HOUSE OF COMMONS

Treasury Committee

Oral evidence: The work of HMRC, HC 783

Wednesday 30 November 2022

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Watch the meeting

Members present: Harriett Baldwin (Chair); Rushanara Ali; Mr John Baron; Dame Angela Eagle; Emma Hardy; Danny Kruger; Andrea Leadsom; Siobhain McDonagh; Alison Thewliss.

Questions 136 - 244

Witnesses

I: Jim Harra, Chief Executive and First Permanent Secretary, HMRC; Angela MacDonald, Deputy Chief Executive and Second Permanent Secretary, HMRC; and Jonathan Athow, Directory General for Customer Strategy and Tax Design, HMRC.

Examination of witnesses

Witnesses: Jim Harra, Angela MacDonald and Jonathan Athow.

Q136 **Chair:** Welcome to the Treasury Committee evidence session on the work of His Majesty's Revenue and Customs. Can I invite our witnesses to introduce themselves?

Angela MacDonald: Hello. I am Angela MacDonald. I am the deputy chief executive and second permanent secretary.

Jim Harra: I am Jim Harra. I am chief executive and first permanent secretary.

Jonathan Athow: I am Jonathan Athow, director general for customer strategy and tax design.

Q137 **Chair:** May I just apologise to witnesses for the fact that at nearly 3 o'clock I will dive out? You will have Dame Angela in the Chair for that period—no doubt a big improvement.

Welcome to this session. I wondered if we could start by getting an update, Jim, in terms of the £4.5 billion that you have put in your annual accounts as having gone out in fraud and in error under the various different coronavirus support schemes. Could you update us on how much of that has now been recovered?

Jim Harra: Our best estimate at this time is £4.5 billion in error and fraud in the three big support schemes that HMRC administered, which is the furlough scheme, the self-employment income support scheme and Eat Out to Help Out. That is a reduction on our planning assumption and a reduction on our first estimate. We will make a final estimate next year when we have more data but, based on the best data we have, that is that.

We expect that we will recover about 25% of that, so about £1.1 billion. We are on track probably to exceed that at the moment.

We have the Taxpayer Protection Taskforce in place, which is funded for 1,250 full-time equivalent to staff to work on that. That is funded up until the end of April 2023, but we will actually run it down over a period after that. It will probably be September 2023 when we close that taskforce, but we will continue working cases and picking up risks as part of our business-as-usual compliance work alongside our tax work. The staffing of the team is slightly below the 1,250 that we were funded for. When we have run on for that extra six months, over that period as a whole, I am confident that we will deploy the full resources that we were funded for and that we promised that we would recover.

Q138 **Chair:** Just on that, you said just over £1 billion, did you? When you were in front of us in February, you said that you were expecting to recover about £2 billion. Has that gone down?

Jim Harra: At that time we thought error and fraud was much higher than it has turned out to be.

Q139 **Chair:** £4.5 billion was your estimate then.

Jim Harra: I do not believe so. When we made our original assumptions, we thought that error and fraud would be over £6 billion and the forecast that we made for the Taxpayer Protection Taskforce was based on those early assumptions. We now know that error and fraud was, I am glad to say, lower than we had predicted. Also, more of it is error and less of it is fraud.

Q140 **Chair:** Was that an error by yourselves?

Jim Harra: No, it is all error by customers. This is all money over claimed as a result of customer errors. Also it is in a larger number of small cases than we had originally forecast, which is why we have actually taken up many more cases for inquiry. We initially estimated that we would take up 30,000 cases. It is now approaching 50,000 that we have taken up. That is because the risk is spread over a much smaller number of cases. That is the reason why the total amount that we expect to recover will be less than we originally forecast but, as a proportion of the error and fraud, it is possibly higher than we originally forecast.

Q141 **Chair:** Could you share with the Committee how much you think is fraud versus how much is error in percentage terms?

Jim Harra: Yes, certainly. We have published that information. By all means, I will send the Committee a link to that. As I say, that is an interim estimate. There will be a final estimate next year.

Q142 **Chair:** In terms of the 1,250 headcount that you have funded to do this, are you hiring them for a fixed period only, or are you going to continue with this work until such time as all of the money is recovered?

Jim Harra: We certainly will not be stopping doing compliance work on Covid error and fraud. We will continue doing that, although the dedicated taskforce will no longer be organised in that way. We will continue picking up those risks as part of our business-as-usual compliance work.

In terms of the compliance resources, we have some contingent labour in the organisation, but most of it is permanent staff. They will get redeployed into our general compliance work and we will be available to pick up whatever are the highest risks across tax and Covid.

Q143 **Chair:** Can you elaborate a little bit on the new and innovative ways you are going about this in the taskforce?

Jim Harra: First of all, our first principle was to try to prevent error and fraud from arising in the first place. We designed the schemes so that they applied to people about whom we already had information. Wherever possible, entitlement was calculated based on information that we had in our possession. That was particularly the case with the self-employed scheme. We also had checks in place focused in particular on preventing organised crime from penetrating these schemes, because they would obviously have been attractive to criminal gangs. Our experience is, if money goes out to criminal gangs, it is very difficult to get back. We focused on preventing that and we believe from our early work that we have been very successful in doing that.

Q144 **Chair:** No criminal gangs got any money, as far as you are aware.

Jim Harra: It was virtually zero. We blocked a number of criminal gangs from being able to register to use the schemes. Then we also blocked many from getting payment. I am aware of one case where payment did get out into the banking system before we could detect it and we actually froze the account to prevent the gang accessing the money. Again, our published estimate of error and fraud gives you what we think was down to organised crime, but it really was a tiny proportion of the money paid out.

Post payment, which is where we are now, that is about looking for risks of where people overclaimed. In the furlough scheme, that might be employers who claimed for employees who were not eligible, employers who overstated the reference pay of those employees on which their furlough payments were based or employers who were claiming while their employees were working and when they should not have been claiming for them. We have a range of approaches to try to detect those risks and to make sure that our resources are targeted.

Q145 **Chair:** Could you just elaborate what is new and innovative about them?

Jim Harra: It is risk assessment based on a whole pile of data, not just data that we hold but also data that we have externally. For example, we compare what we are being told about the activities of the business with information that we get from merchant acquirers about transactions on credit cards and debit cards, for example, which tell us whether a business was as active or inactive as they said they had been. We also look at whatever records are available to us.

In one case, for example, where we had intelligence that a haulage firm had been claiming furlough for their drivers when their drivers were in fact working, we were able to get the tachograph data, which demonstrated to us the hours that different drivers were working, where we were able to establish in that case that there was indeed an overclaim. We have recovered about £200,000 on that case, plus penalties.

Q146 **Chair:** If you were to have more than the 1,250 people that you are planning to have working on this, how much more of this money would you be able to recover?

Jim Harra: What we will start to see is real diminishing returns. We already get a rate of return on this resource, which is less than we get from resource deployed on tax compliance. If you were purely focused on the financial return, you would not deploy this resource on this work; you would use this resource for other purposes. Obviously, that is not the only thing that is relevant. In particular, when we thought that there were higher levels of fraud in this than has turned out to be the case it was important that we went after that. We will see diminishing returns, and I do not believe it is the best value for money to extend the taskforce beyond the date when we intend to wind it up. Clearly, we must nevertheless keep these risks live and work them where we can detect them after that, but I would expect it to tail off quite a bit.

Q147 **Chair:** We accept that you set up these schemes in a massive rush at the beginning of the pandemic. If you were able to go through that whole process again, with what you know now about the scope for fraud and error, is there anything you would have done differently?

Jim Harra: The key to it is data. Where we are most exposed to error and fraud is where people are able to self-assess and where we do not have referential data that we can use to check that. The more data that we can get about people's incomes and when they are working, the more accurate we can make such schemes. Our data caused limitations in two senses. First of all, there were cohorts who were excluded, particularly from the earlier phases of the scheme, because the error and fraud risks were too high in the absence of data, where, if we had had the data, you could have admitted safely the people in that cohort who we would have preferred to be able to help.

In addition, for the people who were eligible, particularly on the furlough scheme, you were reliant quite heavily on self-assessment by employers where you did not have data to enable you in real time to check whether that was correct.

Q148 **Chair:** Could I turn to a subject that the Committee is currently doing an inquiry on, which is crypto, and ask if HMRC are confident that crypto is not making it easier for people to evade taxes in this country?

Jim Harra: There are two facets to this. First of all, I will make sure that we have the right tax treatment of cryptoassets and that we are applying that effectively. Broadly speaking, they are assets for the purposes of capital gains tax, like any other assets. We expect capital gains to be applied to them.

The other is they are a means of storing and transmitting wealth. We need to make sure that is not used as part of evasion. Although the evasion might not specifically be about the crypto, nevertheless it is the method by which the evader keeps that hidden from us.

Certainly, in the case of fraud that my fraud investigation service investigates, it is a live issue, making sure that we can follow the trail of cryptoassets or follow where money has been hidden in crypto. We have, for example, seized some nonfungible tokens. I believe we are the first law enforcement agency to do that. Obviously, it is a growing part of the economy and could be a very important part of the economy in the future. In addition to managing the risks that it poses to us, we also need to make sure that we get the tax administration right, so that we also enable the cryptoasset industry to develop in the same way as any other industry.

Q149 **Chair:** Do you have enough expertise at the moment to make sure that you are collecting the taxes you should be collecting, for example the capital gains taxes?

Jim Harra: Looking across the world, we have been one of the leading tax authorities. We probably have the most extensive guidance, for example, about how these assets are treated. We have a group called J5, basically, which is five large tax authorities, of which we are one, that collaborate together. We have shared with them and they have shared with us, and we can tell that we are probably bit ahead of the game compared with most other tax authorities.

This is a fast-developing market, and that means both in terms of being on top of the risks—we have to have the right analysts and intelligence in place—but also keeping really close contact with the industry so that we understand how the tax system needs to respond to them.

Q150 **Chair:** Do you believe people are currently using cryptocurrencies to evade tax?

