mukhtar (Alexander Wain), 2015), so HMRC therefore clearly did not have the resources to devote the same level of attention that it was giving A to the other remaining 32,517,999 UK taxpaying entities. In this Part 2 we continue to analyze the performance of HMRC by examining a second set of quality criteria scoped in (Ayad Al-Mukhtar (Alexander Wain), 2015).

The focus of this paper is the competence of HMRC in relation to other national tax collection authorities.

**Competence by comparison to other national tax collection authorities**

As Project Zacchaeus progressed it became increasingly clear that any analysis of the performance of HMRC - as the national tax collection authority for the United Kingdom - would not be complete if carried out in isolation and without taking into account how other national tax collection authorities operate. Having concluded that a comparison with other national tax collection authorities was needed, the next question was deciding on which comparator to use. The main challenge is the availability in the public domain of sufficient performance data to enable a credible comparison to be conducted. Fortunately for this project, an ideal comparator is readily available in the form of the federal tax collection authority for the USA, the Internal Revenue Service (IRS), which regularly publishes statistics about its own performance and which is available in the public domain ([http://en.wikipedia.org/wiki/Internal\\_Revenue\\_Service](http://en.wikipedia.org/wiki/Internal_Revenue_Service)).

In ([http://en.wikipedia.org/wiki/Internal\\_Revenue\\_Service](http://en.wikipedia.org/wiki/Internal_Revenue_Service)) tax collection statistics for the IRS are summarized in tabular format for the two fiscal years 2007 and 2010. The table for

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fiscal year 2010 is reproduced below from ([http://en.wikipedia.org/wiki/Internal\\_Revenue\\_Service](http://en.wikipedia.org/wiki/Internal_Revenue_Service)):

On the first page of ([http://en.wikipedia.org/wiki/Internal\\_Revenue\\_Service](http://en.wikipedia.org/wiki/Internal_Revenue_Service), Retrieved 22-May-2014 07:30 GMT) figures are also given for the total number of staff that the IRS employed in 2014 as well as the value of the IRS annual budget and these are reproduced below:

**Tax collection statistics**

Summary of Collections before Refunds by Type of Return, Fiscal Year 2010<sup>[B1]</sup>

| Type of Return        | Number of Returns  | Gross Collections in the nearest million US\$ |
|-----------------------|--------------------|---|
| Individual Income Tax | 141,166,805        | 1,163,688                                     |
| Employment Taxes      | 29,787,494         | 824,188                                       |
| Corporate Income Tax  | 2,355,803          | 277,937                                       |
| Excise Taxes          | 836,793            | 47,190  |
| Estate Tax            | 28,780             | 16,931  |
| Gift Tax              | 286,522            | 47,190  |
| <b>total</b>          | <b>174,405,682</b> | <b>2,332,754</b>                              |

*C<sub>IRS</sub>* (points to total row), *R<sub>IRS</sub>* (points to total row)

**Internal Revenue Service**



**Agency overview**

- Formed** July 1, 1862<sup>[1]</sup> (though the name originates from 1918)
- Jurisdiction** Federal government of the United States
- Headquarters** 1111 Constitution Ave., NW,<sup>[2]</sup> Washington, D.C.
- Employees** 89,500 (2014)
- Annual budget** ~11.2 billion
- Agency executive** Commissioner, John Koskinen
- Parent agency** Department of the Treasury
- Website** www.irs.gov (<http://www.irs.gov>)

*E<sub>IRS</sub>* (points to Headquarters), *B<sub>IRS</sub>* (points to Annual budget)

By contrast performance statistics for HMRC can be extracted from HMRC's Annual Report and Accounts 2012-13 (for the year ending 31 March 2013) (<https://www.gov.uk/government/publications/annual-report-and-accounts-2012-13-3>, retrieved on 13-Feb-2015 07:35GMT) and in particular the Statistical tables on pages 52 – 60 and the Financial Statements on page 156, fragments of which are reproduced here: Whereas demographic data relating to the number of UK Taxpaying entities can be extracted from (<https://www.gov.uk/government/publications/numbers-of-taxpayers-and-registered-traders>), fragments of which are reproduced here:

We now have sufficient key data items about the IRS and HMRC to conduct a credible comparison between these two

organizations based on their own official figures which are in the public domain.

