



## Legal experiences of the United Kingdom in tax compliance risk management and implications for Viet Nam

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### Abstract

This research analyzes the UK's legal experience in managing tax compliance risk, a model highly regarded for its transparency and effectiveness. The UK legal framework, operated by HMRC, applies a risk and cooperation classification system for taxpayers, combined with a big data analytics system to detect tax filing discrepancies and assess the probability of violations. Simultaneously, coordination mechanisms play a crucial role in promoting voluntary compliance, enhancing accountability, and creating a collaborative tax governance environment between tax authorities and businesses. Based on the UK experience, the research proposes several policy implications for Viet Nam to contribute to the modernization of the Vietnamese tax system towards transparency, risk-based management, and sustainable compliance promotion.

**Keywords:** Tax compliance risk management, UK, legal framework, risk assessment criteria system, data, lessons learned

### Introduction

In recent years, the issue of tax compliance risk management has received increasing attention in Vietnamese research. However, existing works mainly approach this topic from a broader perspective, such as tax administration, tax compliance, or risk management in tax administration in general. A notable limitation is the lack of in-depth studies comparing international experiences with Viet Nam's legal framework, especially models of tax compliance risk management developed in countries with modern tax systems such as the United Kingdom.

In the context of Viet Nam's ongoing efforts to reform its tax system and shift its approach from manual to risk-based management, the need to learn from international experience has become urgent. The United Kingdom, with its Tax and Customs Authority's (HMRC) tax compliance risk management model, is considered one of the leading countries in building a modern, transparent, and data-driven legal framework. Studying and analyzing the legal experience of the United Kingdom can provide valuable insights for Viet Nam in the process of improving its laws and enhancing enforcement effectiveness.

Therefore, this research was conducted to systematically analyze the legal experience of the United Kingdom on tax compliance risk management, thereby identifying lessons and directions for appropriate application in the legal, economic, and social context of Viet Nam. The research results not only contribute to supplementing the theoretical basis for approaching a modern tax management model, but also have significant practical implications for the process of policy planning and tax law development, especially in the period 2025-2030 when Viet Nam continues to promote digital transformation and data-driven tax management.

### The UK's legal experience in managing tax compliance risk.

#### 1. Organizational structure and operating principles of HMRC

In the United Kingdom, the agency responsible for managing and controlling taxes nationwide is Her Majesty's Revenue and Customs (HMRC). HMRC was established as

a non-ministerial agency, thereby maintaining relative independence in its operations, not being under the direct control of the Treasury, but still adhering to the Government's strategic direction and objectives in the field of taxation. This mechanism creates a harmonious balance between professional autonomy and political responsibility, while ensuring the principles of fairness, transparency and respect for taxpayers' rights in the implementation process. Since 2007, HMRC has been applying a risk-based approach to tax management, as shown in the Internal Manual on Tax Compliance Risk Management. This is an important legal and technical foundation that allows HMRC to assess taxpayer compliance behavior based on data and risk analysis instead of mass inspections. The sources of information for risk assessment are diverse, including tax returns, business registration data, and data from related organizations and partners such as airlines, banks, and service organizations.

#### 2. Legal framework for data collection and processing for risk assessment

Legally, the right to collect and process information for risk assessment is regulated relatively fully and in detail in the Finance Act 2008<sup>[5]</sup>, especially in Schedule 36. This is one of the most important legal bases that gives HMRC the authority to request taxpayers or third parties to provide information, check records, access business premises and issue taxpayer notices or third-party notices when there is a necessary basis for the purpose of assessing tax compliance. This regulation allows HMRC to access information widely but still must comply with the conditions of necessity, reasonableness and proportionality of the intervention. After the amendment in 2021, Schedule 34 expanded HMRC's authority to data from financial institutions and related entities. This amendment reflects the practical needs in the context of the increasingly complex digital economy and cross-border transactions. At the same time, the new regulations add mechanisms to protect sensitive data, ensuring that taxpayers have the right to be informed, the right to explain, and the right to appeal against HMRC's requests or decisions regarding data collection and use. This

approach helps maintain a balance between the requirement for effective risk management and the protection of human rights in the tax field.

All collected data is processed through the Connect system, HMRC's advanced data analytics tool. Connect allows for the construction of a comprehensive profile of taxpayers' economic behavior, including transactions, assets, income, and anomalies. Data is used only for risk management purposes, adhering to strict security standards.

