House of Commons

# Public Accounts Committee

## Oral evidence: Managing tax compliance, HC 739

Thursday 26 January 2023

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[Watch the meeting]

Members present: Dame Meg Hillier (Chair); Olivia Blake; Dan Carden; Mr Jonathan Djanogly; Peter Grant; Anne Marie Morris; Sarah Olney.

Gareth Davies, Comptroller and Auditor General, Marius Gallaher, Alternate Treasury Officer of Accounts, and Andy Morrison, Director, NAO, were in attendance.

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## Witnesses

I: Alison Bexfield, Director for Customer Compliance Finance & Planning, HMRC; Penny Ciniewicz, Director General Customer Compliance Group, HMRC; and Jim Harra CB, Chief Executive and First Permanent Secretary, HMRC.

### Report by the Comptroller and Auditor General

### Managing tax compliance following the pandemic (HC 957)

## Examination of witnesses

Witnesses: Alison Bexfield, Penny Ciniewicz and Jim Harra.

Q1 **Chair:** Welcome to the Public Accounts Committee on Thursday 26 January 2023. We are here to look at how His Majesty's Revenue and Customs is handling tax compliance, particularly as a result of the pandemic, when many staff in compliance were pulled away, quite understandably, to deal with some of the urgent roles that HMRC needed to fill—administering programmes such as furlough, and other pandemic related matters. Those staff being taken off has—or had—an impact on the ability of HMRC to draw in the tax that is so vitally necessary to our country to ensure that we can pay for the public services that are so desperately needed, especially in the current climate.

Today, we have senior HMRC officials in front of us, and we are asking them about how they are ensuring that the compliance function is brought back up to strength so that that tax is collected for the Exchequer and the taxpayer is getting good value. I welcome our witnesses today. Jim Harra is the chief executive and first permanent secretary at HMRC. He is joined by Penny Ciniewicz, the director general for customer compliance, and Alison Bexfield, the director for customer compliance, finance and planning. They are always long titles!

Before we go into the main session, Mr Harra, it probably doesn't surprise you that we would like to ask you some questions about the tax affairs of Ministers. We completely understand that you are not able to discuss individual tax matters because of taxpayer confidentiality. We had that issue when we talked to you in the past about Google and other big companies. But, if I could start by perhaps addressing it directly, if Nadhim Zahawi, the Minister in question, was to waive the usual statutory consultation rules, would you then be able to disclose the settlement agreement and the background to it?

***Jim Harra:*** Taxpayers can consent for HMRC to share details of their tax affairs with other people. That is normal, for example, when they have an agent. However, it would still not be normal for HMRC to publicly comment on someone's tax affairs, even if they had said that it was okay for us to do so. But, we have, in the past—for example, in relation to Google—given evidence to this Committee, and we were able to give more expansive evidence than usual because we had that company's consent. But, our requirement not to disclose information publicly kind of sits, whether a taxpayer is relaxed about it or not relaxed about it.

Q2 **Chair:** But if they were to give you explicit permission to talk about it in order to clarify matters, would you do that?

***Jim Harra:*** Normally, if a taxpayer gives us consent to speak to someone about their tax affairs, then that is what we would do. For example, when MPs correspond with us about their constituents, there is an implied consent on the part of the constituent for us to share information, and, within the terms of that implied consent, we would therefore disclose—

Q3 **Chair:** So, in the case in question, if the Minister in question, Mr Zahawi, was to give permission for you to disclose to this Committee, or to the Treasury Committee, would you do that?

***Jim Harra:*** It would not be normal for me to account to this Committee for a person's tax affairs, but, if there are general issues about how we manage tax, and I have the ability to be disclosive, that is obviously something I would take advantage of.

Q4 **Chair:** With the various enquiries taking place, if you are given permission by the individual concerned, will you then provide information to those enquiries—to the ethics adviser at No. 10?

***Jim Harra:*** If we are asked by the independent adviser on ministers' interests to help with the enquiry, we will do so in any way that we possibly can, and, if any person involved gives their consent for us to share information, then that is something that we—

Q5 **Chair:** If they don't give consent to share information, do you have a responsibility to flag any issues of concern?

***Jim Harra:*** As you know, we are subject to a duty of confidentiality, and that is something that applies equally to all taxpayers and in all circumstances. We have some discretion to share information if that is necessary for our functions, and we have some transparency about how we do that, but it is very limited.

Q6 **Chair:** On that point, it might be helpful to say that you do sometimes disclose a sort of status for taxpayers. Edward Troup, formerly of HMRC, has explained the "red, amber, green" approach that we believe takes place with honours. Could you just explain, for the record, how that works with HMRC providing information if somebody is put forward for an honour or for elevation to a peerage?

***Jim Harra:*** Yes. We have a memorandum of understanding with the honours secretariat in the Cabinet Office, and that is published on gov.uk. That explains the basis on which HMRC will share limited information with the secretariat to assist with the administration of the honours process. The information we give is limited. It is based on what risk a nominee might pose to the integrity of the honours system because of their tax affairs. Broadly speaking, we would give a rating of low, medium or high—green, amber or red. That would be the extent of the information that we would provide. It is then up to the people who make decisions about honours to take that into account, together with any other information they have, in making their decision.

Q7 **Chair:** Who makes those judgments in HMRC? Is that you, or do you have a special team that does that?

***Jim Harra:*** There are a group of senior officials in HMRC who routinely look at those. I have in the past been one of those people, and I suspect Penny may have been as well. It is mainly a group of senior compliance officials who make those judgments.

We have published some indicative criteria for how we arrive at decisions. Those are not exhaustive, but they give people an idea of the kinds of behaviours that would cause us to rank someone low, medium or high.

Q8 **Chair:** That is for the honours system—elevation to a peerage. What about when people are appointed Ministers? Do you have a similar approach for that?

***Jim Harra:*** Obviously, decisions about appointing people as a Minister are made by the Prime Minister. The Prime Minister can receive advice from the Cabinet Office. It is not something that HMRC is responsible for. I cannot comment on what those processes are—they are Cabinet Office processes. There is no published or formal memorandum of understanding, for example, in relation to that.

Q9 **Chair:** If the Cabinet Office asked you for information, along the line of what you provide on the honours system, would you be required to provide that, or would taxpayer confidentiality be an issue there?

***Jim Harra:*** Taxpayer confidentiality rules apply to everyone in all circumstances. If we are asked, in any situation we would have to consider whether it was within our legal powers to do so. In relation to the honours we have concluded that it is within our legal powers to make limited disclosures. But we would have to look at that on a case-by-case basis.

Q10 **Chair:** So if the Cabinet Office, the Cabinet Secretary or the Prime Minister requested information, would you be able to provide a similar disclosure?

***Jim Harra:*** My approach would be to be as helpful as I possibly can within the constraints of my legal powers.

Q11 **Chair:** Other Members may come back to that. If a prominent politician, or someone in a key public role such as Chancellor of the Exchequer, says something about their tax affairs that you know to be categorically false, would you make a statement to correct that?

***Jim Harra:*** I think as a general rule, our duty of confidentiality would mean that if a taxpayer made a public statement about their affairs that we did not agree with, that would not be a matter that we would correct. Again, we would look at things on a case-by-case basis and decide whether in that particular case the issue was such that it was within our functions to disclose information.

As a general rule, our default is that we do not disclose. It can be a source of frustration for HMRC, because people will brief the press, or perhaps brief MPs, about their tax affairs. We will sometimes feel that that is not the full story, but we have to deal with it on the basis of their disclosure, because we are not in the position to disclose further information.

Q12 **Chair:** Would you contact the individual directly, if they were of a significant public position, to advise them that it was perhaps unwise to say something that was not factually correct?

***Jim Harra:*** As a general matter, it would depend. If we felt that a

taxpayer had misunderstood their position, and they needed to understand that in order to administer their tax affairs, then perhaps we would. But people are entitled to say what they wish to say to friends, family, or the press; it is not my responsibility to police their behaviour in that way.