Jim Harra: There is no doubt that they are an asset class, along with several others, that are used to try to hide the proceeds of evasion from us.

Q151 **Chair:** That has been successful. People have successfully done that.

Jim Harra: It is one asset class. Cash has long been used for that purpose as well. My fraud investigation service is leading-edge, but it is a constant arms race.

Q152 **Dame Angela Eagle:** Can you just say how Eat Out to Help Out was defrauded?

Jim Harra: Again, that was a self-assessed scheme. It only ran for just under one calendar month. We were dependent on cafes and restaurants declaring the correct amount to us. Again, we had a lot of protection in there to make sure that it was only businesses that we recognised that were able to access this scheme. We also, post payment, have done some compliance work. For example, I am aware of one case where a restaurant claimed to have had a record month in sales during Eat Out to Help Out at the same time as they were claiming to have furloughed all of their staff.

Dame Angela Eagle: That was slightly careless, that one.

Jim Harra: You would be surprised with what people think we will not join up. We have used all that intelligence to track it. The vast majority, of course, claimed correctly, but we did see a higher rate of error and fraud in that scheme than in the other two schemes that were administered, albeit that it was a much smaller scheme over a much more contained period of time. We did make some early arrests in relation to Eat Out to Help Out when we got intelligence. Actually, we can see that, shortly after we made those arrests, we got quite a few voluntary disclosures from restaurants who told us that they had made a mistake in their claim and repaid.

Q153 **Dame Angela Eagle:** What you are telling us is that fraud and error is sometimes not as it seems.

Jim Harra: In most of these schemes, if people handed the money back promptly then we were not going to look into it any further. If you did not, if we believe it is deliberate, then we will penalise you or we will take criminal action if necessary. Certainly, in relation to the Eat Out to Help Out scheme we have made arrests. It is obviously a much smaller scheme, so although it had a higher proportion of error and fraud than the others, the actual amount is lower.

Q154 **Dame Angela Eagle:** What was the amount?

Jim Harra: About £850 million was the total in the scheme, but I cannot remember about the error and fraud.

Jonathan Athow: For the error, the estimate was about £70 million.

Jim Harra: That is a final estimate. We will not be doing any further estimates.

Q155 **Dame Angela Eagle:** That is still 10%.

Jim Harra: Yes, it was 9.5%.

Jonathan Athow: Yes, it was just around 9%.

Q156 **Dame Angela Eagle:** I am rounding up, it is true, but that is still quite a high level.

Jim Harra: Yes, that is much higher than we would expect to see in the tax generally. It was higher than the other schemes.

Q157 **Dame Angela Eagle:** How will HMRC allocate the £79 million earmarked in the Autumn Statement for addressing compliance risks?

Jim Harra: That is earmarked for two particular areas of our work. One is for tackling serious fraud and the other is tackling avoidance and evasion by the wealthy. In our customer compliance group, we are broadly organised around customer groups or around particular types of non-compliant behaviour, so we can direct that money specifically to those sectors. That will give us a return of roughly £9 for every £1 that we spend. That is what we expect to bring in.

Q158 **Dame Angela Eagle:** You told the Public Accounts Committee in October that there was an £18-to-£1-spent compliance rate of return. Are you now saying that is £9?

Jim Harra: No, that is correct. Across my customer compliance group as a whole, for every £1 that we spend, we bring in about £18. Obviously, the marginal amount that you are bringing in from adding another £1 to that would not be £18. In this case, it is about £9, which is still obviously a healthy rate of return, and certainly, from Treasury's point of view, was a rate of return that it was willing to invest in.

Q159 **Dame Angela Eagle:** An £18-to-£1 rate of return would bring in £1.4 billion.

Jim Harra: Yes, if you could get that rate of return for an extra £1. We are getting £18 for every £1 we spend across the whole group. We are already targeted on risk, so for an extra £1 you need to look at what marginally it will bring you in. You cannot assume that you are going to just get the average that you have been getting from all your spend. Generally speaking, when we make what we call spend-to-raise bids at a Budget or other fiscal event, we are not looking at a return as high as £18 to £1; £9 to £1 would be more typical.

Q160 **Dame Angela Eagle:** You were talking about trying to get more tax compliance from the wealthy. How are you going to go about that?

Jim Harra: We have a specific group in the customer compliance group that focus on the wealthy and mid-sized businesses as a segment. They carry their own particular types of risk, and they need their own particular type of treatment. They obviously have complex affairs, and they have choices about how they organise their affairs.

Dame Angela Eagle: They have very expensive lawyers, quite often.

Jim Harra: They often have mobile assets, income and wealth as well. Therefore, that creates different types of opportunity for error and fraud than, say, mass market or small high street businesses or whatever. For the very wealthiest, we have a policy of man-marking them. We have a compliance manager that is focused on a number of named individuals. Their job is to understand how those people run their tax affairs, what their attitudes are to tax compliance and the nature of the risks that they might pose, which might be inherent just because of where their wealth and income is or might be down to their attitudes and behaviours, and then to make sure that we bring to bear the right specialists on those risks.

Again, the wealthy range from people who really do not want to take much risk with their tax affairs—they do not want to be bothered with the taxman—through to people who have a high propensity for taking risk, whether that be evasion or avoidance. Similarly, we keep medium-sized businesses with that group, because often such businesses are owner-managed and the owners are wealthy people. We apply the same techniques to them.

Q161 **Dame Angela Eagle:** The Chancellor has announced in the Autumn Statement reduced R&D tax reliefs for small and medium-sized enterprise following reports of abuse and fraud. What evidence has HMRC seen of this abuse and fraud that the Chancellor referred to in his remarks?

Jim Harra: I will let Jonathan come in on the policy changes that the Government are making. In the case of research and development relief, there are two reliefs: one for large businesses and one for small businesses. Their purpose is to drive additional R&D in the economy. You can see that the large business relief drives much higher levels of additional R&D than the small business one. That is a prime reason for making the policy change.

Jonathan Athow: The rebalancing was making the SME scheme, the small and medium-sized scheme, less generous and increasing the generosity of the large scheme. Overall, the Treasury estimate is that that will leave R&D unaffected, because you have a higher return from the large business than the small business scheme, while saving the Exchequer money. That was the primary aim of doing that.

As you say, there is also a secondary benefit that the SME scheme has higher levels of non-compliance. This makes that less attractive for fraudsters and others who are trying to abuse the system.

Q162 **Dame Angela Eagle:** The mini-Budget on 23 September, its subsequent reversal and then the Autumn Statement on 17 November have led to a number of new rules being announced and then scrapped and in some cases unscrapped again, which has created a very confusing circumstance for people. How are you dealing with that yo-yoing approach to policy that we have seen from the Government in the last few months?

Jonathan Athow: Many of those measures that were announced and then reversed had not yet taken effect.

Q163 **Dame Angela Eagle:** You had not got the guidance out in time to have to withdraw it and then reintroduce it again.

Jonathan Athow: No, indeed. The only area where we have had some issue with the speed of delivery was on stamp duty, where the stamp duty cut came in on the day of the growth plan and it took us a little while to update our software after that. In terms of timing, that is probably the only effect in terms of taxpayers seeing the effects of those in how they interact with us.

Jim Harra: One other change this year, which is a big ask for our customers, is the changes to national insurance. There have been two in-year changes to the national insurance that employers and their payroll software have had to cope with, and in particular the changes that came in this month. The Government wanted to bring those in as early as they possibly could, but at the same time we had to give enough time for payroll to cope with that. Today is the big salary day that applies to, but all the evidence is that most employers have succeeded in implementing that in their payroll on time—including HMRC, I am glad to say. I suspect there will be some employers who will have struggled, and we will help them and help their employees to make sure that, if they have over-deducted this month, we make the right adjustments.

Q164 **Dame Angela Eagle:** I have one final, brief question. It is really about how this kind of uncertainty can be dealt with. With the growth plan in particular, it has been made clear to us that the Bank of England did not know an awful lot about what was going on and some of what was in that. Were you kept informed about the relevant parts of the mini-Budget that were relevant to HMRC enough in advance to be able to cope with it, or was it a similar issue with the Bank—that you read about it in the newspapers?

Jim Harra: No, we were obviously involved with the Government in helping them to make all the announcements on the day and advising on when we could introduce things, for example advice about when the reduction in national insurance could practically come into effect. As Jonathan mentioned, in relation to stamp duty land tax, whilst there were good reasons why you might want to introduce the cut on the day, it would take us a few weeks to get our online systems and calculators reflecting the correct position. There we put out as much guidance as we could to help people to get that right.

For example, on our online calculator, we put a big banner on that said, "If your transaction was after 23 September, this will not calculate it correctly" It was in the first week of October we got that changed. There were just over 2,000 cases that we can identify where people nevertheless overpaid SDLT in the period between 23 September and when we changed our systems. About 900 of those people have proactively contacted us and asked for their money back and the other about 1,200 we got in contact with them. We are working through those and adjusting them.

[Dame Angela Eagle took the Chair]

Q165 **Siobhain McDonagh:** On non-doms, what steps are HMRC taking to provide support to the independent researchers who have been analysing the non-dom regime using HMRC data?

Jonathan Athow: We make data available to researchers for academic research. We make that data available in a way that protects taxpayer confidentiality. We have never compromised on that, but we make that data available. It is then for researchers to do that work and we are merely the data providers. We do not endorse their work or support it. It is merely to help academics and to help expand our knowledge base.

Q166 **Siobhain McDonagh:** Have HMRC analysts liaised with the researchers about their findings at all? Are there plans to engage with them, given the Chancellor has now asked Treasury to produce its own estimate?

Jonathan Athow: We will monitor all evaluation and research on tax. Chancellors will often ask for views on what might or might not happen.

Q167 **Siobhain McDonagh:** You will just take it out of the filing cabinet when he asks for it.

Jonathan Athow: Yes. We try to make certain we are abreast of all the developments and able to advise the Chancellor on the effects of any proposals he might want to take forward. We would look at all research on non-doms, the research you are referring to and others. We have had changes in the last few years to the non-dom regime. We would look at that as well for evidence of how the non-dom regime is working.