In parallel, data processing must comply with the Data Protection Act 2018 and UK GDPR. This is the basic legal framework governing all information processing activities in the United Kingdom, including the principles of transparency, purpose limits, necessity, accountability, and protection of sensitive data. These regulations were amended and supplemented in Part 5 of the Data (Use and Access) Act 2025 (DUAA 2025) to adapt to the requirements of large-scale data use. DUAA 2025 clearly defines the automatic decision-making mechanism, the principle of information transparency, the right to object, the right to complain, and the protection of sensitive data. As a result, HMRC's use of data analytics tools, especially when combined with risk classification and auditing, is always within a modern legal framework, ensuring a balance between effective management and privacy protection according to international standards.

### **3. Compliance risk criteria system and taxpayer classification method**

Based on legal and technical data built from a modern information technology system, HMRC has established a set of criteria for assessing tax compliance risk with a scientific structure and standardized according to the national risk management model. This system of criteria is developed to ensure that the assessment of taxpayer behavior is objective, data-driven, and accurately reflects the level of risk of violation in each specific case.

First, the group of internal criteria focuses on the inherent economic and legal characteristics of the taxpayer. These are factors that are not directly dependent on previous compliance behavior but have the potential to increase the risk of violation. Important criteria include: enterprise size; ownership and group structure; complexity of the organizational model; domestic and international related-party transactions; risk level by industry (such as finance, construction, e-commerce, cross-border transactions); and factors related to highly volatile income, asset, or cash flow. This group of criteria allows HMRC to identify areas or business models with potential risks even before specific violations occur.

Next, the compliance criteria group reflects the level of tax law compliance of taxpayers over time. This is a dynamic group of criteria, continuously updated based on real-world data. Compliance indicators include: the status of timely tax filing; the accuracy of tax returns; the consistency between tax return data and third-party data; the history of administrative penalties for tax violations; corrective actions after violations; and signs of using illegal tax avoidance structures. This group of criteria directly reflects compliance habits, helping HMRC assess the level of risk based on both current status and future trends.

Based on the two aforementioned criteria, HMRC applies a method of classifying taxpayers into three main risk groups: low risk, medium risk, and high risk. This is an important

basis for the tax authority to effectively allocate monitoring resources, focusing on those requiring intervention while minimizing unnecessary burdens on those with good compliance.

For the low-risk group, HMRC applies a gentle management approach, limiting direct inspections to avoid administrative pressure and simultaneously creating incentives for voluntary compliance. Taxpayers in this group often benefit from support mechanisms, advice, and policies encouraging cooperation.

Conversely, the high-risk group is the focus of HMRC's monitoring strategy. These cases are likely to involve significant violations or complex operational structures, making them prone to tax evasion or avoidance. Therefore, HMRC prioritizes in-depth inspections, applies advanced data analysis methods, and implements strict monitoring to detect, prevent, and promptly address violations.

Classification based on risk criteria helps HMRC shift from a "mass inspection" model to a "risk-based intelligent management" model, thereby optimizing resources, improving the effectiveness of tax law enforcement, and enhancing fairness within the system.

### **4. The principle of proportionality and the mechanism of checks and balances of power at HMRC.**

Although HMRC is granted broad powers under the Customs and Tax Commissioners Act 2005<sup>[2]</sup>, these powers are limited by the principle of proportionality. This principle, derived from Article 8 of the European Convention on Human Rights and incorporated into domestic law through the Human Rights Act 1998, requires that any intervention in the privacy, property and business activities of taxpayers must have a clear legal basis, serve the public interest, national security or economy and be consistent with the assessed level of risk.

In practice, HMRC must maintain a balance between the requirement of effective management and the protection of the human rights of taxpayers. Information collection, data access, inspections or enforcement measures are only carried out to the extent necessary, thereby preventing abuse of power and ensuring transparency in the application of tax laws.

### **5. Control measures system: Special inspection, investigation and monitoring**

The UK's tax control system is designed in a tiered manner based on risk levels. HMRC implements three levels of control: (i) tax compliance checks for medium-risk groups or when minor errors are detected; (ii) civil investigations into fraud when there are serious but not criminally liable violations; and (iii) criminal investigations into organized or particularly serious tax evasion.