Q13 **Chair:** Okay. But if they are in a significant position, such as Chancellor of the Exchequer, do you feel you have any responsibility to advise the Cabinet Office, the Prime Minister’s office, or No. 10 generally, about any behaviour that might be conflicting with their responsibility of oversight with HMRC?

***Jim Harra:*** That is something that we would have to look at on a case-bycase basis within our functions; there is no general rule. Obviously, responsibility for complying with the ministerial code and for declaring any issues in relation to the ministerial code is a matter for Ministers; it is not a matter for me, as an official, to police or enforce compliance with the code. In each case, we would have to consider whether it was within our legal functions to make a disclosure, but proactive disclosure of information about taxpayers would be an extremely rare matter for HMRC to be involved in.

**Chair:** I think we are dealing with quite a rare matter. On that point, I will move over to Sarah Olney MP.

Q14 **Sarah Olney:** Thank you very much, Chair. Mr Harra, I was just wondering: what does HMRC understand, or mean to imply, when it uses the word "carelessness"—that someone has been careless with their tax return—and what should the general public understand by the use of that term?

***Jim Harra:*** Again, I am not commenting on any particular person's affairs, but carelessness is a concept in tax law. It can be relevant to how many back years we can assess, and it can be relevant to whether someone is liable to a penalty and, if so, what penalty they would be liable to for an error in their tax affairs. There are no penalties for innocent errors in tax affairs, so, if you take reasonable care but nevertheless make a mistake, you will be liable for the tax, and for interest if it is paid late. You would not be liable to pay a penalty, but, if your error was as a result of carelessness, the legislation says that a penalty could apply in those circumstances. Those are the two occasions when HMRC would consider whether non-compliance was careless: when we need to understand what back years we can assess and when we need to understand whether a penalty is due.

Q15 **Sarah Olney:** Okay, so carelessness could mean that, just to come back to what you were saying, that it was an innocent mistake. So a not innocent mistake? Is that when carelessness would be implied?

***Jim Harra:*** I used the term innocent, but I don't think that is the statutory language. The statutory language is "despite taking reasonable care". If you get your tax wrong, despite having taken reasonable care with it, there is no question of us charging you a penalty. You would, of course, still have to pay the tax, but, if you have been careless in your tax affairs and, as a result of that carelessness, have made a mistake, you could be liable to a penalty for any understatement of tax that you have made.

Q16 **Dan Carden:** Is there any situation where you would see it to be in the public interest to disclose taxpayer information?

***Jim Harra:*** There are some specific situations set out in legislation where it is within our functions to disclose it. For example, in court proceedings, we would do that. Despite the fact that they are in public, that is within our functions. There are some limited circumstances, and legislation does provide for that.

Q17 **Dan Carden:** Does HMRC offer bespoke advice to Government Ministers on financial matters or their own tax affairs? How would that operate if a Government Minister was seeking that advice?

***Jim Harra:*** HMRC does not give people tax advice; that is for them to get for themselves. We do, of course, give all taxpayers guidance about what they need to do in order to comply with tax law and about what action we would take if they did certain things. That would apply equally to Ministers as to other taxpayers, but we do not offer a tax advice service to Ministers, just as we would not for general taxpayers.

Q18 **Dan Carden:** You told us a little bit about the process around the honours system. I have been told that, when ministerial appointments are made, the person being appointed is often asked if their tax affairs are in order. Is there no contact between HMRC and the Cabinet Office or No. 10 ahead of ministerial appointments?

***Jim Harra:*** The decision on whether to appoint someone is made by the Prime Minister, obviously. The process for advising the Prime Minister is a matter for the Cabinet Office, including what declarations they may ask potential Ministers to make and whether they would get any information around that. That is not a matter that I can comment on.

Q19 **Dan Carden:** For instance, in the last two years, hasn't there been any occasion where you have had to flag concerns over a ministerial appointment?

***Jim Harra:*** Again, HMRC does not flag concerns; these are not decisions for HMRC, and it is not for HMRC to make any judgments. If we were approached for information, we would look at whether we could provide that information within our legal powers. We would do whatever we could to assist, but not if it meant disclosing information that we do not have the legal power to disclose.

Q20 **Dan Carden:** Are you routinely contacted by the Cabinet Office or No. 10 ahead of ministerial appointments?

***Jim Harra:*** No, not in my experience. The process for appointing Ministers is handled in Cabinet Office. It has its own processes for that. I am not really privy to them or responsible for them. But there is no part of that that involves routine engagement with HMRC or routine disclosure of information by HMRC.

Q21 **Chair:** When you are elected as a councillor, you have to sign something to say that you are content for your council tax records and so on—anything that you might owe the council financially—to be checked. You sign a waiver. Is that possible under the rules now, or would the law need to be changed for that to happen? If a Minister was required to sign a waiver as a routine matter, are there any changes that would need to take place for you to provide information?

***Jim Harra:*** Whether that is something that should be done is a matter for the Cabinet Office; it is not a matter for HMRC.

Q22 **Chair:** But I am asking about the technical side. What powers would you need to do that?

***Jim Harra:*** As we discussed earlier, taxpayers can consent to us sharing information with other people, and that can sometimes make it easier to manage people's tax affairs and make our lives easier as well. Those people are generally professional advisers, MPs, for example, or voluntary organisations that are helping people with their tax affairs. Whether that was the case here would be a matter for Cabinet Office.

Q23 **Chair:** But if the Cabinet Office said, "From now on, every Minister needs to sign a waiver to say that we can approach HMRC to get a flag on any tax issues," that would be possible. If the Cabinet Office decided that Ministers had to do it, you could then do that.

***Jim Harra:*** If it wanted to look into doing that, that is something that obviously we could look into. But I cannot answer what the outcome of that would be.

**Chair:** It seems like we may be moving in that direction. Thank you very much.

Q24 **Peter Grant:** Mr Harra, I want to come back to the question of carelessness. What is the difference between carelessness and negligence?

***Jim Harra:*** I am not sure; they are different words, I suspect, largely for the same behaviour. I am using statutory language. The language in the statute is taking care and taking "reasonable care", and that is the test that we apply. We look at whether you have made a mistake despite taking reasonable care, or whether you have failed to take reasonable care in your tax affairs.

Q25 **Peter Grant:** You mentioned earlier that you might go back and look at several years of records. Is that with a view to seeing whether the same careless mistake had been made repeatedly, or is it about seeing whether it had been drawn to the taxpayer's attention and they had done nothing about it? Would that count as carelessness, or would it be something else?

***Jim Harra:*** As a safeguard for taxpayers, there are statutory limits on the number of back years that HMRC can assess. That is a protection for taxpayers, because it means that they can have certainty that their previous tax affairs are in order. The number of years that we can go back and assess depends on the nature of the error that the taxpayer made in their affairs. If they made a mistake despite taking reasonable care, I think it is four years that we can go back, but we cannot go back beyond that. On the other hand, if they fail to take reasonable care, we can go back longer than that. If they made a deliberate error, we can go back up to 20 years. It affects the safeguard for taxpayers about the certainty of their tax affairs.

Q26 **Peter Grant:** You seem to be saying that the word "careless" in this context is maybe used a bit more severely than, certainly, I would use it. I would think a careless mistake on a tax return is if I add a zero, miss out a zero

or transpose a number when I am typing it in—that kind of mistake. You seem to be suggesting that, in the context of tax law, carelessness could go a bit further than that. Is it possible for it only to be carelessness if it gets to the point where a professional adviser who was complicit in that carelessness could face professional conduct consequences?

***Jim Harra:*** First of all, the degree of care that we expect someone to take will vary depending on the taxpayer, and their capabilities and circumstances, so there is no rule that applies across the board. We will take account of the person's capabilities and whether it was a reasonable course of conduct, for example, for them to do something themselves or whether they should have sought professional advice. The more complex your tax affairs are, the higher the standard, I guess, that we would expect you to follow.