Q168 **Siobhain McDonagh:** If the Chancellor were to ask you, you could provide it.

Jonathan Athow: Any tax policy we will look at and do an analysis of that. Some policies are much easier to understand the effects of. If you are changing a tax rate, we know broadly how many taxpayers there are and what their income is. We can do that. Some tax changes are, by their nature, much more uncertain. I would imagine things like the non-dom regime are going to be much more uncertain to understand, because you are talking about people who have assets offshore, which we may not know about. Yes, we would do it, but sometimes there are more uncertainties than others.

Q169 **Siobhain McDonagh:** Secondly, your tax gap estimates for 2021 show that the gaps for corporation tax, excise duties and income taxes increased. Why do you think this is?

Jonathan Athow: I will just step back a little. When we look at the tax gap, we look at it in two ways. We look at the amount of money that we are not collecting, in pounds. We also look at that as a proportion of the liabilities that we should bring in. If you look at a proportion of what you bring in, you do see exactly those increases.

Now, for some of those, that is due to the change in the tax base. For corporation tax, for example, the pounds billion version of the tax gap has not changed, but we think the underlying tax yield for corporation tax actually fell in 2021 because of changes to the tax regime in 2019 that pulled money into 2019-20. It is the same amount of money, but it is a smaller tax base, so the percentage goes up. Some of this is about changes in the underlying methodology, but underpinning that, there are also some other changes. On excise duties, you mentioned that that had gone up. Part of that is due to changing consumption patterns during the pandemic.

For things like alcohol duty, we know that illicit or untaxed alcohol is much more common when it is consumed off-premises, so at home, than on-premises. Obviously, during the pandemic the pubs were shut, so people were drinking at home, using off-licence-bought alcohol, which has a higher tax gap. Some of that was genuine higher levels of non-compliance because of the way people can change their behaviours. In other cases, on corporation tax, it was due simply to the way that there were less profits, and so therefore a constant pounds billion number of tax gaps gives you a higher percentage of the tax gap.

Jim Harra: There is also one technical feature of corporation tax, which affected the tax gap in 2020-21, which is that there was a technical change to when quarterly payments are made by companies, which brought about £9 billion forward into 2019-20 that would otherwise normally have been paid in 2020-21. That boosted the theoretical tax base. You actually have what looks like a slightly artificially low tax gap in one year and then an artificially higher tax gap in the other. I would say, in looking at our tax gaps more generally, those kinds of year-on-year distortions can happen all the time, which is why the most relevant thing to do is to follow the trend over a number of years rather than one specific year in isolation.

Q170 **Siobhain McDonagh:** For 2021-22, do you expect to see the tax gap falling across all taxes?

Jonathan Athow: It is very difficult to say. Trying to forecast a tax gap is very difficult. As Jim said, we tend to look at broad trends. There might well be some trends in the economy that are actually favourable. Perhaps people using more card payments than cash might bring down the tax gap. As we said, other trends such as people maybe drinking out less, drinking more at home and using off-licences could push you in the other direction, so there might be offsetting factors here. There are arguments on both sides about whether changes from the pandemic will endure and we will see a lower tax gap, or the changes from the pandemic will endure and we will see a higher tax gap.

Q171 **Siobhain McDonagh:** You stated in your letter to us on 1 November that in the excise tax gap during the pandemic there was a move from on-licence consumption to off-licence consumption, and you have referred to that earlier, and a consequent increase in the illicit market. Does this mean that HMRC has difficulties in tackling evasion in alcohol duty and alcohol smuggling?

Jonathan Athow: Alcohol smuggling and smuggling more generally of excise products is an issue. Obviously, the off-trade is harder for us to police and is often more lucrative and easier for smugglers to exploit than the on-trade. That is simply a feature of the markets there for off and on sales. Simply, we are having to deal with that. Of course, we have various interventions we take to try to stop smuggling or the sale of illicit alcohol and illicit tobacco and other products as well, but it is really just those underlying economics and trends in those different markets that gives rise to that differential.

Q172 **Siobhain McDonagh:** Has Brexit made it harder for HMRC to tackle smuggling?

Jim Harra: It has not necessarily made it harder, but it has changed what we have had to do. If you take one of the most common ways of evading excise duties, that is what we call diversion fraud. Beer is brewed in the UK and is supposedly going to be exported out of the UK to be drunk, say, on the near continent, and therefore no UK excise duty is payable on it, but actually it gets diverted back into the UK economy without excise duty. That is a feature of the excise tax gap. When we were in the EU, we had certain systems and data flows with the EU that helped us to tackle diversion fraud. We have had to replace those with new ones—new systems and everything—to capture that kind of data. I would not necessarily say harder, but definitely we have had to change our methods and change our systems to adapt to that.

Q173 **Siobhain McDonagh:** According to BBC's "Money Box", the number of people complaining to HMRC about companies claiming tax repayments on their behalf has more than tripled in two years. Many say this is happening without their knowledge or permission. Why do you think this is and how is HMRC tackling it?

Angela MacDonald: There has been an opportunity taken, when looking at the very legitimate expenses that people could claim for working from home. People have seen an opportunity to in many instances very positively assist customers in making those repayments, even though actually you can come to HMRC directly and use our digital service and get that repayment for free. There are people for whom they might not be aware that is available to them or who want assistance. There have been companies who have sought, through extensive advertising, to perhaps sell their wares to customers to make those claims on their behalf in return for the taking of some commission—in some instances up to 50% of the repayment being taken by the company.

The challenge here is that these are done by way of assignment of your tax refund, so a legal agreement that is being entered into by the company and the individual citizen. In some instances, that customer perhaps has not been aware that by clicking on that button in Facebook or replying to their advert that they have in fact made that legal and made that step. We have been investigating and taking a really detailed look at all of what we would call these high-volume repayment agents.

We have been looking at all of their practices and challenging through things like the Advertising Standards Agency, where some of those people look like they are purporting to be HMRC through colours, fonts and things that make that website look like it is us when in fact it is not. We have also been challenging the processes where we do not think those assignments are in fact legal. In fact, for one very large company, Tax Credits Ltd, we have repaid directly 40,000 customers where the assignments were not legal, and therefore we have avoided those and made those repayments straight back to those customers.

We have also been consulting on whether or not the assignment of tax is that legally is in the best interest of customers. We will be shortly publishing the outcomes of that in consultation with Ministers. On the one hand, this is a positive service from some good-quality, high-volume agents who are helping customers claim money that they are entitled to, but there are also some very unscrupulous people who have taken advantage of a lack of knowledge and awareness of customers. We are intervening, both specifically and in the market as a whole, in order to address this.

Q174 **Mr Baron:** Can I just focus a little on HMRC's approach to tax avoidance and evasion? We know the difference between avoidance and evasion, but your data on the tax gap for the two shows a widening gap between them. Why is it that HMRC has been successful in tackling avoidance but hardly scratched the surface with regard to tax evasion, in the sense that it has remained at around £5 billion for the last 15 years? Something like £5 billion was lost to tax revenue, certainly nearly £5 billion in 2021. That is a large sum when public services are under pressure.

Jim Harra: Yes, you are right. We have been successful in reducing the avoidance gap. The marketed tax avoidance gap was about £1.5 billion in 2005-06 and that is down to about £500 million. We have this morning published our annual marketed tax avoidance report, which is our latest information of what we think is going on in that market.

Primarily, particularly around the time of the financial crisis in 2007-08, we took concerted action in relation to banks who were at that time quite large enablers and facilitators of tax avoidance, and also professional tax advisers, who have almost all since signed up to a professional code of conduct that says they will not engage in avoidance. We have really driven those people out of marketing and enabling tax avoidance, to a large extent. We have seen a big drop-off in avoidance behaviours by large businesses and the wealthy in particular, as a result of both supply and demand being reduced there.

On avoidance, what is still stubborn is a small number of promoters going after a high volume of mainly workers. Most of the marketed avoidance schemes we see now are in employment, trying to avoid employment taxes. We estimate that about 31,000 people were involved in such schemes last year. That has been tailing off over the last few years, but it is still quite high. That is down in the middle-income market that those people have driven the industry. The remaining work that we have is to tackle that. Our strategy is to make life as difficult as we possibly can for those promoters and drive them out of the market.

We have been given new powers in the last couple of years to accelerate our ability to do that, but also to reduce the demand for their services. We have been running a campaign warning workers, particularly workers who use agencies and umbrella companies, how to watch out for getting tied up in avoidance schemes. Now, when we find that someone is involved in employment taxes avoidance, we will contact them within eight weeks of finding out to warn them that they are in an avoidance scheme.

Q175 **Mr Baron:** I like what I hear about avoidance. What about tax evasion?

Jim Harra: Evasion behaviours, although they do change a bit in response to changes in the economy—broadly speaking, it is small businesses not declaring all of their income. There are common themes around that. In particular, cash makes it easier to evade. It is more difficult now that the economy is moving to less and less cash transactions. That is largely market unchanged. One of the challenges for us is that it is often a very large number of cases, each one with a relatively small amount of money.

Going back to the rate of return that we talked about earlier, it is quite challenging for us to get a good financial rate of return for investing in tackling that kind of avoidance. Our strategy for the future is, first of all, Making Tax Digital, which we have introduced for VAT and are now in the process of introducing for income tax, which is intended to drive out the error by small businesses, and that way enable us to refocus our resources on to the more deliberate evasion. Traditionally, it has not really changed much over the years, both in terms of the behaviour and in terms of the kinds of operational action that we have.

Q176 **Mr Baron:** The reason I am just pressing you slightly on evasion is that there has been no improvement over the last 15 years. I think I am right in saying that the Public Accounts Committee back in 2016 said more could be done, yet the number of prosecutions has actually fallen.