Table 1: Total departmental spending (£000)

|                                    | 2008 09<br>Outturn | 2009-10<br>Outturn | 2010 11<br>Outturn | 2011 12<br>Outturn | 2012 13<br>Outturn | 2013 14<br>Plans | 2014 15<br>Plans |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|------------------|------------------|
| <b>Resource DEL</b>                |                    |                    |                    |                    |                    |                  |                  |
| HMRC administration                | 3,709,865          | 3,596,631          | 3,345,192          | 3,311,468          | 3,289,624          | 3,14,826         | 3,11,939         |
| Departmental unallocated provision | -                  | -                  | -                  | -                  | -                  | 36,887           | 3,445            |
| VOA administration                 | 1,632              | 644                | 1,298              | 5,835              | -1,978             | -                | 1                |
| Utilised provisions                | 49,100             | 54,283             | 48,381             | 47,599             | 40,954             | 44,858           | 38,97            |
| National Insurance Fund            | 413,760            | 433,818            | 411,362            | 340,644            | 334,541            | 313,613          | 302,14           |
| <b>Total Resource DEL</b>          | <b>4,174,357</b>   | <b>4,085,376</b>   | <b>3,806,233</b>   | <b>3,705,546</b>   | <b>3,663,141</b>   | <b>3,170,184</b> | <b>3,568,18</b>  |

*B<sub>HMRC</sub>* (points to Total Resource DEL row)

Table 5: Staff numbers

|                        | 2010 11<br>Outturn | 2011 12<br>Outturn | 2012 13<br>Outturn |
|------------------------|--------------------|--------------------|--------------------|
| <b>Core Department</b> |                    |                    |                    |
| Permanent staff        | 67,533             | 64,48              | 61,568             |
| Others <sup>1</sup>    | 264                | 2,59               | 3,577              |
| <b>Total</b>           | <b>67,797</b>      | <b>67,074</b>      | <b>65,145</b>      |

*E<sub>HMRC</sub>* (points to Total row)

**Financial Statements**

**Statement of Revenue, Other Income and Expenditure**

For the year ended 31 March

|                                       | Notes | 2013<br>£bn  | 2012<br>£bn  |
|---------------------------------------|-------|--------------|--------------|
| <b>Taxes and Duties</b>               |       |              |              |
| Income Tax                            | 2.1   | 150.9        | 151.8        |
| Value Added Tax                       | 2.2   | 101.0        | 99.6         |
| Corporation Tax                       | 2.3   | 39.2         | 40.1         |
| Hydrocarbon Oils Duties               | 2.4   | 26.5         | 26.9         |
| Alcohol Duties                        | 2.5   | 10.2         | 10.1         |
| Tobacco Duties                        | 2.6   | 9.6          | 9.9          |
| Stamp Taxes                           | 2.7   | 9.5          | 8.7          |
| Other Taxes and Duties                | 2.8   | 23.4         | 23.0         |
| <b>Total Taxes and Duties</b>         |       | <b>370.3</b> | <b>370.1</b> |
| <b>Other Revenue and Income</b>       |       |              |              |
| National Insurance Contributions      | 3     | 101.7        | 101.6        |
| Student Loan Recoveries               | 3     | 1.6          | 1.3          |
| Taxation due from Isle of Man         | 3     | 0.5          | 0.4          |
| Fines and Penalties                   |       | 1.5          | 0.8          |
| <b>Total Other Revenue and Income</b> |       | <b>105.3</b> | <b>104.1</b> |
| <b>Total Revenue</b>                  |       | <b>475.6</b> | <b>474.2</b> |

*R<sub>HMRC</sub>* (points to Total Revenue row)

It is important to recognize, however, the limitations of such a comparison because the different data items do not correspond to exactly the same time periods. IRS collection statistics are from fiscal year 2010 but the IRS annual budget and number of employees figures are from the year 2014, whereas all the HMRC figures relate to the years 2012-2013. On the other hand, all the figures are confined within a period of 4 years between 2010 and 2014. During that period neither the USA nor the UK had a change of federal, or central government and effects of the last global financial crisis of 2008 had time to be absorbed by the world economies, so one would expect the figures to have been relatively stable over that four year period.