As a general rule, if a taxpayer seeks professional advice from a properly qualified and competent tax professional and acts on that advice, that often is the way that they could demonstrate that they took reasonable care with their tax affairs. But obviously if tax advisers themselves are incompetent or have misconduct in their affairs, that is a separate matter.

Q27 **Peter Grant:** Would it be reasonable to expect that for somebody who was fit to hold a public office that meant that you guys were all accountable to them, as Chancellor of the Exchequer, that that person would have a higher expectation as to their competence to fill in their own tax forms?

***Jim Harra:*** I think we are straying into talking about a particular person, which I am not going to do, but, as I have said, the level of care that we expect someone to take is not flat across all taxpayers. It will vary, according to your capabilities and the nature of your tax affairs, for example how complex they are, as to what degree of care we would think it is reasonable to expect someone to take.

Also, we are not the arbiters of that. All of our decisions that rest on carelessness, whether it is to assess a back year or to charge a penalty, are appealable, so ultimately the arbiters of what is taking reasonable care in any circumstances are the courts, not HMRC.

Q28 **Peter Grant:** Are you able to tell us approximately what percentage of taxpayers would have a penalty of 30% or above applied each year? Does

30% mean it is quite a serious matter, or is it a trivial thing and you slap 30% notices on everybody?

***Jim Harra:*** We have published guidance about the loading of penalties in cases, so that is available for everyone to see, and that is standard and we apply it across all cases. But I do not have information for what number of cases we would have every year.

In any compliance case where there has been an error, our compliance officers would look at whether there has been behaviour that means that that error is such that a penalty should be charged, and decisions about whether or not to charge a penalty are subject to internal governance in our compliance group. The level of that governance varies depending on the nature of the case, mainly the size of the case.

Q29 **Peter Grant:** But you do not routinely publish—I know that a lot of regulators publish statistics for prosecutions, for example. Do you routinely publish statistics that say, "This is how many taxpayers had a penalty of this degree and this is how many had the minor penalty"? You do not publish that as a matter of course?

***Jim Harra:*** No, I do not believe we do.

***Penny Ciniewicz:*** I think we publish aggregate numbers in the annual report and accounts under the tax assurance commissioner's report. I am not sure, from recollection, that it is broken down by behaviour. But we could check that.

Q30 **Chair:** You mentioned the tax assurance commissioner, which is something that this Committee has had a keen interest in. Is this sort of settlement something that commissioners have a look at?

***Jim Harra:*** Again, I suspect you are referring to a particular case. So, we have published our code of governance for how we govern decisions in disputes with taxpayers, and when the tax assurance commissioner and two other commissioners will make the decision. All cases are subject to that governance, without exception.

Q31 **Chair:** Then, regarding the speed at which decisions are made, we have looked before on this Committee at some big companies obviously, where they have got complex tax affairs; sometimes they have taken a decade to be subject to an investigation. The case that you cannot talk about today seemed to happen quite quickly; it is difficult to tell. Is there a two-track system for deciding on cases? What makes something speed up to the extent that we have seen that this case may have been faster than some other cases we have seen?

***Jim Harra:*** We would treat all taxpayers in the same way in terms of determining their liability. We want to settle any case as quickly as we possibly can and many compliance cases are opened and closed very quickly. However, that depends on the nature of the matter under dispute.

Under enquiry, there is the nature of the investigation work that we need to do to establish facts, such as what the attitude of the taxpayer is towards co-operating with us, because all taxpayers have a right to disagree with us and to take their matters to tribunal.

Very often, particularly in technical disputes, there will be other cases with the same dispute, and sometimes cases will wait behind a lead case to be determined. There are a whole variety of different factors, but our aim is certainly to settle cases as quickly as we can, and we do internally target ourselves on what the average elapsed time should be for cases of different types.

Q32 **Chair:** We know from previous work on this Committee that there are a team of relationship managers who help support higher earners—the wealthier corporations and individuals—with their tax affairs. Does it speed things up if you have a relationship manager?

***Jim Harra:*** The 2,000 largest businesses in the UK have a customer compliance manager, and so do the wealthiest people. That is because of the nature of the risks that they pose to tax revenues and to compliance, and therefore there is a need for them to be man-marked, in effect. Part of the role of the customer compliance manager is to make sure that we are very familiar with the person or company's tax affairs and the nature of the risks they pose, and to foster a co-operative relationship with them so that we can deal with their tax affairs as quickly as possible. Often we know about risks that are approaching before they crystallise, and we start engaging with them straight away.

Yes, part of the aim of having a customer compliance manager is that tax affairs are dealt with as quickly as possible. If you look back at 2006, when we reviewed large business taxation and introduced this method of dealing with compliance, one of the key issues was the extreme length of time it took to resolve disputes and the fact that a lot of fiscal risk was backed up in the tax system, so that was one of the aims of that approach.

**Chair:** Thank you. We have a final question from Dan Carden MP on this subject.

Q33 **Dan Carden:** There is also the tax disputes resolution board, and cases would be sent there if they were deemed to be sensitive. What would make a case sensitive?

***Jim Harra:*** It is all set out in our published code of governance, and the tax disputes resolution board is one level of governance below the tax assurance commissioner. Indeed, all cases that go to the tax assurance commissioner would normally go through that board on the way, and the board would advise the tax assurance commissioner what they think the right outcome should be.

Broadly speaking, we use monetary limits to determine which cases go through, but we can make exceptions from those monetary limits. We can take a case that falls below the monetary limit if we think there are sensitive issues in that case that need to be handled. That is done on a case-by-case basis and, in my experience, it is fairly unusual, but it is there in the code of governance if we need to use it.

Q34 **Dan Carden:** Would the individual's public profile, or a dispute with a Government Minister, lead to that case being deemed sensitive?

***Jim Harra:*** In my experience, the fact that someone has a public profile would not make it sensitive from a governance point of view. It is more if the nature of the dispute is something that has wider ramifications, for example, or if there is some particular issue that has arisen in the handling of the case that means the commissioners ought to be aware— again, if there is some sort of ramification. It is more that we would look at it as sensitive from the tax system's point of view, rather than, "This is a highprofile person."

**Chair:** Thank you. We appreciate that you cannot talk about an individual's tax affairs, so we will leave that there for now, but thank you for putting those points on the record and for answering our questions.

We now move on to the main issue today for our hearing, which is managing tax compliance after the pandemic.

Q35 **Anne Marie Morris:** Mr Harra, clearly the pandemic was a difficult time for everybody. It was difficult for the taxpayer and inevitably posed challenges for HMRC. As a consequence, taxpayer behaviour inevitably changed and you, because of the impact that the pandemic was having on you, had to change the way you operated too. Do you think that the changes you made—those operational changes—worked, in hindsight?

***Jim Harra:*** Two key things changed. First, our departmental priorities changed, because our top priority became managing the covid-19 outbreak and the actions that we needed to take. When it came to how we deployed resources, that basically trumped other priorities. The other thing is that customers themselves and their agents often had difficulty engaging with us because they were not in their premises, and their workers who dealt with their tax affairs or got the information for us were not available to do that. So we had to, initially at any rate, look at pausing some of our activity if those people could not meet our needs and engage with us effectively, so those were the two key things that impacted.

But, by and large, we kept the tax system running through all of this, in particular, when it came to managing compliance. We made sure that in cases of fraud or promotion of tax avoidance, or in cases where there was time-critical action that had to be taken, we went ahead and did that. We preserved that way of working. I think inevitably, our compliance yield was impacted during that period because of the diversion of resources and the inability of taxpayers to deal with us, but also because the underlying tax receipts fell away, particularly in the first year of the pandemic—they just were not there.

In terms of customer behaviour, clearly we have seen a change in customer behaviour around payment. Some of that was led by policy, really, during the pandemic, but since then, we have continued to see a much higher level of non-payment than was previously the case. Apart from that, Penny and Alison are closer to it, but I am not sure we would say that we have seen evidence of other changes in customer behaviour.