For repeat taxpayers or those with significant fraud, HMRC applies a special Tax Monitoring Regime in the Managing Serious Defaulters Programme (MSDP). This is an enhanced control regime lasting from two to five years, including a higher frequency of on-site checks and periodic information requests to ensure close monitoring of compliance.

### **6. Mechanisms to encourage compliance and cooperation from taxpayers**

A prominent feature of the UK tax administration system is the harmonious combination of control measures and

mechanisms to promote cooperation. HMRC applies a “telling, helping and giving” model, whereby the level of cooperation of taxpayers is assessed as a basis for reducing penalties, limiting direct inspections or applying lighter processing procedures. In civil investigations, the Contractual Disclosure Facility (CDF) mechanism allows taxpayers to voluntarily cooperate to receive preferential treatment.

For large enterprises, HMRC deploys Customer Relationship Managers (CRMs) to support enterprises in maintaining a high level of compliance. When the CRM recommendations are implemented, the enterprise's risk score is reduced in the next assessment period, contributing to the formation of a cooperative environment based on mutual trust.

## **7. Deterrent sanctions and mechanisms for disclosing information about violations.**

The UK's penalty system is robustly designed to deter tax violations. Civil or criminal penalties can reach up to 200% of the tax due plus interest. In serious cases, HMRC may publicly disclose the violator's information in the media to create social pressure and enhance the transparency of the tax system.

Furthermore, for taxpayers classified as high-risk, HMRC maintains a five-year cycle of regular audits. However, the principle of proportionality is maintained, preventing the application of excessive control measures.

## **Lessons for Viet Nam from the experience of the United Kingdom**

### **1. Assess suitability**

Firstly, the UK's experience in tax compliance risk management legislation is shaped by the consistent application of a proactive, risk-based, and collaborative approach, centered on encouraging voluntary compliance by businesses. The foundation of this success lies in the establishment of Her Majesty's Revenue and Customs (HMRC) as a highly specialized organization responsible for enforcing tax compliance risk management legislation nationwide. Most notably, the Compliance Risk Criteria System and the Taxpayer Classification Method serve as core tools enabling HMRC to implement data-driven risk management principles and optimally allocate audit resources. Furthermore, HMRC is equipped with a set of power control tools, including the principle of proportionality and mechanisms for controlling power, to maintain a balance between the demands of effective management and the protection of taxpayers' human rights, as demonstrated through Special Inspections, Investigations, and Monitoring measures. However, UK legislators do not rule out cases where their incentive and guidance regulations do not achieve the desired effect, and taxpayers still disregard them to maximize their own benefits, thus creating deterrent sanctions as a moral safeguard when voluntary compliance cannot be maintained.

Nevertheless, some drawbacks and limitations exist. Although the principle of proportionality limits excessive control, determining the level of risk still depends on the subjective assessment of HMRC staff, potentially leading to inconsistencies between cases. Furthermore, encouraging cooperation through reduced penalties may not be strong enough for those intending to deliberately evade taxes, leading to risks in administrative efficiency in certain specific situations.

Finally, finding common ground between the political, social, and cultural structures of the United Kingdom and Viet Nam is a challenge. Due to fundamental differences in political institutions, similarities between the UK and Viet Nam are found at the level of national governance objectives and contemporary challenges, providing a basis for transferring governance principles. Both countries share a need for risk management and administrative performance. Both face pressure to maintain the integrity of the state apparatus and enhance operational efficiency. Viet Nam is striving to build a constructive and honest state, while the UK has perfected its risk-based administrative management philosophy. Moreover, there is a strong desire for technological development and data governance. Both the UK and Viet Nam are in the process of accelerating national digital transformation and developing e-government. This poses a common challenge regarding big data governance, requiring the development of a legal framework to protect personal data and ensure the interoperability of information between agencies. Viet Nam and the UK also share similarities in their societal views on education and innovation. Both have a tradition of valuing academic achievement and placing great faith in education as a lever for socio-economic development. This leads to a shared need for university reform and increased scientific research to promote innovation, create high-quality human resources for the knowledge economy, and facilitate international integration. In short, the similarities lie not in structural uniformity, but in the universality of governance challenges in the context of globalization and technological advancement. The shared need for risk management, transparency, and digitalization provides a solid foundation for Viet Nam to draw upon the UK's experience in implementing management principles.

