

## How HMRC collects tax revenue to support Government policy

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#### Introduction

HMRC stands for Her Majesty's Revenue and Customs. It was formed in 2005 by merging the Inland Revenue and Customs. It is the body which collects taxes on behalf of the government. The money is used to provide public services. These include education, law and order, defence, roads and social benefits. HMRC is a non-political body. It is not headed by a minister. It is responsible to the Chancellor. HMRC does not just collect tax. It also:

- \* administers tax Credits and Child Benefits
- \* protects the UK from illegal trade
- \* makes sure the National Minimum wage is being paid
- \* recovers student loans.

#### Control of the economy

All governments have aims. The main ones are, as a rule, stated as:

- \* control of inflation, or rising prices
- \* low levels of unemployment
- \* achieving a balance between imports and exports;
- \* improving the standard of living and
- \* economic growth. Government controls the economy by passing laws. It also uses of taxes and subsidies. Tax can be direct or indirect. If it is direct, it is taken from income. National Insurance is also collected directly. This payment is used to support health and pensions. If it is indirect, it is added to the price of goods and services. The most common form of this tax is the 17.5% VAT added to most products.

#### Policy/h2]

**To reach their aims, governments use two types of policy.**

**\* Monetary policy. This means taking control of the supply of money, for instance by changing interest rates.**

**The exchange rate can also be changed. This is the rate at which the pound can be changed for foreign currencies.**

**\* Fiscal policy. This means changing the flows of tax and public spending.**

#### Collecting taxes

**One of the most important principles of taxation is that it should be easy to collect. Income tax is taken directly from income. Employees pay through the PAYE (Pay As You Earn) system and tax is deducted by the employer. Anyone who is self-employed, such as a sole trader or partner, has to inform HMRC and fill out a tax return so that income tax can be assessed. They are also responsible for collecting the income tax of any employees. Companies pay tax on their profits.**

#### Communication

**HMRC must try to be efficient. To do this it has built good communications systems. For instance, people can now file tax returns online. To help people using the online service, calculations are carried out automatically.**

People can also ask for help online or by phone. HMRC has to remind people of when and how to pay tax. It uses a variety of media to do this.

### Conclusion

HMRC must be efficient. This helps governments to plan and to carry out aims. The online form has added to that efficiency. This is good for all of us, as society as a whole benefits from public spending.