Q36 **Anne Marie Morris:** I am interested when you say that there is now, post pandemic, an increasing trend for non-payment. Did I hear you right?

***Jim Harra:*** Yes—I mean, I used "post pandemic" in the time sense, rather than in the cause sense. People might argue that we are not post pandemic, but we are now in a situation where we have some serious economic challenges and there is a very high level of indebtedness by small businesses.

We can see that the level of non-payment, particularly by small businesses, is currently running at a much higher rate than we saw before the current economic problems and before the pandemic, and there is evidence that that is down to the distress that those small businesses are experiencing, rather than some attitudinal change in their approach to tax compliance. For example, we have not seen a significant downturn in customers filing their returns on time, but many more of them, having filed a return saying "I owe you this", are then unable to pay it or pay it all.

Q37 **Anne Marie Morris:** One of the things that you did during the pandemic was to effectively have a "let's be nice to the taxpayer" approach, which I think most people appreciated, and the deadlines by which certain things had to happen got shifted and moved. Did that also make its way into how you communicated with the taxpayer, so you were generally more empathetic, and do you think that that approach—those delays that you allowed and the way you actually dealt with the taxpayer—paid off in the end, because long term, you think you are going to get the tax back?

***Jim Harra:*** We aim to be realistic about what we can expect taxpayers to do, and to be aware of the circumstances they are in and tailor our response to their circumstances. We felt during the pandemic, and indeed during the omicron outbreak this time last year, that there was evidence that many taxpayers would not be able to comply with some of their obligations—for example, the obligation to file last year by 31 January—and therefore we said that we would not penalise people whose return was submitted within a month after the deadline. That wasn't "we decided to be nice to people."

**Chair:** Perish the thought. *[Laughter.]* You want to kibosh that idea, I think.

***Jim Harra:*** That was because, going back to our previous conversation, we thought that despite taking reasonable care, many people would not be able to comply with that deadline, and therefore it was a sensible thing for us to do that.

What we have done, both in our compliance investigation work and in our debt work, is comb through all of our routine correspondence and make sure that the tone of that is the tone that we want, and we have listened to feedback from our customers about where they think we have got that tone wrong. Certainly in the case of debt, as I wrote to the Chair recently, we want to segment debtors according to both their propensity to pay and, more particularly, their ability to pay, and give them a different customer journey through their experience of dealing with our debt collection process, depending on that. So we do want to get more sophisticated about tailoring and about the tone that we take.

Q38 **Anne Marie Morris:** But is it your view that by allowing these relaxations of the timelines—I won't say "being nice", but maybe I can put it like that.

Have you actually looked at what has happened with the tax take? Do you think that that approach has actually resulted in more tax take, if you like, taken in the round, as opposed to what would have been the case if you had stuck to the rigid rules, which is that you would have landed up in all sorts of very difficult conversations with individual taxpayers, which would have taken up a lot more of your time and cost you more money?

***Jim Harra:*** The best evidence we have at the moment is as follows. We have published our first estimate of the tax gap in the first year of the pandemic, and it was not materially different than before, despite the measures that we took to give people leeway where we felt that the pandemic was having that impact on them. We have also seen a very high clearance rate of the debts that built up during the pandemic as a result of the policy measures that the Government put in place. For example, of all the VAT that was deferred, there is only £700 million left to collect. I know that is a very large sum of money, but proportionally it is very small.

I think that tells us that taxpayers who were grateful for the ability to defer that tax, by and large, if they can afford to repay it, they have done so. When we initially prompted them, we saw quite a high response to that prompt that "Yes, I can now afford to pay this back and I am going to." The vast majority of taxpayers want to be compliant and do not want to get into trouble with HMRC. Yes, they will take advantage—properly take advantage—of what leeway we give them, but when we say, "Time's up on that. We need you to comply," if they can, they will.

Q39 **Anne Marie Morris:** So what you are saying is that this didn't effectively lead to an approach whereby the taxpayer thought, "Hmm, I'm getting this leeway. Maybe I can therefore push it a bit further and push it a bit longer."

***Jim Harra:*** No, we have not seen that. What we did see in the use that was made of the ability to defer VAT and self-assessment payments was that there was some softness, in that once the deferral period was up and people had not paid, we prompted them and they then said, "Oh yes, I can afford to pay this." So for some people, it did take a prompt, but actually we got quite a good response to that prompt.

Q40 **Anne Marie Morris:** Going forward, and given what you have described, which is the challenges in very small businesses having done the right thing and put in their tax returns, they now are challenged in actually paying them. Are you going to approach that in the same way and say, "How do we work with the customer and change the deadlines or the approach to ensure, at the end of the day, we actually get the tax paid," rather than saying, "If it's not paid by then, we go into enforcement measures"?

***Jim Harra:*** Yes. I have written to the Committee, setting out what our approach to managing this debt is. We want to tailor the approach, depending on what we think the customer's ability to pay is. We have put in place automated time-to-pay arrangements, so if you need to pay your tax off in instalments, then within certain parameters you can go online and do that; you do not have to get an official at HMRC to say that that is fine. If you do not fall within those parameters, you can speak to an official and we will try to agree that with you. We are seeing that being used but not misused. Yes, we only want to take enforcement action in cases where we believe they can pay but they will not, or they are not engaging with us, or it is actually a hopeless case and we have to stem the losses to the public purse.

Q41 **Sarah Olney:** Can I quickly ask you about the outstanding tax debt? At Q1, it was £42 billion—this is for this tax year. I have recently had an answer to a parliamentary question I tabled, which showed that it was £47 billion at Q2. Have you got figures for Q3?

***Jim Harra:*** Not yet. Those will be published in due course. But you are right: the debt balance went up in that quarter. We are continuing to see new debt arise at much higher levels than we would have seen in the past, prior to this economic downturn and prior to the pandemic. While my debt management service are clearing debts at record productivity levels, that is not keeping up with the rate of the creation of debt, so I do not expect that debt balance to change materially for the remainder of this year. It is not going to come back down again. The non-payment is continuing. We can see the factors that are causing that, and we are confident that that is down to economic factors and largely the ability to pay. It applies across pretty much all the heads of duties—VAT, corporation tax. It is largely small businesses.

Q42 **Sarah Olney:** That's interesting. Thinking about compliance staff, during the pandemic they were moved away from compliance activities and on to other work. Can you tell us precisely what other work the compliance staff were moved on to?

***Penny Ciniewicz:*** Obviously at the start of the pandemic, we were putting our staff towards supporting the design and delivery of the covid schemes. It is a long time ago now, but it was a very swift piece of work with an awful lot of demand on us, so we tried to make sure that compliance was designed into the schemes. When the schemes opened, we had to put staff on to do things like rapid risking of the applications. We had a 72-hour window, for instance, for CJRS, to risk and make sure—

**Chair:** We should probably all know, but that is the coronavirus job retention scheme.

***Penny Ciniewicz:*** Yes. We love our acronyms in HMRC. On the coronavirus job retention scheme, for instance, we had a 72-hour window in which we put to work all our analytics and data capability to risk the applications and weed out ones that were not compliant or that we thought were unsafe. We also put our colleagues on to supporting customers who were applying for those schemes and wanted additional information. People had a short window of time in which to understand if they were eligible, so we put quite a lot of staff on customer support for that period.

Over the remainder of that first year, once we were into the summer, we were starting to think about deploying compliance staff to address fraud and error—highlighting particularly risky claims and contacting customers—and then starting our activity that began with things like what we call "one to many". We were nudging people, where we thought there were things that were problematic, through the use of our data, and then opening one-toone enquiries.

Slightly later than that, we received investment for the taxpayer protection taskforce, which formalised that work into a set programme of work. The opportunity cost of that was paid for through additional resources to recruit new staff. That is broadly what we were putting people to work on through that period.