We have talked about the rate of return for increased spend on your customer compliance group, the £1-to-£18 figure. Even if we accepted a much lower figure, I think I am right in saying that the Government are investing £79 million over the next five years, and the HMRC estimate is that it could bring in £725 million extra tax revenue over that period. Why are this Government or any Government not committing more to ensuring compliance? The rate of return, even if you forget the £1 to £18—even if it is £1 to £4, £1 to £5, £1 to £9 or £1 to £10, it is a very attractive rate of return. It would go a long way to eating into that nearly £5 billion a year of tax evasion.

Jim Harra: Our experience is that successive Governments in successive fiscal events have been willing to invest in HMRC to tackle avoidance and evasion. Almost every, if not every, fiscal event in the last few years has involved a package of spend to raise investment in HMRC. As you say, it was £79 million in the Autumn Statement, a significant chunk of which is being directed to tackling evasion.

We also have to have ways of deploying any resources we are given effectively to tackle it. In the case of small-scale evasion, that is quite challenging. Generally speaking, that is not the area of the tax gap that is going to give you the best financial return, which is why we have to have more capital-intensive investments such as Making Tax Digital. We also have campaigns. Increasingly now, instead of investigating X people, we will drive a campaign in a particular sector.

Where we have been particularly focusing our criminal investigation efforts is on the higher end of evasion, so much more into organised crime and really serious evasion. We have quite a selective policy for when we deploy criminal investigation and seek prosecutions. Although the volume of those has gone down, the value of the tax involved in our criminal investigations has significantly increased as we have moved up to that end.

Q177 **Mr Baron:** This is not about one particular Government. This has been going on for a little while. You still feel that, if more money was invested, there is little doubt from the figures that you have supplied that we could get much more back by way of tax revenue. I am not going to debate the figures of whether it is £1 to £18 or £1 to £4, but it is still a good rate of return. In certain other systems, there is an incentive introduced as regards their equivalent of HMRC. This is particularly true of economic crime, say, in the States, where the body responsible keeps a certain percentage of what it recovers in order to invest back into compliance activity. That is deemed to be a success in those jurisdictions. Is that something that you think could work here?

Jim Harra: We do that in a relatively small way alongside other law enforcement agencies, where if we seize assets, the proceeds of a crime, we are able to reinvest part of those proceeds.

Q178 **Mr Baron:** At the moment it is very small. Is there room for that to be expanded?

Jim Harra: It is a potential model. It is not the model that the Treasury adopts. The model that the Treasury adopts is that it funds us, first of all, with a baseline level of funding designed to enable us to maintain the tax gap and prevent it from growing. That is overseen by the Office for Budget Responsibility to make sure that we have that level of resourcing. There is then further funding on top of that where we can make the case that we can bring in additional tax with that £9-to-£1 rate of return, for example.

We need to do that in a way that is sustainable. Certainly, for the small business evasion gap, our aim is not to put more and more boots on the ground to investigate people, but to invest in systems and better data. That reduces the opportunity.

Jonathan Athow: If I could just come in, one of the challenges here is to think about the broad range of opportunities you have for reducing evasion. Rather than tackling it after it has started, how can you stop it in the first place? For example, one of the policies we have introduced is something called tax checks for certain businesses. Before you can get a licence from your local authority to operate the business, you have to prove that you are known to us. That does not stop all aspects of evasion, but it is one way in which you can stop it before it starts, or at least get people in contact with us and make certain that people are in contact with us so that we know about them.

You would want to think as well about not creating perverse incentives. You want to tackle the problem in the round and avoid situations where we simply get rewarded for tackling something downstream rather than stopping it before it has happened. You want to think about those effects as well.

Jim Harra: I would add that there is a short-term issue with very rapid growth in our resources. For example, in 2021-22, my customer compliance group grew by about 4,800 full-time equivalent staff. That is a large amount of trainees to absorb, train and mentor. In fact, there is a temporary dip in compliance yield as experienced staff are taken off investigation work, for example, to do that. You get a medium-term payback on that, but we do have to manage the flow of additional resources in so that we that we do not take too big a hit in the short term.

Q179 **Emma Hardy:** Further to the questions from my two colleagues, the Department for Work and Pensions got £280 million to tackle fraud. Your Department got £79 million. I understand the point you made about the diminishing rate of return, but what would be the return on £280 million if you had been funded in exactly the same way?

Jim Harra: It is difficult to tell because, as I say, it is the marginal rate of return. It also depends which part of the tax gap you want to target, which is driven by a combination of where we think risk is going and where politically you want to do that.

Q180 **Emma Hardy:** I understand if you do not have the exact figures to the question right now. It would be very welcome if you would write and give those details. What I am really interested in is the point at which investment in the tax gap stops having the return. At which point would it even out? Therefore, if you are able to say, what were you asking the Chancellor for in order to get the best possible return, being the only revenue-creating Department in Government?

Jim Harra: We do not have figures for where you will reach your break-even point. In any event, I doubt if that is where Treasury would want to draw the line. Generally speaking, it wants to see a multiple rate of return rather than that.

What I would say is that our two Departments are facing different challenges. I have a tax gap, which in recent years has been broadly stable, having reduced since 2005-06, whereas my colleagues in DWP are grappling with an increase in benefits fraud. Also, if you look at our starting point, at the start of the SR21 period, DWP had about 8,000 staff working on benefits error and fraud. I had about 28,000. We start in different places and we have different problems that we are tackling.

Q181 **Emma Hardy:** Finally on this area, DWP prosecuted 27 times more criminal fraud investigations than HMRC in 2019-20. I understand that during the pandemic things were different, but it has done many more civil and criminal investigations than your Department has, often individually for lower amounts of money. When you are talking about benefit fraud, you are often talking about smaller amounts of money. Why is there such a difference in the way that people with, in terms of monetary value, lower amounts of money are criminally prosecuted and gone after compared to people who may be owing higher amounts of money in terms of tax?

Jim Harra: I would be pretty sure that pattern existed before the pandemic as well, so it is not really pandemic-related.

Emma Hardy: Yes, this was pre-pandemic, which is why I used 2019-20.

Jim Harra: It is down to the nature of what you are dealing with and the types of treatments that people will respond to. In our case, as I mentioned, although we reserve the right to take a criminal investigation into any deliberate evasion, in practice we have a policy that means that we are quite selective in how we deploy criminal investigation and seek prosecution. We have increasingly, in recent years, focused that at the top end of evasion, so very serious evasion and organised crime.

Q182 **Emma Hardy:** Just on that point, you said you are selective more on criminal investigations. Am I right in saying that, for DWP, if you owe more than £5,000, criminal action is sought immediately? It is anything above £5,000. Is that correct?

Jim Harra: I am not qualified to give you evidence on that.

Q183 **Emma Hardy:** I just wondered how it compared in terms of amounts across the different Departments.

Jim Harra: In the past, we have had volume targets for prosecutions, but increasingly, as I say, our policy is to deploy that resource on the most serious end. However, where we tackle deliberate evasion using civil processes, those include sometimes quite swingeing financial penalties and also other sanctions that we can deploy, such as asset freezing and director disqualification. There are a range of actions that we can take that are probably as punitive as a court would apply, but we do not need to go through the process of a criminal investigation and prosecution.

Q184 **Emma Hardy:** I understand that from your point of view. From the individual's point of view, if they are defrauding tax, they do not have a criminal record. If they defraud the benefit system, they do. It is maybe not a question for you but a point there to be made.

Jim Harra: That is a fair thing to think about. One thing we have done to address that in recent years is we have something called the deliberate defaulters list. Where we use civil investigation techniques to resolve a case of evasion and we are aware that there is no naming of that person, because they have not gone through the criminal courts, we actually do publish the names of deliberate defaulters. We publish that at least twice a year. It could be four times a year.

Q185 **Emma Hardy:** They still do not have a criminal record. I want to move on, because I have so much to ask you. On 27 November, the *Financial Times* published an article in which it said a company called AML Tax Ltd, linked to Douglas Barrowman, who is of course Baroness Michelle Mone's husband, was fined £150,000 this year by a UK tribunal for failing to hand over records during a tax investigation by HMRC. The court found that the company "aggressively promoted tax avoidance schemes in the UK". What were these tax avoidance schemes, and was the loan charge scheme one of the tax avoidance schemes that was being promoted?

Jim Harra: Yes, I am well aware of the case, and the court is right. That company, and indeed the group that it belongs to, have been involved in the aggressive promotion of tax avoidance and have posed considerable problems to HMRC and to our customers.

That fine also reflects a behaviour in the small number of about 20 to 30 hard-line promoters that we now see in the avoidance industry. Their schemes, frankly, are not very good in a legal sense. They are not going to succeed, and therefore their tactic is to throw every possible obstacle in HMRC's way in investigating them and resolving them, because they know that if their schemes get into court, they are not really going to stand up.

Q186 **Emma Hardy:** One of them was the loan charge scheme that was being promoted.

Jim Harra: I believe that group has been involved in employment tax avoidance. That is the primary source of marketed avoidance now in the UK.

Q187 **Emma Hardy:** Can you confirm that it is only those who have used the loan charge scheme that are being pursued to pay the tax, not these companies in terms of paying the tax, even the companies that promoted, enabled, operated and profited from the scheme?

Jim Harra: First of all, if I can just be clear about the nature of these schemes, the loan charge is a piece of legislation designed to tackle what we call disguised remuneration schemes. They are schemes designed to disguise employment income as a non-taxable form of receipt, such as a loan. The people who we have sought tax from in relation to those schemes are either the individual workers who have used them or, more often, the employers. Between Budget 2016 and the end of March this year—2016 being when the loan charge was introduced—we settled about 20,200 cases for about £3.4 billion. About 80% of that yield comes from employers and about 20% comes from the individual users.

You are right that the promoters of these schemes are not liable. They are not the taxpayers, so they are not liable for tax. They are obviously liable for penalties. You have given an example of a penalty of £150,000. We have also recently had a penalty of £1 million awarded to a promoter who continued promoting a scheme when they were required by law to stop. There are quite swingeing penalties, increasingly, that we can apply to promoters, but they are not the taxpayer, usually.