We now express each of the key data items to be used in the comparison as a Formula (F) (<http://en.wikipedia.org/wiki/Formula>) as follows:

For the IRS

- $E_{IRS}$  = Total IRS Employees (2014) = 89,500... (F<sub>1</sub>)
- $B_{IRS}$  = Total IRS Annual Budget (2014) = \$11,200,000,000... (F<sub>2</sub>)
- $C_{IRS}$  = Total IRS Customers (2010) = 174,405,682... (F<sub>3</sub>)
- $R_{IRS}$  = Total IRS Collections (2010) = \$2,332,754,000,000 ... (F<sub>4</sub>)

For HMRC all the original financial figures are expressed in units of Pound Sterling (£ or GBP) and these will need to be converted to US Dollar (\$) or USD). We will fix this rate as:

$£ / \$Rate = 1.56... (F_5)$

Thus, for HMRC:

- $E_{HMRC}$  = Total HMRC Employees (2012-2013) = 65,145 ... (F<sub>6</sub>)
- $B_{HMRC}$  = Total HMRC Annual Budget (2012-2013) = \$5,714,499,960... (F<sub>7</sub>)
- $C_{HMRC}$  = Total HMRC Customers (2012-2013) = 30,600,000 + 1,918,000 = 32,518,000... (F<sub>8</sub>)
- $R_{HMRC}$  = Total HMRC Collections (2012-2013) = \$741,936,000,000... (F<sub>9</sub>)

These results can be summarized in Table 1 below:

|         | Estimated number of taxpayers ('000's) |                           |        |                 |                       |                        |                    | Actual number of registered traders at 31 March ('1) |                      |                            |                        |                               |                      |
|---------|--|---------------------------|--------|-----------------|-----------------------|------------------------|--------------------|--|----------------------|----------------------------|------------------------|-------------------------------|----------------------|
|         | Income tax (2)                         |                           | Surtax | Corporation Tax | Capital Gains Tax (5) | Inheritance tax        |                    | VAT (5)  | IPF Traders ('000's) | Air Passenger Duty Traders | Landfill Tax Operators | Climate Change Levy Operators | Aggregates Operators |
|         | Number of taxpayers (3)                | Number of individuals (4) |        |                 |                       | Liabilities upon death | Lifetime transfers |  |                      |                            |                        |                               |                      |
| 1938-39 | 3800                                   | --                        | 105    | --              | --                    | 153                    | --                 | --   | --                   | --                         | --                     | --                            | --                   |
| 1948-49 | 14500                                  | --                        | 218    | --              | --                    | 58                     | --                 | --   | --                   | --                         | --                     | --                            | --                   |
| 1958-59 | 17700                                  | --                        | 393    | --              | --                    | 66                     | --                 | --   | --                   | --                         | --                     | --                            | --                   |
| 1968-69 | 30700                                  | --                        | 474    | --              | 368                   | 81                     | --                 | --   | --                   | --                         | --                     | --                            | --                   |
| ---     | ---                                    | ---                       | ---    | ---             | ---                   | ---                    | ---                | ---  | ---                  | ---                        | ---                    | ---                           | ---                  |
| 2009-10 | --                                     | 30600                     | --     | 875             | 168 (6)               | 15                     | 3                  | 1942   | 1221                 | 289                        | 283                    | 245                           | 742                  |
| 2010-11 | --                                     | 31300                     | --     | 910             | 187 (6)               | 16                     | 3 (6) (9)          | 1912   | 1223                 | 288                        | 265                    | 252                           | 732                  |
| 2011-12 | --                                     | 30800 (8)                 | --     | 980             | 160 (6)               | 18 (6) (9)             | 3 (6) (9)          | 1906   | 1235                 | 267                        | 206                    | 264                           | 719                  |
| 2012-13 | --                                     | 30600 (9)                 | --     | n/a             | n/a                   | 22 (6) (9)             | 4 (6) (9)          | 1918   | 1228                 | 289                        | 207                    | 277                           | 697                  |
| 2013-14 | --                                     | 29800 (9)                 | --     | n/a             | n/a                   | 26 (6) (9)             | 5 (6) (9)          | 1974   | 1208                 | 522 (11)                   | 209                    | 360 (12)                      | 690                  |