Q43 **Sarah Olney:** Have they all now been reallocated back to compliance work? Are you back up to where you were?

***Penny Ciniewicz:*** Our taxpayer protection taskforce is still working as a ringfenced capability to deal with fraud and error in the covid schemes. The plan is that that will be gradually reintegrated back into our day-to-day compliance work from April through to September next year.

**Sarah Olney:** When you say next year, you mean the next financial year or—

***Penny Ciniewicz:*** Financial year—from April this year through to September '23. We will gradually integrate people back into the areas of the Department that they came from originally as those cases close. Some cases that are complex might be taken with them, so they can continue that work. From that point on we will continue to look at risk in the covid schemes, but alongside broader tax compliance work.

Q44 **Sarah Olney:** Given what Mr Harra has just said about the growing tax debt, are you looking to recruit more compliance staff to try to tackle the issue?

***Penny Ciniewicz:*** The debt staff and compliance staff are slightly separate. Our debt management services is not part of my customer compliance group. My compliance group has recruited 4,800 people in the last couple of years. A proportion of those were as the result of investment at spending reviews to help maintain what we call the baseline for compliance yield—to keep the tax gap stable—and a proportion were to replace the experienced staff we had put on to the taxpayer protection taskforce. We had to deploy experienced staff because of the nature of the risks, so we recruited more people, who we will train—we are training them at the moment—and they will gradually, over time, recoup the opportunity cost of putting experienced staff on to covid scheme work.

Then there were other investments that led us to recruit those people. Overall, about 4,800 people came into the Department to work on compliance over the past couple of years.

***Jim Harra:*** We have also added an additional 500 staff to the debt management service, with funds given to us by Treasury.

Q45 **Sarah Olney:** Just quickly, my understanding is that for the ones who were still working on compliance during the pandemic, compliance yield per person fell. Why did that happen, and will it recover?

***Penny Ciniewicz:*** It was for a range of factors. We think about compliance yield and the tax gap as a percentage of the overall receipts. One factor, obviously, is the economy. In a year when tax receipts are lower, proportionately there is probably less to collect through compliance yield. That gets a bit complicated, because compliance investigations tend to lag receipts—obviously, we have a liability that may be due this year, but we might not open a compliance investigation into that this year; it might be next year or the year after, depending on the timing of people's tax returns. There was definitely a factor to do with redeploying staff at the peak of that year—

Q46 **Sarah Olney:** Was that because of the experienced staff being redeployed? Presumably, the less experienced staff were left doing compliance. Was that a factor in the yield?

***Penny Ciniewicz:*** It wasn't a question of choosing between the less experienced and the more experienced within the staff. Essentially, what we could not do was recruit new people to do coronavirus job retention scheme or self-employed income support scheme compliance work. We had to take people off tax compliance work and put them on to that work.

At points— the highest point was for one month, May, when we had most of the schemes up and running for the first time—we were up to 4,400 staff supporting people in varying ways.

**Sarah Olney:** That was May 2020.

***Penny Ciniewicz:*** May 2020. By November that year, it was down to 700, so it fluctuated a lot during the year, depending on what point in the year we are talking about.

**Chair:** It is worth saying for the record that, at the time, we said hats off to the HMRC staff who turned everything to getting people to stay in jobs, but being the Public Accounts Committee, we are now picking up some of the problems. We do recognise that a lot of hard work went in.

***Penny Ciniewicz:*** Within that, as Jim described, there were constraints on the activity that was possible—physical constraints on what was possible, and choices that we made about how we handled people during the pandemic and the impact of the pandemic on them. For example, we tended not to open new enquiries into customers in areas of the economy when we knew they would be focused primarily on fighting the pandemic. With healthcare, for example, we absolutely decided that we would not open new enquiries during the pandemic, or at its peak.

There were choices about what we could and could not do that were customer focused. As we talked about, we also gave people more time. We gave people a choice. Some people were perfectly able to continue and, indeed, wanted to settle their tax affairs; others, absolutely, were distracted by the pandemic or, for example, were unable to access records or get the advice they needed at the point they needed it. We definitely saw a reduction in activity during the peak of the pandemic years.

Our focus is now on making sure that we continue to increase our focus on tax compliance, and that we have the support in place for those new trainees, who will be such an important part of building the compliance response going forwards. We will continue to police the tax system and to focus on the highest risks in the most effective way.

Q47 **Mr Djanogly:** Good morning. Let me move on to prosecutions. Paragraph 2.24 of the NAO Report says, "The total number of compliance cases resulting in criminal prosecutions—not only those for serious and complex tax crime—decreased markedly in the pandemic, when many courts were unable to operate." If we go to figure 11, we see that in 2016-17, there were 887 prosecutions, but in the pandemic, in 2020-21, the number went down to 163. My first question is: how concerned are you that these very significant reductions in prosecutions might affect the deterrent effect of your work?

***Penny Ciniewicz:*** Clearly, we are concerned to see serious tax crimes addressed in the most effective way. Inevitably, with the pandemic, court closures impacted the number of prosecutions that could be undertaken. There is still a lag effect from that as well.

I think, however, that we are not seriously concerned about the deterrent effect, because it is in the nature of our prosecutions—well, they are not our prosecutions; they are the Crown Prosecution Service's prosecutions. But we see the criminal investigations that we do being effective. We see highprofile cases being successfully brought. We think that there is a deterrent effect from the publicity that surrounds those, and we cover a broad range of serious offences in tackling tax crimes.

However, the other thing that we know is that we have a very broad range of highly effective civil powers, and the majority of our work is done using them. Not only do we exercise powers under the revenue and customs act, but we use a broad range of law enforcement tools—things like proceeds of crime orders or asset-freezing orders—and a broad range of things that we believe really help us to control those risks.

Q48 **Mr Djanogly:** Out of interest, when we use the word "prosecution", are you talking about serving the papers for prosecution or about someone having been convicted or not convicted? In other words, are we talking about the court process having finished?

***Penny Ciniewicz:*** The court process.

Q49 **Mr Djanogly:** The court process having finished. So actually, when we look at figure 11 and see that there were only 163 prosecutions, you could have issued papers for thousands.

***Penny Ciniewicz:*** We don't issue the papers; that is the Crown Prosecution Service. We put forward cases to the Crown Prosecution Service for consideration for prosecution. That is what we call a charging decision. We put forward cases for consideration—

Q50 **Mr Djanogly:** I think that is quite an important point, because the implication of this is that your prosecution actions have collapsed, but that is not necessarily the case.

***Penny Ciniewicz:*** Our investigation work continues. It is important to note that this chart probably also shows an underlying trend, which is that we really want to make sure that we reserve our criminal investigations for very particular purposes—for particularly serious tax evasion. They are for areas of tax evasion where we cannot use civil powers to get to the truth, so we will use criminal powers in that circumstance, or where we think that it is a particularly high-profile case that would have a demonstrable deterrent effect.

Q51 **Mr Djanogly:** If all the courts have been clogged up, as they have, and there is a backlog, do you run what you just said—the civil with the criminal— concurrently? In other words, if you wanted to clear the backlog, could you basically settle and then pull the prosecution?

***Penny Ciniewicz:*** I am not sure that we would think about it in those terms. We try to choose the right method to tackle the right problem, and we certainly want to keep a focus on developing those criminal investigations in the most serious cases, because they are an important way of controlling tax risk. We certainly can use civil powers and, on occasion sometimes, where a prosecution might not succeed or we might not get a positive charging decision from the Crown Prosecution Service, we will then, very probably, turn to our civil powers and see what else we could do.

Q52 **Mr Djanogly:** That being the case, even if you have issued papers, the backlog in the courts is still very relevant because, as I think you just said, most of those will be seen through.

***Penny Ciniewicz:*** It is relevant, yes.

Q53 **Mr Djanogly:** That information is not contained in this table, so can you give us some idea of how active you currently are in terms of prosecuting and what the backlog is?