Q188 **Emma Hardy:** I understand if you cannot answer, but would you like to see changes to enable you to more aggressively pursue people who promote these schemes, which lead to great suffering? We have all heard of the nine suicides from people involved in the loan charge scheme and how people believed they were involved in a legitimate system, only to find out later on they were not. These companies are exploiting these people. Would you like greater powers to prosecute them?

Jim Harra: Our experience is that if we identify that we need more powers, Ministers and Parliament will give them to us. We had powers given to us in 2020 and 2021 in relation to promoters. The key advantage that those powers gave us was that they sped up our ability to name promoters and take action against them. A key plank of our strategy is to act fast, to warn people of these schemes and to take action to block them from being promoted. Before we got that legislation, we had to do a lot of work to investigate and prove our case before we could name people, by which stage they had ensnared a lot of users into their schemes.

Now, increasingly, we can move much faster, and we have named a significant number of promoters, and the schemes that they are promoting, in the last few months on gov.uk

Q189 **Emma Hardy:** You will be aware of the cost of living crisis. I am sure you will be aware of the difficulties many public sector workers face in having to pay their own petrol to get to work and get between appointments, and, as petrol prices rise, what impact this has on their own costs. In fact, 94% of health workers use their cars to carry out duties, so their current mileage rate does not cover the prices at the pump. There seems to be some difficulty in understanding from HMRC your exact formula for calculating the mileage rate. I would be really keen for you to explain that formula and whether those rates are going to be revised to reflect the current cost of fuel.

Jim Harra: I am not expert enough to explain for you. I am hoping my policy colleague is.

Jonathan Athow: I will give you a broad outline but am happy to follow up with more detail. Broadly, the mileage rate is there to include petrol, but also other costs such as depreciation. From memory—I will write to confirm this—about two-thirds of the costs is depreciation rather than fuel. That is the broad approach.

Q190 **Emma Hardy:** At the moment, it is not covering fuel for some people.

Jonathan Athow: No, indeed. We have heard representations from different groups on that. Our mileage rates are also advisory. Different people pay different things. Where we set the advisory rates has tax consequences, but this is something that Ministers keep under review. I can write with more detail on the way in which the rates have been set.

Q191 **Emma Hardy:** Can I just clarify on when it will be revised? Is that your decision or is that Ministers' decisions?

Jonathan Athow: It is Ministers' decisions about where they want to set those rates. That is something that would be reviewed as part of the normal cycle of fiscal announcements.

Q192 **Mr Baron:** Further to our line of questioning on this issue, you will appreciate the importance we attach to it. Would you be so kind as to just write to the Committee and answer two questions? First, how does £5 billion of tax evasion compare with other comparative systems as a percentage of tax revenues generally?

Perhaps more importantly, if HMRC were to receive an extra £100 million, let us say, what would be your expected return by way of increased tax revenue? How would you spend that £100 million, given the fact that you have suggested that it is just not as simple as the £1-to-£18 rule? Could you write to us on that, please?

Jim Harra: I will certainly see what I can write to you about it.

Chair: We have some votes on the Finance Bill; I am told it might be up to four. I am going to suspend the Committee for 45 minutes. If the votes come faster, we will let you know.

Sitting suspended for a Division in the House.

On resuming—

[Harriett Baldwin resumed the Chair]

Q193 **Andrea Leadsom:** It is good to see you. Thanks for waiting for us. I have a number of quick, short questions. If you could do short answers, that would be brilliant. In August, you estimated that you would be owed £42.5 billion by March 2023. With the changes in recent months since August to tax policy and so on, has that changed? Where do you think the debt balance will end up in March 2023 at this point?

Jim Harra: £42 billion was the debt balance at the end of August. I do not think it was a forecast. In September, it was at £46.9 billion. Whilst we are really working through the peak of debt that occurred during the pandemic, we are now seeing a lot of non-payment, so new debt flow at very high levels.

Q194 **Andrea Leadsom:** Again, where do you think you will see debt in March? What is your forecast?

Jim Harra: In this financial year, I do not believe that we will be able to bring that debt balance down. I would not forecast that that is what is going to happen. Whilst we are clearing debts at record levels, operationally, they are being created faster than we are clearing them at the moment, and that is a consequence of the high level of indebtedness, particularly amongst small businesses.

Q195 **Andrea Leadsom:** In terms of time-to-pay arrangements, do you expect that to significantly increase over coming months? Can you just give us a quick flavour of the time, administrative hassle and cost of setting up time-to-pay arrangements?

Jim Harra: I will do that in reverse order. First of all, we have streamlined the processes for setting up time-to-pay arrangements. You can now do that online and self-serve digitally without me having to deploy officers to work on that. If you need a non-standard time-to-pay period, for example, then you do need to speak to one of my officers, but it is quite straightforward and we have made it a lot simpler.

The number of time-to-pay arrangements reduced slightly compared with the peak at the end of pandemic, because the deferred VAT, for example, has now largely been cleared, but we still have about 850,000 time-to-pay arrangements in place. Our experience of them is that they have very high successful completion rates—historically, about 90%—so they are an effective way of helping debtors out of debt.

Q196 **Andrea Leadsom:** That is good to hear. What would you say to taxpayers who are worried about being able to meet their tax obligations?

Jim Harra: The key thing to do is to get in touch with us and not put your head in the sand. If you do not engage with us, we do not know whether you are someone who cannot pay or someone who will not pay, and you will find yourself in enforcement action when that may not be the best option for you. Please do get in touch. We cannot make people pay what they cannot afford to pay. There is no limit to the length of time that you can have a time-to-pay arrangement. If that is what you need, we will always make sure that the payments are affordable. We restrict our use of insolvency action to cases where people just cannot sustain or do not co-operate with us. We do not routinely use insolvency for debtors who are trying their best to clear their debts.

Q197 **Andrea Leadsom:** That will be helpful to people who are listening to this. We all have plenty of constituents who say, "HMRC never answers the phone", and, "Why are they all still working from home?" What would you say about turnaround times for people who are trying to set up time-to-pay arrangements or, indeed, to contact you for any other reason?

Jim Harra: I will let Angela come in in a moment with what we are doing. At the moment, our call waiting time is about 14 minutes on average, across all our helplines, and more than three-quarters of callers who need to get through to an agent do so first time. That has improved over the course of the last half of last year and the first half of this year. It is still not at a level that I would like. I would prefer it to be higher, but people who need to get in touch with us can, and that applies equally to the debt management line.

Angela MacDonald: We are a highly digital organisation and there are many services that customers ring us for, for which they could go and self-serve. To give you an example, in September, we got 1.5 million phone calls from customers where there was a digital service that they could have gone and self-served to get that sorted out. We are always striving to do the best that we can on phone answering, and we have been managing to hold at about 80% calls answered, there or thereabouts, for some 12 months or so now.

What we really need to do to try to help customers—and it is much more convenient for them as well as us—is to really drive the take-up of our digital services, where they are there, hence the example that Jim gave there about time to pay. Do not sit and ring. See if you can self-serve first. That is where we would always encourage customers to go.

Q198 **Andrea Leadsom:** Would you say that there are still many people working from home in HMRC, or have people come back to your call centres?

Angela MacDonald: Our pay and contract reform that we did a couple of years ago offered colleagues the opportunity for hybrid working, but that is only what is suitable to your job. We still have colleagues whose job means that they work weekends or five days a week in the office, but, where possible, we offer hybrid working. By far the majority of our colleagues are working in the hybrid pattern that we want them to do, but, if they cannot do their job from home, they must come into the office to do so.

Q199 **Andrea Leadsom:** According to whom? Constituency mailbags are just full of people who say, "I cannot get hold of HMRC and have to wait for weeks and weeks. I get a letter from them saying that they might investigate me, and then a year goes by and I hear nothing, in spite of chasing them". Who decides that you are or are not doing your job?

Chair: I am afraid that there is a vote on Third Reading and we will have to adjourn the Committee. We will return at 4.35.

Sitting suspended for a Division in the House.

On resuming—

Q200 **Andrea Leadsom:** I am sure that you have not forgotten my question, but I was asking about the issues for many constituents, who feel that they are holding for HMRC on the telephone, do not necessarily have access to the digital services that are offered, and are holding for an extremely long period of time, possibly on a pay-as-you-go phone, which is costing them a lot of money. When they get through, they feel that they are given a very unsympathetic hearing. There are also customers who are being told, "We might investigate you", and then left to stew in it for a year or more, specifically in regard to the loan charge issue, where it has caused real concern.

It is a two-part question. One is on working from home. Angela, you are asserting that people can do their job, and I am asking you, "According to whom?" because there are plenty of people who think that HMRC is not doing its job efficiently.

Angela MacDonald: I will talk about the service position and Jim can talk about the compliance investigations piece. It is absolutely true to say that, over these last couple of years, because we diverted significant resources to support pandemic activity, our core business-as-usual tax activity was, to some degree, put to one side on some of that activity. As a reminder, we were still administering the Covid schemes in the first half of 2021-22, so it was only when we got to the second half of that year and into this year that we have been back into a more business-as-usual situation.

We have been really working hard to improve and catch up on our backlog. Our plan was that, by the end of the last financial year, which was March, we would be back down to what you might consider a usual head of work, which is about 2 million items. I know that that sounds a lot, but it is about a month's worth of HMRC intake, and that is exactly where we were. We entered this year pretty much up to date in most places, which is 80% of our post done in 15 working days, and delivering a phone service, which, on average, is in the high 70% to 80% range of phone calls answered.

I completely accept that, when you are talking about the kinds of volumes that we are talking about, that 20% is an awful lot of customers—that is fair—but we are working hard to deliver within the funding that we have for service.

Our real challenge this year to really working hard to try to maintain that position is that we have been hit by a few different things. We talked a little earlier about those working from home expenses and the high-volume agent market. We had 571,000 of those submitted to us over a three-month period, which was 69% more than we thought they were going to be.