Table updated April 2014



which, according to the Financial Times website, is the GBPUSD UK Pound Sterling / US Dollar FX Spot Rate as of the close of markets on Friday 12-Jun-2015 as shown below:

**Table 1. A comparison between HMRC and the IRS in terms of Number of Employees, Annual Budget (USD), Total Number of Customers and Total Collections (USD)**

| Organization | Number of Employees | Annual Budget (USD) | Total Number of Customers | Total Collections (USD) |
|--------------|---------------------|---------------------|---------------------------|-------------------------|
| IRS          | 89,500              | \$11,200,000,000.00 | 174,405,682               | \$2,332,754,000,000.00  |
| HMRC         | 65,145              | \$5,714,499,960.00  | 32,518,000                | \$741,936,000,000.00    |



We are now in a position to compare the two national tax collection organizations in terms of the following five criteria:

**Employee Cost**

How does the average cost of an IRS employee to the US Taxpayer compare to the cost of an HMRC employee to the UK Taxpayer?

**Employee Productivity**

How does the productivity of an IRS employee compare to productivity of an HMRC employee in terms of the volume of work they can handle (measured in the number of Customers they are responsible for)?

**Employee Value for Money**

How does the value of money of an IRS employee compare to the value of money of an HMRC employee in terms of the revenue (Collections) they bring?

**Cost per Customer**

How much does it cost the IRS on average to collect tax from a US Taxpayer compared to how much it costs HMRC on average to collect tax from a UK Taxpayer?

**Organizational Value for Money**

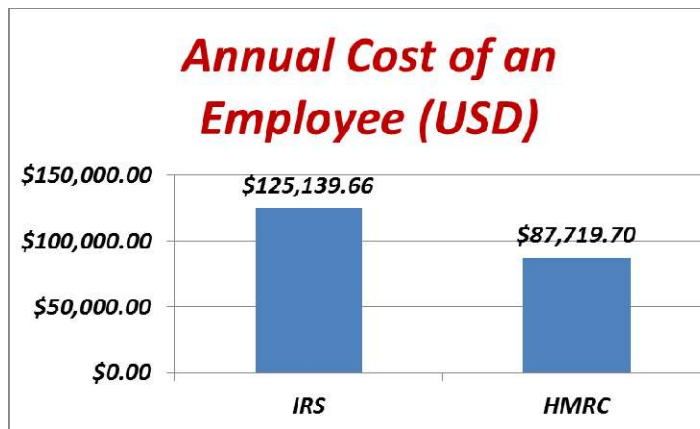
How does the value-for-money of the IRS in the United States of America compare to the value-for-money of HMRC in the United Kingdom? (How much does it cost the IRS and HMRC to collect 1\$ USD of tax?)

The results of the comparison based on the above are summarized in **Table 2** below:

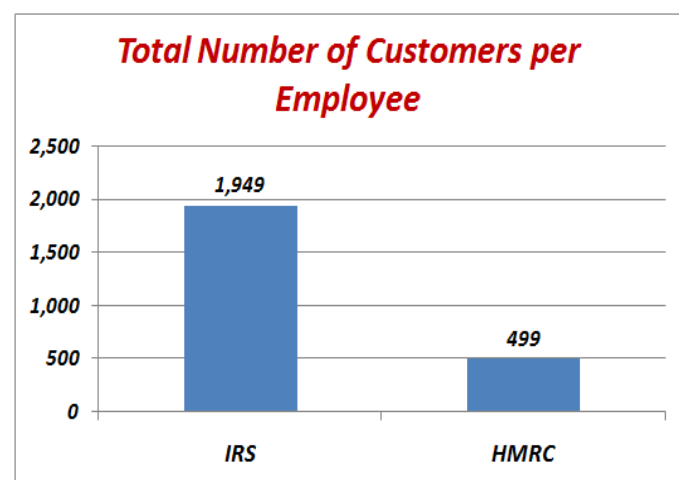
**Table 2. A comparison between HMRC and the IRS in terms of five different criteria**