***Penny Ciniewicz:*** We are continuing to investigate and prepare criminal cases. However, the trend is to do fewer high-volume prosecutions, and more high-profile and complex prosecutions. This table definitely shows a pandemic impact, but it is certainly the case that we would see our routine work, if you like, at a lower level than some of this historic work. I don't think we will go back to the level of 2016-17 or 2017-18 in terms of prosecutions, because the volume of those was driven by high-volume, less complex work, whereas we think these powers are best used to tackle the most serious, complex and difficult cases. I would expect our numbers of prosecutions to grow, but not to go back to those levels.

Q54 **Mr Djanogly:** Even with the backlog?

***Penny Ciniewicz:*** Yes.

Q55 **Sarah Olney:** When you are preparing charges and submitting them—to the extent that that work is still going on, regardless of whether they come to court or become prosecutions—do you think that still has a deterrent effect, or is it really important to increase and maintain the level of prosecutions for that deterrent effect to work?

***Penny Ciniewicz:*** The deterrent effect of a visible conviction for a particular crime is important. It definitely helps to send a message that no one is beyond HMRC's reach and that we will tackle any form of serious wrongdoing in the most effective way. However, it is not the only tool in the kit bag, as I have described. We use a whole range of powers, including our civil powers, which allow us to charge very serious penalties for the most egregious, deliberate non compliance.

So yes, we value those tools, and it is important to be able to bring criminal prosecutions. High-profile criminal cases increase trust in HMRC, but we don't by any means feel that is the only way in which we can tackle the majority of serious non compliance. The majority of serious non-compliance is tackled using that broader set of tools.

Q56 **Sarah Olney:** Overcharging is addressed in the Report. What are the circumstances under which overcharging comes to occur?

***Penny Ciniewicz:*** Alison, do you want to pick that one up?

***Alison Bexfield:*** First of all, it is worth saying that we don't intend to overcharge anyone—that is not our intention. We take it very seriously when we do find cases of overcharging. We look into the causes behind it and do sample testing, as the Report shows. We look into what has caused it, to check whether there are any systemic problems that need to be fixed or anything else we need to do.

Let me address the things that can cause overcharging, shown in the seven cases in the Report. In two of those, we had an administrative error in the closure procedure in the case, so we had not correctly levied the charge. Those were corrected and became proper charges to be collected, but until we had done the proper process they were not technically levied correctly. There were some where we had user error; people had inadvertently not followed the correct procedure. That was corrected and we retrained people—

**Chair:** User error in HMRC staff?

***Alison Bexfield:*** A case management error, yes. These issues are fairly rare. We had more errors in the sample where we had a yield calculation error that did not impact the customers.

Q57 **Sarah Olney:** Can you explain what a yield calculation error is?

***Alison Bexfield:*** Yes. Not all yield errors impact customers. There could be calculation error where we have levied the charge correctly on the customer but have not correctly calculated the apportionment of future revenue that we have saved the Exchequer coming in by changing the customer's behaviour into the future. That would be a calculation error on our part that affects the yield coming into the future benefit, but it does not affect the charge that we levied on the customer.

Q58 **Sarah Olney:** So it is not the cashflow as much, but more the accounting behind it.

***Alison Bexfield:*** Yes. That is why there is a difference in errors. There are more errors in terms of the yield being calculated over a number of years than there are on the customers. We do follow through on all those customer errors.

On the cases in the Report, there was an error of about £200 that we had to refund to a customer, and we corrected three of the cases before any payment or charging collection procedure had taken place, so they did not impact the customer directly in that sense. We caught and corrected them in time.

Q59 **Sarah Olney:** Do you have good oversight of when overcharging is happening? Are you keeping records of overcharging? Do you know when it is happening?

***Alison Bexfield:*** Yes. There are two ways we quality-assure our work. The first way is through line manager oversight of what case managers are doing. That is a really important process in our procedures. The idea is to prevent errors before we get to finalising and settling a case. Line managers supervise cases. Those that are larger or particularly risky get more scrutiny, and a higher level of scrutiny. We hope to pick up any training issues that we have with case managers before it gets to an overcharge.

We also have an assurance test that we do every year. We take a sample of cases right across all the different areas of activity to test the quality and professionalism of the casework we are doing. That is designed to drive continuous improvement in our processes. When we find errors, we look at what has caused them, and if we can, we will change the system or the underlying process to prevent that sort of error from happening again. Some of them we think are one-off errors. If there was a systemic error, we would look at it and the whole population that was affected.

Q60 **Sarah Olney:** Is the incidence of errors increasing or decreasing, compared with last year?

***Alison Bexfield:*** I think at the moment we are seeing that, overall, the quality of our casework is showing a slight improvement. When we look at the quality of the casework, not all the errors affect taxpayers. There are legal steps that we need to do, and processes that we just think are professional, such as contacting customers in a timely way. Then there are the really serious errors that lead to overcharging. Seven errors are too many, but we are taking every step we can to reduce that.

Q61 **Chair:** Thank you. You talked a bit about your approach to the sampling you do, and one thing the NAO highlight is that you are using something almost like an internal management tool to improve things, but there is an impact on yield and especially the longer-term predictions for yield. You tell us that you can’t extrapolate from your sampling the impact on yield. Can you explain why that is? Have you thought about a methodology that would allow you to do both things, or do you need a separate approach to look at the yield impact? The yield impact is pretty critical for the Exchequer to think about in all public sector funding planning, so it was a surprise to us that there was that gap. Can you explain a bit more, Ms Bexfield?

***Alison Bexfield:*** Yes. The way we calculate yield is to look at thousands of cases that are settled and accumulate them up into the total of the yield. We think the yield total is a really good management information proxy for us, in terms of how we are doing against maintaining the tax gap, and we think it is materially correct. The reason we cannot extrapolate the sample testing that we do is that we have selected the sample to cover the whole range of casework activity to make sure we are covering our different areas of work, regardless of size. We are looking at the quality of casework; it hasn't been designed as a financial audit tool for the yield number.

Having said that, we do look at the errors that come out, and at whether we think there is likely to be a material impact on the total yield that we report. As I said, we drill back into the yield errors on all the items that we find when we do our sample testing. We go back to the teams and ask them to correct the errors, and we look at why it has happened. If we find a systemic error, we go back and check that whole population. We had a particular example where a project had been incorrectly calculating yield. The sample testing found it, and we went back and corrected all that particular project to make sure the education of the caseworkers was correct, and that was sorted.

We do go back and correct, and we do look at the causes. We look at whether we think it was a one-off or not. In this case, the NAO has shown us how it would be possible to potentially choose our sample in a different way that could give us a higher degree of confidence in extrapolating. We will take that forward and look at it, but that was not how we designed the sample for this particular year, and that is why we could not do it. We would have had to take more items from a higher strata of yield values than we did, in order to extrapolate with greater certainty.

Q62 **Chair:** But what the NAO suggests is something that you are looking at. Is that going to be very resource intensive? I suppose we are the politicians who want to be in government to spend the money, so we want to know what is going to be coming in. In what timeframe could you introduce a change that would give a firmness to the figures on compliance yield going forward?

***Alison Bexfield:*** We plan our assurance programme every year. We will look at what we are planning in the 2023-24 year to see what changes we can make. Resources on assurance are always finite, as you say; it is a choice about how much we put into the assurance work that we do. We think there are ways we can look at the sample that draw on the NAO's recommendation. The higher value the items are, the smaller the population.

Q63 **Chair:** At the moment, you do not really know how much is overstated due to the errors. Is that fair to say?

***Alison Bexfield:*** We do not think you can extrapolate from our sample and say that, because of the number of errors found in this particular sample, you can extrapolate in a linear way. That is because we have taken the sample from different segments of the population, but it has not been a statistically correct sample.