### **2. Lessons for Viet Nam**

Firstly, the management philosophy needs to shift from comprehensive control to risk-based control. In fact, Viet Nam's tax management legal framework has already taken initial steps towards this goal, demonstrated by the shift from functional management to taxpayer-centric management, placing taxpayers at the center of service. To achieve this, specialized departments for managing businesses and individual taxpayers, as well as separate departments for managing household businesses, are necessary. This allows tax officials to monitor the entire operation of each taxpayer, understand their production and business situation to provide timely support, and enhance communication and support to help taxpayers understand their rights and obligations, leading to voluntary compliance. When taxpayers comply correctly and fully, costs and time are reduced, and the tax authorities can focus resources on risk management instead of dealing with violations.

Secondly, standardizing the legal framework for assessing compliance risks is crucial for early detection of tax evasion, avoidance, or misappropriation of tax revenue. Beyond industry-wide applications, the development of separate internal management systems is necessary to support monitoring and data analysis, thereby effectively assisting in tax management. In recent years, the Ha Noi Tax Department has effectively implemented numerous tax industry initiatives such as electronic tax filing, eTax Mobile, data digitization, electronic invoice declaration, and integration of public services on the National Public Service Portal. These applications have fostered a habit among taxpayers of using electronic invoices, electronic tax

declarations, electronic tax payments, and cashless methods in revenue collection management. Currently, over 99% of businesses declare and pay taxes electronically. In particular, recently, the Ha Noi City Tax Department was the first unit of the Tax Department to introduce AI Chatbot - virtual assistant to support taxpayers. With AI Chatbot, taxpayers can easily use and interact 24/7, anytime, anywhere through technological devices such as smartphones, tablets, and computers with internet connection.

Thirdly, supplement deterrent sanctions against fraudulent acts and violations of tax laws. The Tax Department needs to focus on identifying common risky behaviors such as declaring low revenue, concealing revenue, using third-party payment accounts, not issuing invoices, using illegal invoices or accounting incorrectly; thereby, improving the stability and predictability of tax laws, avoiding sudden changes. This criminalizes violations of tax compliance risk management laws, as well as actions that facilitate tax evasion by organizations, creating strong pressure on companies to build robust internal control systems.

Fourth, it promotes digital transformation linked to data governance, considering data as the foundation, aiming to build an inter-sectoral data sharing mechanism connected to a centralized, integrated, standardized, and continuously updated database. Process standardization will be designed according to the taxpayer lifecycle, from registration, declaration, tax payment, tax refund to obligation management and termination of operations, shifting from passive management to proactive support based on risk assessment. Simultaneously, a legal framework for information security regarding data collected from taxpayers must be established, along with promoting the automation of the entire process, from receiving, processing, accounting to notification and decision-making. More importantly, restructuring is not just about digitizing old processes, but about redesigning from the ground up, where the business logic plays a central role, rather than being solely an IT problem.

### Conclusion

Analyzing the UK's legal experience in tax compliance risk management reveals that HMRC's model is built on a foundation of modern data and governance. A clear legal framework, specialized organizational structure, and a system of compliance risk criteria also contribute to HMRC's effective operation, while ensuring proportionality and protecting taxpayer rights. These core elements have created a sustainable tax management model, suitable for the digital economy and global integration.

The UK's legal experience shows that tax compliance risk management is not just a technical skill but also a crucial theoretical basis for refining approaches, legal frameworks, organizational structures, and technological applications. However, to apply this UK model in Viet Nam, it is necessary to refer to, adjust, and assess the compatibility of the elements, namely data-driven governance, voluntary compliance, resource optimization, and information transparency.

Based on this research, four proposals are put forward for Viet Nam: (i) shifting the management philosophy from comprehensive control to risk-based control; (ii) standardizing the legal framework and the system of criteria for assessing compliance risks; (iii) improving the deterrent mechanism to ensure the strict enforcement of the law; and (iv) promoting digital transformation associated with data governance to build a modern tax management platform.

These directions are of significant importance for the tax reform process in Viet Nam, especially in the 2025–2030 period when the goal of building a modern, transparent, and data-driven tax system becomes urgent.

Thus, the UK's experience not only contributes to the theoretical basis of tax compliance risk management but also provides valuable practical insights for Viet Nam in the context of accelerating tax reform and national digital transformation. Selective adoption and flexible application of international experience will support Viet Nam in perfecting its tax legal system towards a more modern, transparent, and efficient direction in the future.

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