Q201 **Andrea Leadsom:** That is slightly down in the weeds. I believe, from previous reports, that you do not have a service standard. I would be interested to know whether you think you should have one, because clearly, as we have seen in the case of the loan charge, even the Treasury has acknowledged that there have been nine suicides of people who have been investigated under the loan charge issue. For many of those who are affected by it, they feel that this is a direct consequence of a failure to get responses and a failure to deal sympathetically with the case. Because there is not a service level agreement from HMRC, it really is pot luck whether you are one of the 80%, or one of the 20% who have to wait a considerably longer time.

Jim Harra: We publish performance figures every month and we do aim to hit service standards. In the case of advisers answering calls, I would like to get that up to at least 85%. We are currently bumping along just below 80%. In the case of correspondence, we measure the percentage of correspondence that is replied to within 15 working days and within 40 working days. Historically, our service standards on that have been 80% and 95% respectively, and we are bumping along just below those service standards at the moment.

Q202 **Andrea Leadsom:** Jim, that is management information. What I am talking about is what I can expect if I am a person who is writing to you. In some cases, it is to hear nothing for well over a year about a case where you have simply told me you might investigate me, and I am left to stew.

Jim Harra: It is the case that, in the past, when we had very large volumes of avoidance cases, we would often open an inquiry, because that protected our position, but we would then select a lead case to work, and the other cases would follow behind it. We would work the lead case, get through litigation, establish our rights to tax, and then apply that to other people. I accept that in those days, when we did that, that meant that there was not effective communication with many people who were in follower cases.

Q203 **Andrea Leadsom:** Why?

Jim Harra: At the time, a lot of those people were represented by agents. We would tell the agent, "This person is under inquiry". We would expect the agent to know how that worked. In July 2019, the then Financial Secretary committed that we would change that and manage communications with people under inquiry much better, because we know that being under a compliance inquiry can be stressful, and we want to deal with people competently and professionally while we take them through that stressful experience.

Q204 **Andrea Leadsom:** What do you say to people who have been waiting for over a year? What do you say to those who believe that suicides have occurred as a direct result of the way that people have been treated by HMRC?

Jim Harra: Anyone who is under formal inquiry from HMRC should be contacted by us at least once a year, if their case is a follower case that we are not actively investigating and we are waiting on the outcome of another. Otherwise, we should be actively pursuing the investigation with them, and that is what they should experience.

Q205 **Andrea Leadsom:** So once a year at a minimum.

Jim Harra: Yes, as a minimum, and that is what we have committed to. In addition, because most people either never go through a compliance inquiry or will go through it only once in their life, so they do not know what to expect, we have an introductory pack that we now send to everyone when we open an inquiry, explaining what it is that they will experience and what their rights are during the inquiry. We also have videos on YouTube that people can watch, which, again, describe the process that they will go through if they are picked up for inquiry.

We also have trained all of our officers to identify anyone who is especially vulnerable or needs extra support, to make sure that they are identified and that they are given the appropriate extra support that they need. We did that initially for people who were under inquiry for tax avoidance, but we have extended that to all customer compliance inquiries, including evasion inquiries.

When it comes to death or serious injury of customers, we definitely do not want that to happen as a result of anyone's tax affairs, but we do understand that being under investigation is stressful and that the prospect of getting a large and unwanted tax bill that you may not now be able to afford can also be stressful. That is why we have trained all of our officers to identify anyone who may be vulnerable. All of our officers can give a certain level of support. We have an extra support team to whom cases can be referred if necessary. Last year, about 110,000 taxpayers were dealt with by our extra support team. A couple of months ago, we started a new pilot with the Samaritans as well, where we can refer people, if necessary, to the Samaritans helpline to give them specialist help that we cannot give them.

If there is any case where there is a possibility that death or serious injury has arisen as a result of contact with HMRC, we have an independent internal investigation team that look at those and, if they think that there is potentially a link, we refer ourselves automatically to the Independent Office for Police Conduct, which will determine whether it wants to look into the case, whether it wants us to conduct a supervised investigation of the case, or whether it is are just going to return it to us for local investigation or with a recommendation that we do not need to take any action.

In all cases so far, even where the IOPC has said that it does not require us to take any action, we carry out the equivalent of a local investigation to make sure that, first, there has been no misconduct on our part and, secondly, we just learn any lessons that we possibly can.

Chair: This is an important point, so if there is further detail that you want to share with us on the number, the actions and the lessons learned that is not already in the public domain, you could write to the Committee.

Q206 **Danny Kruger:** I want to talk to you about the Making Tax Digital programme, which you have mentioned. Ms MacDonald, you said a little while ago that HMRC is a highly digital organisation. What is your general view on how Making Tax Digital has gone for VAT so far?

Angela MacDonald: Making Tax Digital has rolled out very effectively. We set about making that reform because we wanted to ensure that we were supporting customers to tackle the kinds of errors that are a massively regular feature for many businesses. We know and have verified now that, in 2019-20, £115 million of extra tax revenue was raised as a direct result of the—

Danny Kruger: 2020.

Angela MacDonald: No, 2019-2020, because it is a historical piece of analysis—£115 million as a direct result of the implementation. It is very true to say that, when implementing Making Tax Digital, that is not just a thing that we as HMRC are doing. What we are asking is for businesses to start keeping digital records. There are many businesses where that is something that they are already doing and are very enthusiastic about. Not everybody has perhaps been quite as enthusiastic about that as we would have hoped and, therefore, there is a variety of different views, but we do have many thousands of businesses that are not mandated to keep digital records but voluntarily do Making Tax Digital, because it integrates tax into the way they do business.

Q207 **Danny Kruger:** You are aware of the VAT Practitioners Group, which has described it as causing "havoc" for its members, with horrendous delays. Do you recognise those criticisms from that organisation?

Angela MacDonald: We work very closely with all of the professional bodies and, indeed, we consult many of them in a behind-closed-doors fashion as part of user groups, as well as out in the public domain. We do work very hard to take their feedback into account. As you can imagine, something like Making Tax Digital needs to go into a massive variety of different types of businesses in different types of circumstances, so I would not recognise the characterisation of "havoc". As I say, we have many thousands of people who voluntarily are in MTD, and the revenue that we wanted is what is happening.

Danny Kruger: I appreciate that you do not hear from satisfied customers as much as from the critics.

Angela MacDonald: That would be very fair.

Q208 **Danny Kruger:** Nevertheless, there do seem to be a large number of businesses that have struggled, and we are now looking to extend it into personal tax. For both income tax self-assessment and for VAT, are you aware of concerns about the treatment of taxpayers from abroad in the system and that there might be some difficulties for them? What are we doing to mitigate that?

Angela MacDonald: One of the biggest challenges with foreign residents and foreign customers is about security. As you can imagine, the necessity, especially in a highly digital system, to be able to be very certain about who you are speaking to is very important. We are part of the broader cross-Government activity to strengthen ID&V, but it is very true to say that what we do not yet have is a really good-quality international version to validate people coming from international IP addresses as they come into the system. We are working incredibly hard to work out what our solutions are for that. It is not acceptable for us to not be able to support foreign customers, but it is a lot more complicated to do that in a way that secures the whole tax system.

Q209 **Danny Kruger:** Lastly on MTD, for the switch to digital income tax, are you concerned about the readiness that taxpayers—or customers, as you call them—would have? Do we need to do more to drive readiness up? Are there incentives that could be introduced? Are you confident that people are ready and will be doing it when the moment comes?

Jim Harra: Our experience from VAT is that the key thing is to make sure that there are plenty of suitable software products that fit people's needs; that, in this highly intermediated market, the intermediaries are put in a position to support their clients to make the transition; and that we leave enough time for that. There are no plans to introduce incentives for people, but what we want to do is to give as much time as we possibly can, both to test live the migration processes and to give time for agents to bring their clients across.

We do, of course, very closely monitor what people are saying about their readiness and their ability to migrate in the timescale that we have set. We will keep that under review, and Ministers are keenly interested as well. Whilst it is important that we do this as quickly as we can, it is vitally important that we do it well. In the case of VAT, where we did take some extra time and where we phased people in, whilst I know that a lot of agents had a lot of hard work to do to bring their clients across, we have made that migration effectively and we need to do as well or better for income tax.

Q210 **Danny Kruger:** Can I move on, lastly, to a different topic, also in the digital space, which is gift aid? The Government or yourselves have long promised to automate the administration of gift aid. I am conscious that charities miss out on large amounts of money that they could be getting through gift aid because of the pretty old-fashioned paper-based system that they have to administer it. One estimate is that £560 million of gift aid is currently not claimed by charities. Can you update us on where things might be in terms of automating the gift aid process?

Jim Harra: I am afraid I cannot. That is something that I would have to write to you about to give you an accurate answer.

Q211 **Danny Kruger:** It would be great to do that. Finally from me, what is your sense of the systems for taxing charities? I am not asking you to comment on taxation policy itself, but on the administration. There are a large number of different schemes and reliefs for charities in the tax system. From an HMRC perspective, would the system work better if it was simpler? Is there value in having a single tax relief for charities, as the sector is calling for? Is there more that we can do to streamline the administration of charity tax?

Jonathan Athow: You have to understand that the charity sector is hugely diverse itself. We have responded to charities asking for particular easements and changes. Hopefully, we have been very responsive to that, but it is always worth occasionally taking stock and saying, "Of the different approaches that we have, either through policy or through administration, are there ways in which they could be improved?" The charity sector is very diverse, from very large, sophisticated charities right down to very small ones. You have to think about what the right administration and the right policy is, given that diversity.

Danny Kruger: That is a totally fair point. I would be very grateful for an account of where things have got to with the automation of gift aid, because that is something that would be very helpful.

Q212 **Alison Thewliss:** I have some questions around the HMRC charter. The results from your survey on this—the performance indicators and so on—would suggest that the public is losing a bit of faith in HMRC, which undermines the legitimacy of the tax system as a whole. Do you need to do a bit more to restore faith in the system?

Angela MacDonald: What is interesting, when we look at the survey, is that, as you say, we regularly survey, so we take data in real time, and then we also conduct annual surveys of different customer segments. The results of this year's survey put us back to 2019 levels. As much as we wanted to believe that our results were going up more broadly, it turns out that everybody loved us a lot more when we were paying money out, and they have returned themselves to their prior position now that we are no longer doing that.