Q64 **Chair:** That raises a number of concerns. One thing you touched on there is that you have the sampling that you do—you find these errors, and you go back and correct. Are you worried that there are errors in your yield figures, but also errors that are not picked up for individual taxpayers, as a result of the approach that you take? If you find one that you think is a class error, you go back and correct all those—you could miss some even then. But because of the way you sample only 80 cases—forgive me, I have forgotten the figures here. Was it 80 cases?

***Alison Bexfield:*** We sample 400.

Q65 **Chair:** Four hundred, of which 80 were problematic, yes. Are you sure you are catching everything?

***Penny Ciniewicz:*** It is important to say that the tax settlement assurance programme is only one aspect of our case assurance and governance. We have extensive case assurance and governance, and that process is, as Alison described, an additional, very small sample of our cases. It is designed to help our caseworkers through continuous improvement; it is not designed to be a piece of assurance for the measurement of yield.

We also have extensive processes to assure the measurement of yield, including our internal audit function, which looks at it year in, year out. We take that incredibly seriously. We do not think, at the moment, that there is material error in our measurement of compliance yield, but we absolutely do constantly want to look at it and see whether we think we can make improvements to it. We will certainly take the recommendation from the NAO and see what that might show us, but I want to emphasise that it is a single test among many other tests and assurance processes.

Q66 **Chair:** So you are testing compliance yield for error in the predictions.

***Penny Ciniewicz:*** We certainly look at the way we measure compliance yield in a robust way and have a lot of assurance processes around it.

**Chair:** I am going to ask Andy Morrison, the director at the National Audit Office who headed up the team doing this Report, to come in on this and help us all.

**Andy Morrison:** In paragraph 2.12, we say that there are 80 errors identified out of 400 cases, so that is an error rate of about one in five cases, which is a very high error rate. An error should really be a needle in the haystack, and if you are finding a lot of needles in that haystack, it is a sign that there is a bigger problem. If you are unable to make a robust extrapolation of the scale of the error, you are not in a position to say whether it is material. So there needs to be further testing—a wider range of testing—to substantiate whether that is correct.

***Alison Bexfield:*** Looking at where the errors fall is also important. For example, around 30% of our yield comes from large business, and our testing in the large business space does not have the degree of error rate that is quoted. That is why we are saying that we cannot extrapolate in that way. Our large business error rate is below 2%. Generally, our own assurance testing through the last few years on large business yield has consistently shown a very low error rate in terms of the yield calculation. When we pick the sample, we are trying to do some independent quality testing across a range of cases, including some of the much smaller cases in the ISBC sector. The error rate is higher there, so the NAO is quite correct on that.

Q67 **Chair:** Are you able to write to us with any information about the overcharges? It may need to be private—I guess there might be a sensitivity—but could you provide details of the number and value of overcharges in each category that you ran through there? It would give us an idea of where the challenges arise and what the patterns are.

***Alison Bexfield:*** Just to be clear, are you talking about the yield or overpayments?

Q68 **Chair:** The overpayments.

***Alison Bexfield:*** The seven cases?

Q69 **Chair:** Yes.

***Alison Bexfield:*** In those seven cases, which totalled £32 million, the vast majority of that related to a single case of £32 million.

Q70[1] **Mr Djanogly:** I was going to question that, because it looks like such a large number. Importantly, I think the follow-on question is if there was material damage as a result. Did someone, or a company, go bust?

***Alison Bexfield:*** That particular error was caused by a caseworker inadvertently raising a charge. We corrected it before it was attempted to be collected from the customer. That was an unusual one where, if we had attempted to collect it from the customer, they would have queried it with us, and we do not think that we would ever have collected it, for that reason. We did get to it before the customer was chased for it.

Q71 **Mr Djanogly:** Could you outline what redress people have in such a circumstance? Can they claim compensation if there is such a large issue?

***Jim Harra:*** First of all, on the general point, we are committed to ensuring that the overall yield figure we report is as accurate as we can possibly make it—subject to managing the amount of resource that we put on that, as we have discussed. We are also committed to learning from any overcharges that directly impact on a customer, as opposed to our measurement of yield impacts, to ensure that we minimise those. We

[1] Correction to evidence provided in correspondence – correspondence from Jim Harra

certainly do pay redress to customers who suffer a loss as a result of a mistake by HMRC, if that happens. In my experience, that is extremely rare in the compliance field, but we do have processes to do that. As Alison said, in this particular case we caught the impact before we had actually taken any action to collect the money from the customer.

***Alison Bexfield:*** I can also say—just as an example of how we follow through—that in that particular case we have gone back to that work area; they have looked at it and put in additional processes to prevent that from happening again. They have now put in some additional technical input to review any decision with tax over £1 million, and it now requires an independent senior case officer manager to review those. That is the type of action we take when we find those sorts of errors.

**Mr Djanogly:** Thank you.

Q72 **Chair:** Obviously, we have talked a bit about the debt and the pandemic, and others have raised that. What changes to yield do you expect to see as a result of increased debt since the pandemic, and by what percentage do you think you will see a drop in yield? Are you able to predict that?

***Penny Ciniewicz:*** I do not think we are able to predict the effects of the pandemic—

Q73 **Chair:** Mr Harra wrote a very clear letter on 22 December—thank you very much for that—and there are some very interesting things that you are doing on yield. That was only in December, and you have obviously been doing this a little bit, but is it not long enough yet for you to predict from that what the impact will be on yield?

***Jim Harra:*** You mean on debt recovery?

Q74 **Chair:** Yes.

***Jim Harra:*** I think it is too early. We believe that it is the right strategic approach. There are obviously a number of external factors impacting the growth of debt that are not in our control, so from our point of view it is about ensuring that we have taken the right action in relation to all the debts and that we have cleared them in the right way.

There is a separate issue when it comes to the measurement of our compliance yield. When we are measuring it, we must take account of, "Do we think that this is going to be paid?" We do currently discount that and, again, the National Audit Office has looked at the need for us to refresh our thinking on that discounting. That is a slightly different issue. I cannot forecast what the debt balance will be as a result of our measures, but we will monitor what impact they have.

Q75 **Chair:** Do you have any sort of working? The letter talks about things like piloting private sector credit reference data and using that. That was 22 December, which is only a month ago, and you were still assessing whether the improvement is of sufficient value to continue. But you will be assessing all these things, such as propensity to pay, and looking at different sectors. It is a very clear letter outlining some of the things that you are doing. When will you be able to tell us, or when will you know yourselves, which of the strands are worth pursuing and will actually increase yield?

***Jim Harra:*** First of all, on propensity to pay, we are satisfied that we have the data internally, because that is looking at the taxpayer's payment history. On ability to pay, that is where we think that credit reference agency data could be useful. We have already tested that, and we are satisfied that it adds value to us.

Q76 **Chair:** So are you able to extrapolate from that what percentage extra you will get back?

***Jim Harra:*** Yes, we are doing that in order to assess its value to us, because there will be a commercial cost, potentially, to obtain this data, and to store it, process it and everything else. We need to be satisfied that it is value for money. So we are assessing that for the purposes of making sure that we make a value-for-money decision on the procurement of the data.

Q77 **Chair:** When will you be able to tell us what impact these actions are having on yield?

***Jim Harra:*** I will take that away and come back to you on what we will be able to report when, both on the progress of implementation and what we are learning from it in terms of the effect it is having.

Q78 **Chair:** We had some interesting evidence from Mr Geoff Bantock, a former member of HMRC staff. He suggested that there are too many debt collectors and asked why we have three debt collection agencies— DWP,

HMRC and another one he mentioned. Do you share this information with other bits of the system—with DWP and so on? Some of what you are doing is quite interesting. Are they doing the same?

***Jim Harra:*** Yes, there is a Government debt collection profession.

**Chair:** Just what you want to do when you're at school.

***Jim Harra:*** We are obviously the big player in that, so we certainly share our learning. Similarly, we use debt collection agencies through a framework agreement in Government, which has recently been refreshed to make sure that we can make more effective use of it. That is something that we look at across Departments. The Cabinet Office co-ordinates that.