| Organization | Annual Cost of an Employee (USD) | Total Number of Customers per Employee | Total Collections per Employee (USD) | Average Cost of Customer to Taxpayer (USD) | Average Cost of Collecting \$1 (USD/100) |
|--------------|----------------------------------|--|--------------------------------------|--|--|
| IRS          | \$125,139.66                     | 1,949                                  | \$26,064,290.50                      | \$64.22                                    | \$0.480119                               |
| HMRC         | \$87,719.70                      | 499                                    | \$11,388,993.78                      | \$175.73                                   | \$0.770215                               |

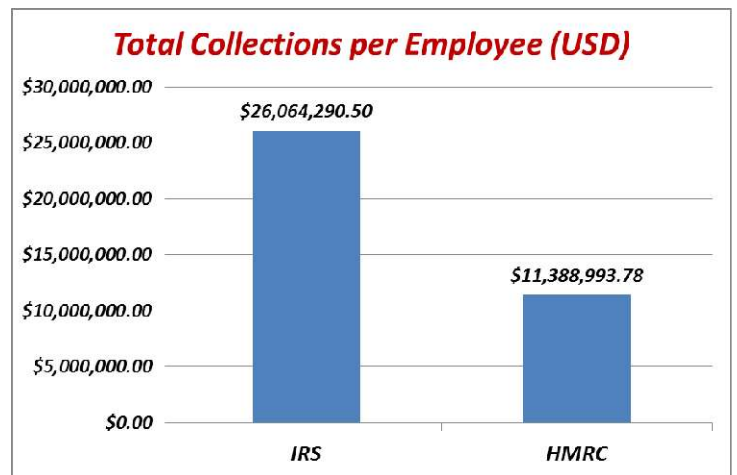
The following five graphs show alternative illustrations of the results of Table 2:



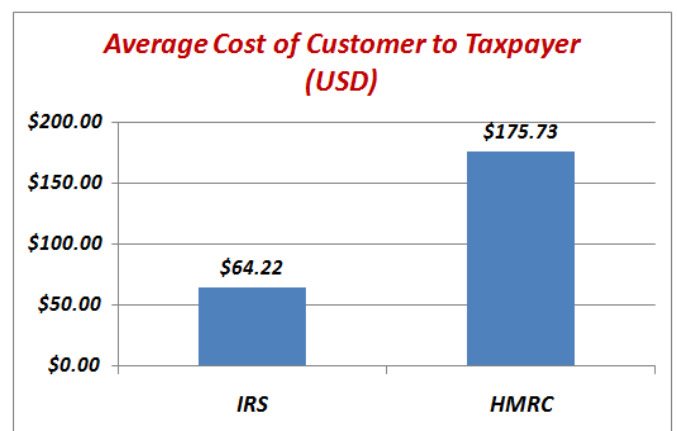
**Figure 1. Employee Cost** – How does the average cost of an IRS employee to the US Taxpayer compare to the cost of an HMRC employee to the UK Taxpayer?