On saying that, though, it is incredibly important to us that people have trust in the tax system and that they feel that they are getting a good service, and it is not good enough that there are a number of our customer groups who do not feel that that is their experience. It comes back a little bit to what I was saying to Dame Andrea. Our challenge, therefore, is to work out how we best drive that forward. There are some aspects of things like tackling where people think that there are unscrupulous people in the tax ecosystem. It is also about giving people the digital services that they would expect to have in their everyday lives. It is also about making sure that we give them the support if they are struggling—so, all aspects of it.

It is interesting, though, when you break down the things that are most worrying. Agents, for example, would be a good example, and timeliness of response is one of the big challenges, so we are continuing to really focus on working hard on that.

Q213 **Alison Thewliss:** The Association of Chartered Certified Accountants raised with me the issue around timeliness and service standards. It said that even basic things like VAT registration and getting money back when money is due back to people from HMRC are taking too long. You seem to take it off people quite quickly, but giving it back is much slower. It pointed out that there does not seem to be much sanction for you not meeting your charter objectives. Is that an issue?

Angela MacDonald: On the particular examples that you raise, one of our big issues, particularly with repayments, is about protection from fraud. To give you an example on VAT registrations, in July 2022 we came under significant attack from VAT registration fraud. We spotted it because, suddenly, double the volume was coming through. That meant that we had to pull down the system and work through all of those many thousands of cases, which meant that, unfortunately, the very genuine businesses that were trying to get through got caught up in us trying to protect the system. We have had similar attacks on SA repayment fraud.

Where there is an opportunity for unscrupulous people to get money back out, as quickly as we are closing one door, they are opening another. It is very unfortunate that, whilst we tackle that and put extra checks in, genuine people get caught up. I can completely understand the frustration of agents who can perhaps understand that at a macro level, but it is not helping when they are trying to solve the problem for an individual client who they might have. Those are some of the real challenges that we face.

Q214 **Alison Thewliss:** For those agents in the middle of that, their clients are going to think that it is their fault rather than yours.

Angela MacDonald: Yes, completely, and we work very hard to be as open and transparent as we possibly can, particularly with the representative bodies, about what is going on. We have also, this year, stepped up our transparency of explaining to agents what the current service position is. They can now go into an online tool and see where we are on different performance in particular areas. We want to deliver great service, but ours is not a stable environment, as you can imagine. We have lots of challenges that we are constantly managing through.

Q215 **Alison Thewliss:** I am sure that lots of us could talk about the experiences of our constituents. I had a complaint from somebody who had been in touch dozens of times on the phone over several months. He has been cut off and never been called back, as was promised. Another person was stuck on an emergency tax rate for six months, which was, again, something simple to resolve and not difficult, but he was stuck there with it.

Angela MacDonald: None of those examples is good enough. We take 33 million calls a year. As you can imagine, even if I was delivering fantastic service to 98% or 99% of those, with numbers that large, the volume of unhappy people is a very large number. We are always working as hard as we can, but I could imagine that, no matter where we were, you would be able to give me an example of customers for whom that did not work. What we want to do if people complain or if there are problems is to take that action and respond as quickly as we possibly can.

Q216 **Alison Thewliss:** To pick up on the question that you did not quite answer there, are there any sanctions for not meeting charter objectives?

Angela MacDonald: Our charter is overseen by one of our independent non-executives, who runs the customer experience committee. She writes an independent report every year on our performance against the charter. That charter takes direct feedback from the representative bodies, and that is published.

In terms of financial sanction or other penalty, that is not something that really happens to Government Departments, but the transparency and publication of the views that people have about our service and the overall experience that they have are made public. We are accountable to Committees such as yourselves, but also, as I say, to the broader view of the populace.

Q217 **Alison Thewliss:** In your recent letter to the Committee, you set out a timetable for producing guidance for capital gains tax and IR35 reforms. You said that you could have acted more quickly in producing the guidance and that you could have learned from the experience. Can you tell me a bit more about what led to these delays?

Jonathan Athow: With the capital gains tax issue, the concern there was that there was a change in terms of filing. We put out standard guidance, which we thought was sufficient. What came to light was that it did not get into enough detail to allow people to respond to particular circumstances, so we updated that guidance. We should have acted more quickly there.

Likewise, we did learn the lessons on IR35. We put out guidance when we introduced the changes in 2017 for the public sector, but probably too close to implementation date. We got feedback on that, so we brought forward the date on which we issued the guidance when we applied it to the private sector in 2021.

One of the key actions that we are doing now is that we have set up a new forum that brings together advisers with our guidance team, so that we can identify the issues that are bubbling up more quickly. We have an awful lot of guidance. We have 100,000 separate webpages of guidance, so there is a large estate to manage, but we hope that this new guidance forum will help us drive out the issues where we need to focus and where we need to move quickly.

Again, we need to be a learning organisation that spots problems and then thinks, "How do we fix that specific issue, and what do we learn for the future?" As I said, we have some learning there, both on the CGT changes and the IR35 changes.

Q218 **Alison Thewliss:** You said in your letter, "Prior to the April 2020 change" for capital gains tax, "we published a tax information and impact note on 6 July 2018, which included draft legislation and explanatory notes". I end up having to wade through these on Finance Bill Committees quite a lot, but is it really reasonable to expect ordinary taxpayers who are not trained in tax to read draft legislation and wade through explanatory notes?

Jonathan Athow: No. Again, we have an ecosystem here. It is sometimes individuals who need to access our guidance, but it is often agents. In more complex areas, it is about what advice, guidance or manuals we can put out to agents. On that one, as I said, we did have existing guidance that we thought was sufficient to cater for the 2020 changes. We thought that, for the more technical aspects, agents would be able to use some of the materials that we published, but, as I said, in retrospect, that was not the right call and we should have put out more detailed information.

Q219 **Alison Thewliss:** Do you intend to set a timescale for publishing this guidance, so that every time something new comes out, people can expect something within a certain timescale rather than having to just wait until something appears on a website?

Jonathan Athow: It would be good to have those parameters, but we have to realise that there is a huge variation in our changes. Some of our changes are relatively straightforward. Sometimes, we cannot update our guidance because there is a legal case ongoing. I agree that these are the sorts of things that we ought to think about in terms of what a good timetable is, but I do not think it will be one size fits all, given the different levels of complexity with some of the changes that we are making.

Q220 **Alison Thewliss:** Do you have enough expert staff in this area?

Jonathan Athow: Yes. We have a very good guidance team. We are investing more in guidance. Recently, for example, we introduced new guidance for people who are starting employment. Some of the problems that we find, such as emergency tax codes, arise because there is not good guidance on what employers and employees need to do when they start employment, so we have put out new guidance there. We had 20,000 people accessing that in the first month or first few weeks.

We have a good guidance team, but, as I said, there is a very large estate of guidance. 100,000 webpages is a lot for that team to cover. We are trying to use our guidance team in the most effective way, but there will always be challenges.

Q221 **Alison Thewliss:** This is a question that I have raised with you in person before, Mr Harra. The Scottish Government and the policy community in Scotland will generally need to have access to the best information so that we can plan effectively for taxes in Scotland. At the moment, tax data are available only for researchers to do in-depth analysis in person in an office in London. What steps is HMRC taking to look at models used in other countries to make sure that that data can be accessed more easily than having to travel from Scotland to sit in an office in London and look at things?

Jonathan Athow: We are completely aware, as I said when responding to an earlier question, that our data is very valuable for researchers. Part of the reason that we have the data lab, which is the environment in which people access that, is to make certain that access to that is controlled and in a safe way, so that people cannot take data out of it, such as identifying taxpayers and those sorts of things.

We are looking at different models around the world now, where you can have a virtual data lab. The next step would be to look at that, where people could access it from a secure location, but not have to be in our London data lab to do that. There are options for doing that, and the wider statistical and data community are thinking about how to do that. Again, we would do that only if we were happy with the security and safety of that data.

Q222 **Alison Thewliss:** Is it still the case that even people in the Scottish Fiscal Commission have to come down and sit in a room in London, and that there is not that Government-to-Government co-operation?

Jonathan Athow: Yes. Again, the Office for Budget Responsibility does not have access to identifiable taxpayer data.

Q223 **Alison Thewliss:** They are not setting taxes, but we are in Scotland.

Jonathan Athow: Indeed, but they are putting together the forecasts that underpin UK fiscal planning. What we are trying to do here is to make that data available, but we need to have protections to make certain that no taxpayer identifiable data ever leaves our environment.

Q224 **Rushanara Ali:** I have a couple of follow-ups. One is on fraud, and then I will go on to borders. Earlier on, you talked extensively about fraud and what you have been doing to tackle it. One estimate is that about £6.7 billion was lost in fraud related to the Covid era. The NAO has warned that straightforward measures to tackle fraud were not introduced until months after the Covid business support schemes were launched. You will be aware of Lord Agnew having quit because he felt that the Government's approach was desperately inadequate to stop taxpayers' money being stolen.

I just wanted to get a much clearer idea of how much Covid-related fraud you think you can still go after to try to recover some of that. A particular figure will be useful, because it is quite easy to get lost in the weeds otherwise.

Also, the Public Accounts Committee report states that about £13 billion was spent on sourcing PPE contracts, and there are still disputes with suppliers for 176 contracts worth about £2.7 billion. Could you tell us what amount of that might account for fraud? If you cannot answer that question, I would appreciate a written response with some details on that. Do you have any overarching figures on what we are looking at in terms of cost to the taxpayer from fraud?

Jim Harra: I cannot give you evidence about PPE contracts, because that is not within my area of responsibility. The three main support schemes that I administered were the furlough scheme, the self-employed income support scheme, and Eat Out to Help Out. We have been very transparent and published two sets of estimates, with our best estimate of what we think the error and fraud was in those schemes. Our latest estimate is £4.5 billion.

Q225 **Rushanara Ali:** How much of that do you think you can get back?