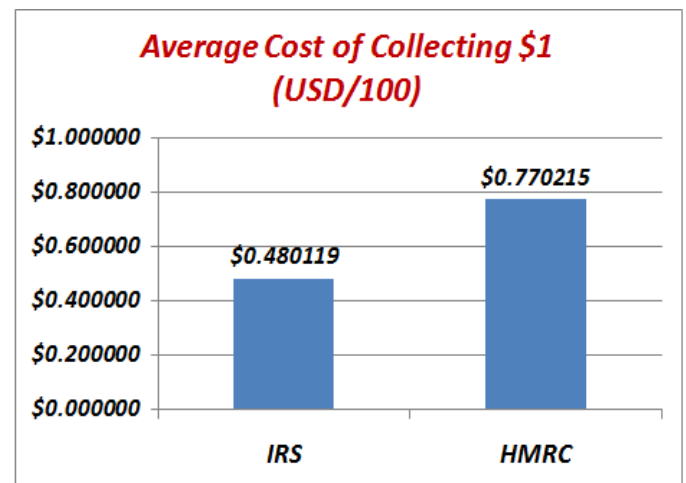
**Figure 2. Employee Productivity** - How does productivity of an IRS employee compare to productivity of an HMRC employee in terms of the volume of work they can handle (measured in the number of Customers they are responsible for)?



**Figure 3. Employee Value for Money**- How does the value of money of an IRS employee compare to the value of money of an HMRC employee in terms of the revenue (Collections) they bring?



**Figure 4. Cost per Customer** - How much does it cost the IRS on average to collect tax from a US Taxpayer compared to how much it costs HMRC on average to collect tax from a UK Taxpayer?



**Figure 5. Organizational Value for Money**- How does the value-for-money of the IRS in the United States of America compare to the value-for-money of HMRC in the United Kingdom?(How much does it cost the IRS and HMRC to collect 1\$ USD of tax?)



**Scenario 1A**

| Organization | Total Collections per Employee (USD) | Total Collections (USD) | Number of Employees | Annual Cost of an Employee (USD) | Annual Budget (USD) |
|--------------|--------------------------------------|-------------------------|---------------------|----------------------------------|---------------------|
| IRS(UK)      | \$26,064,290.50                      | \$741,936,000,000.00    | 28,466              | \$125,139.66                     | \$3,562,177,237.72  |
| HMRC         | \$11,388,993.78                      | \$741,936,000,000.00    | 65,145              | \$87,719.70                      | \$5,714,499,960.00  |
|              |                                      |                         |                     |                                  | \$2,152,322,722.28  |

**Scenario 1B**

| Organization | Total Number of Customers per Employee | Total Number of Customers | Number of Employees | Annual Cost of an Employee (USD) | Annual Budget (USD) |
|--------------|--|---------------------------|---------------------|----------------------------------|---------------------|
| IRS(UK)      | 1,949                                  | 32,518,000                | 16,687              | \$125,139.66                     | \$2,088,243,891.04  |
| HMRC         | 499                                    | 32,518,000                | 65,145              | \$87,719.70                      | \$5,714,499,960.00  |
|              |  |                           |                     |                                  | \$3,626,256,068.96  |

**WHAT-IF Scenario Analysis**

To conclude this paper we rely on a modeling technique from Project Management (www.PMI.org) in order to drive home the implications of the above comparison. The modeling technique is called *What-If Scenario Analysis* in *PMBOK V5*(www.PMI.org) and is used to predict the effect of hypothetical scenarios on project objectives in order to assess the feasibility of the project schedule under adverse conditions, and in preparing contingency and response plans. We use this technique here to test the following scenario:

**Scenario 1 - What If the IRS were to take over responsibility for UK Taxation?**

To test this Scenario let us assume that the new organization *IRS(UK)* has all the characteristics of the IRS but has to collect the same amount of tax and manage the same number of Customers that HMRC currently does. We consider two cases:

**Scenario 1A–IRS (UK) collects same amount of tax as HMRC currently does**

The following table shows how many Employees the new organization would need in order to collect the same amount of tax that HMRC currently collects and what the annual budget for this hypothetical organization would be:

Thus in *Scenario 1A* the new organization would save the UK Taxpayer \$2,152,327,402.28 a year.

**Scenario 1B – IRS (UK) manages the same number of Customers as HMRC currently does**

The following table shows how many Employees the new organization would need in order to manage the same number of Customers that HMRC currently manages and what the annual budget for this hypothetical organization would be:

Thus in *Scenario 1B* the new organization would save the UK Taxpayer \$3,626,256,068.96 a year.

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