Jim Harra: We are not going to give up on getting it all back, but our current forecast is about £1.1 billion. We will probably exceed that, but, at the point when we wind up the taskforce, that is our current forecast of how much we will have recovered.

Q226 **Rushanara Ali:** So you are looking to write off about—

Jim Harra: We are not planning to write off anything.

Q227 **Rushanara Ali:** If you wind down the tax taskforce after recovering £1 billion, what happens then?

Jim Harra: We are not planning to write off anything. If we can detect risks that need to be investigated, we still have all of our compliance staff—over 28,000 of them—who can be deployed on this work. Our intention is that, once we have wound up the taskforce, we will manage this risk alongside all of the tax compliance risks that we manage.

Q228 **Rushanara Ali:** You said just over £4 billion, and that you get just over £1 billion back through this process, but, after that, it is integral, by the sounds of things, to core business. Is that what you are saying?

Jim Harra: Yes. It will, thereafter, be managed alongside all of the other compliance risks that we manage, and we will deploy our resources on that as well as tax compliance risks.

Q229 **Rushanara Ali:** Do you expect that to generate less money back, in terms of recovery, than the current arrangements that you have? It would be helpful to understand what that will mean, because you have given a very helpful figure in what you think you can recover.

Jim Harra: We have no forecast beyond the £1.1 billion that we expect to have recovered by the time we have wound down the taskforce.

Q230 **Rushanara Ali:** Why not hold on to the taskforce if it is going to bring you back £1 billion? Otherwise, it just seems like there is no clear line of sight on whether you are going to recover much more out of the £3 billion-odd that is outstanding, and it is just going to get morphed into whatever you do within the overall system. It is really hard to hold your organisation and Government to account on what could be recovered without clarity on a similar process that you have at the moment. I am asking because it begs the question whether there should be a special imperative, like this taskforce, and whether it should continue going forward to recover more of that £4 billion, or the outstanding £3 billion.

Jim Harra: First of all, on transparency and holding us to account, the UK has been more transparent than any other country.

Q231 **Rushanara Ali:** With respect, we have seen a lot of Covid-related fraud, for reasons that we are all familiar with and that are well-rehearsed, but the taxpayer is having to pay a great deal at the moment in terms of the cost of living crisis, while billions have been wasted during that period. They are all asking us to go after the money that fraudsters have taken, and that is why we need to make sure that everything is done by this agency and others to recover hard-earned taxpayers’ money that has gone into the wrong hands.

Jim Harra: I agree with that. Our approach was, first of all, to protect these schemes from error and fraud wherever we possibly could, but we had to balance that with the need to get money out to people who needed it.

Q232 **Rushanara Ali:** I understand. We have been through this many times and that is not the basis for my questions. We completely understand that, and we have gone through that during the pandemic. We fully understand that, but this is what I am trying to understand from you now: given that this taskforce sounds like a good thing, why not continue with it? If there are resource issues, should we be arguing with the Government to give you more support and resource, so that you can continue to do that? Can we have some clarity on what is going to happen with the outstanding amount? I am going to have to move on, but perhaps you can write to me about that.

Jim Harra: We are clear that the rate of return that we can get from the taskforce will diminish over time and that we can get a better rate of return from that resource deployed on the tax gap after a particular point. The judgment that we have reached is that, between April and September 2023, it is better to redeploy those resources onto the tax gap.

Q233 **Rushanara Ali:** It would be really helpful to have some granularity on what that means, because £3 billion is not nothing. It is a lot of money, so it would be really useful for us to understand the thinking that goes on behind that. If we can have that, that would be really helpful.

Turning to a related question, which is to do with a particular case in terms of where the tax has been paid, it might be useful for me to send you something in writing in relation to a case that is in the public domain at the moment. I am conscious that, in specific cases, it is hard for you to get into the detail, but it would be helpful to understand what HMRC can do in relation to whether tax is paid on earnings based on contracts that have been secured and so on. Perhaps I can write to you about that.

I just wanted to go on to some questions about borders. When you spoke at the Committee in December 2020, Jim, prior to the end of the Brexit transition period, you said that you were determined to make sure that there was no disruption at the border. How do you think the last two years of HMRC overseeing border controls have gone?

Jim Harra: We have now implemented import controls between the EU and the UK, with the exception of Ireland. That was done without disruption to the flow of trade, so I am confident that the introduction of customs controls has been handled in a way that has not disrupted that. However, it has involved a significant degree of change for traders to take on board, learning new procedures and taking on new costs associated with that.

We have put out extensive guidance and education as well as funding investment in the intermediaries market to expand that market, in order to support those traders. We have a Government-funded service for people who are moving goods between Great Britain and Northern Ireland to make sure that they can cope with the arrangements that have been put in place for the Northern Ireland protocol, without cost. The cost is borne by the Government.

Q234 **Rushanara Ali:** There are reports that there is a reduction of about 40% in terms of UK exports to the EU. Have some of the issues been resolved because people are just not exporting?

Jim Harra: I have seen articles in the last couple of days that, rather selectively and misleadingly, in my view, quote some trade statistics. If you look at the statistics between those two years, the amount of exports from the UK to the EU did not reduce. They have taken two specific lines out of the statistics. I am happy to write to you with further information on that.

Rushanara Ali: That would be very helpful.

Jim Harra: There is no doubt that traders are now having to deal with customs procedures that they did not have to deal with in the past.

Q235 **Rushanara Ali:** How much bureaucracy is there compared to what was there before?

Jim Harra: In the past, there was, for example, no need to make any customs declaration. Now, there must be a customs declaration for every movement of goods. The administrative cost of completing them varies quite a bit, depending on the channel that they use, but the last estimate was about £55 per declaration.

Q236 **Rushanara Ali:** How many declarations are we talking about?

Jim Harra: I do not have that to hand, but it will be millions.

Q237 **Rushanara Ali:** Your annual accounts announced that 45,000 traders have used the trader support service to process over 1.9 million consignments.

Jim Harra: The trader support service is the Government-funded service to help traders who are moving goods between Great Britain and Northern Ireland.

Q238 **Rushanara Ali:** How would you assess the goods flow between GB and Northern Ireland, and how well you are processing them?

Jim Harra: Whilst we have put in place certain easements, there are customs-like procedures that need to be followed. What the Government have done is to fund the trader support service, which will carry out those procedures on behalf of the trader. The trader has to supply them with data, but they will then make the declaration on behalf of the trader, and there is no charge for that service.

Q239 **Rushanara Ali:** As a final question, it would be really helpful to get the calculation on the £59 per declaration and the number of declarations per annum or whatever—the overarching figure.

Jim Harra: We did publish something in the past. It is quite some time ago, but I can get you the most up-to-date information.

Q240 **Rushanara Ali:** Thank you. That would be really helpful. Now that the tariffs are in place between the UK and the EU, have you seen an increase in smuggling across the border?

Jim Harra: There is a zero-tariff trade agreement between the UK and the EU, so there should be no need to pay tariffs on British goods being exported to the EU or on EU goods being imported into the UK. There have always been borders there and, when we were in the EU, we had smuggling issues. I mentioned diversion fraud in relation to beer in the past. Some of those risks continue.

Q241 **Rushanara Ali:** Have the risks increased? What is being smuggled?

Jim Harra: Our view is that the risk in relation to EU-UK trade has not significantly increased, but the nature of what we have to do to manage those risks has changed, because some of the data flows and systems have changed. Broadly speaking, there is no need for anyone to pay customs duty when they are importing goods from the EU into the UK.

Q242 **Rushanara Ali:** What sort of stuff is being smuggled?

Jim Harra: I gave the example of alcohol diversion fraud. If you brew beer in the UK, you do not have to pay excise duty if you are exporting it. A common way of trying to evade excise duty is to say, "We are selling this beer to people in Belgium", for example, and it then gets diverted back into the UK. That is something that existed prior to Brexit, but it is still a risk that we have to manage in relation to excise duty.

Q243 **Chair:** You recently got a payment from Uber for £600 million on its VAT. That was after a court ruling. Was there any reason why it took someone outside HMRC to do this court ruling? Why would you not have done that?

Jim Harra: No, I do not recognise that. I am aware that there have been employment law issues with Uber, but we have settled a long-running inquiry with Uber. We have the tax that we believe is due under the law. That is a good settlement for the Exchequer, and we have made sure that it is in accordance with our published litigation and settlement strategy, which says that we will settle only for what we believe we would get if we went to court, and has also been carefully governed to make sure that it is consistent with that. We have not had to rely on litigation by ourselves or anyone else in order to secure that.

Q244 **Chair:** Can the public feel confident that these innovative tech firms—you will know the names of them; I am not going to mention them specifically—are paying their fair share of tax in the UK for the business that they do in the UK?

Jim Harra: I will let Jonathan come in in a moment on some of the policy solutions that we have put in place. By their nature, they are disruptive in the economy and can be disruptive in the tax system as well, in the sense that they create new and different risks, which we have to be constantly alert to, both operationally and in relation to policies.

In the case of Uber that you mentioned, I hope that my VAT colleagues will forgive me for this, but it was the application of bog-standard VAT rules to an innovative business model. But we got there, and we got the right result for the UK. We have introduced a number of different policy measures to address the risks to the tax system.

Jonathan Athow: I will talk about two that are currently in existence and two that will come in. We have the diverted profits tax, which is looking at current rules around where profits should be ascribed. That is designed to dissuade people from using contrived arrangements to move profits around. That has been successful, and we have published some figures around how that has encouraged companies to book profits in the UK. We also have the digital services tax, which charges a tax on the revenues of some of the largest digital companies. Those are two things in existence at the moment.

There are then two changes coming down the track from the OECD. There is pillar 1, which looks at how the very largest companies ascribe their profits, and they will look at ascribing part of their profits according to where their customers are. Then there is pillar 2, which was scored in the Autumn Statement and is a global approach to minimum tax levels.

There has been lots of activity in that area, both things that already happen and things that are coming down the track as well.

Chair: This has been a very long session with all the votes interrupting play, but I would like to thank you for your evidence. I have kept a list of all the different things that you are going to follow up and write to us about.