Q79 **Chair:** So one of the potential benefits of the pandemic is that different things have to be done in order to increase the yield. On overcharging, I recently had a case from a surgery, which I will refer to you separately. It is a good example of a very confusing set of letters to somebody who is basically employed but did a bit of extra work for agencies, including NHS staff banks and so on. They have had very confusing tax affairs since.

The letters that you sent have been very confusing. This is somebody who is definitely wanting to pay tax, but can't—even £100 a week is a lot of money. I pointed out that at £10 a week, which was the proposal from the individual, it would take many years to comply. Do you have a timeframe?

It seems that there is a very hard sell from your debt recovery people to get the money in quickly. On the one hand, we understand why that is. On the other hand, for a nurse who is working in a care home one day a week to top up their income and who, through no fault of their own, as far as I see, has got into a bit of a tax mess, the payment of £100 a month is just too expensive, but the lower rate is too slow for you.

How do you manage that sort of tension? These are small people. Here we talk a lot about the big taxpayers and the big four, but for our constituents it is very scary if they are told they owe £2,500 to HMRC. Incidentally, she also received a letter saying you owed her £15,000, so I am taking this up because there seems to be some confusion.

***Jim Harra:*** I will apologise in advance for that, but you will also get a formal apology from me in due course when you send me the case. What should happen when a person cannot afford to pay off their debt in one go is that, first, we have standard time to pay arrangements that they can avail themselves of. As I say, we have automated those and put them online so people can self-serve, provided they fall within the parameters. Those will have a fixed time limit within which people must pay back the debt.

If you are a self-assessment taxpayer, for example, for a debt of up to £30,000 you can spread it over 12 months and you can do that online. If you cannot fit within those parameters, you need to speak to a debt officer. We have no time limit in terms of when a time to pay arrangement must be completed; it is based on what the taxpayer can afford, and there is absolutely no point in us setting up an instalment arrangement that the taxpayer cannot afford, because they will default on it. In the case of our time to pay arrangements, we have historically had about a 90% success rate on completion of those. We are very proud of that, and we do not want to lose it.

One constraint is that it must pay down the debt over time. We cannot agree an arrangement that results in debt continuing to build up, because that is just not the best net return for us; we could have to take some more tough action where someone says, "I can't afford to pay my ongoing liabilities, never mind the debt", because we cannot allow that to run on.

But, certainly, they should not be being pushed into paying more than they can afford or be being told that there is a set period within which a debt must, as a matter of policy, be cleared.

Q80 **Chair:** Thank you; that is very helpful. Obviously, we pick up a lot of these cases at surgery.

I want to go back briefly to the issue around the compliance staff and productivity, because on the face of it, productivity has fallen from £1.3 million per staff member in the past to £1 million per staff member. Also, as you have said, you are trying to recruit. You have lost experience; some of that has gone back in, but you are getting new members of staff. Is it that, or is it some of the challenges that are being dealt with in the way that Mr Harra outlined in his letter of 22 December?

***Penny Ciniewicz:*** It is quite difficult to analyse. Because there are so many potential drivers in the experience of the pandemic and also what has happened in terms of the economy, for instance, as well as the whole question of the mix of experience of staff, it is difficult to point to one particular driver of that shift.

Certainly, we aspire to grow productivity constantly. For instance, for those staff who have joined us, their training takes 18 months, but we aim for them to be fully productive after four years—it takes quite a long time—so we would expect to see increases reflecting that in our productivity over the next few years. I have no doubt that lots of the constraints that were in place over the pandemic affected individual staff productivity in different ways, in the same way as they would both personally for people during the pandemic and in terms of the amount of work that could be done in the state of lockdown, which was challenging for everybody.

Q81 **Chair:** That brings me to the tax gap: it is likely to grow because of these challenges, isn't it? As you say, you've got staff still developing. Do you have an idea of the percentage range that you would expect the tax gap to grow, or am I being negative?

***Jim Harra:*** We do not forecast what we think the tax gap will be.

**Chair:** I'm tempting you to do that right here, right now, Mr Harra.

***Jim Harra:*** Obviously, it is affected by a number of external factors, because the economy is constantly changing and that affects the make-up of the tax gap. We do know that one element of the tax gap, which is the non-payment gap, is likely to grow, because we are seeing increased indebtedness and some of that will play out into losses when we remit or write off that tax in due course.

At the moment, that is the only piece of hard evidence we have of a part of the tax gap that will grow in that way. We can identify risks to the tax gap that we need to manage in our response—for example, in a cost of living crisis, you might expect people to take on a second job. As you get people who are kind of moonlighting, there is a higher propensity to be noncompliant there, so that is something we need to respond to, but we cannot forecast what the outcome of that will be.

Q82 **Chair:** So it is difficult to predict. If someone is moonlighting in the grey or black economy, that is hard for you to find, although I know you have ways of extrapolating that.

***Jim Harra:*** Yes. We see the risk constantly moving, and Penny's group's response to that risk has to constantly move, but we would not forecast that therefore, the tax gap is going to be x rather than y.

What we have is some historical experience of this, in particular following the financial crisis in 2008. If we look at what happened to the tax gap, the economic impact of that did not appear to have a material effect on ongoing behaviour in relation to tax compliance. It had a one-off effect on nonpayment, which was reflected in the tax gap at that time, but otherwise it did not appear to ingrain a new approach to tax compliance from taxpayers. Over recent years, the tax gap appears to have been fairly stable. The most recent year that we have reported on is 2020/21, and that was our first estimate and will need to be revised in due course. It is key that we stay on top of that.

Q83 **Chair:** You said "revised in due course"—you quickly skipped over that. It is bolder to say that it might well go up.

***Jim Harra:*** We don't just estimate the tax gap for a year and then move on. As we get more data about that tax year we go back and revise the taxgap estimate. For example, we get outputs from the random enquiry programmes that Penny's officers carry out for later years, and those will give us new information. We get new economic data from the ONS, which can affect the tax gap. We publish this annually, and each time we publish it we restate the previous years' tax gaps by reference to that new data. We will do that again this year.

I think in relation to 2020/21, there is probably a higher level of uncertainty in that tax gap than there would normally be because of the constraints on the data that we had at that time. For example, some of the ONS and random enquiry programme data that we would normally expect was not there. That is probably more prone to revision than would normally be the case, but we will see in due course.

In terms of managing the tax gap, because there is a big lag in terms of a measure, we do not rely on that. We have what we call the strategic picture of risk, which is quite a sophisticated way of identifying what we think the current risks are in the tax system. That is what we use to determine how we are deploying our resources, or what advice we are giving Ministers on what we think would need to be changed.

Q84 **Chair:** As an example, I went and visited a pub in my constituency; its energy bills have gone up eye wateringly, and its business rates and rent are all going up. That will affect the ability to pay. So are you looking at those sorts of things, right now, to try to assess non-payment?

***Jim Harra:*** The direct impact of that is, if that publican has a propensity to comply—

**Chair:** Absolutely he does—I should stress that.

***Jim Harra:*** They may nevertheless not be able to, because they will not be able to afford it. What we are seeing is taxpayers continuing to file and declare liabilities even where they cannot afford to pay them. That will feed out into the tax gap in some way.

Q85 **Anne Marie Morris:** On claiming back what was uncollected during the pandemic, in theory you have got 20 years, effectively. I think what you have said is that ought to be enough time to collect. But to achieve that, you are playing catch up, so you are actually going to have to collect more tax in that period, if you see what I mean? You need a higher tax yield— how are you going to make that happen?

***Jim Harra:*** I think that some of the lower compliance yield during those two years is as a result of there being less yield to be had. But some of it was because we were not working risks, we were not able to deploy all our techniques or taxpayers were not able to engage with us. It is the case that we have not lost our chance in relation to compliance risks that arose during that period.

As we discussed earlier, we have the ability to collect tax for back years, depending on the nature of the non-compliant behaviour by the taxpayer. Any risks that we did not work during those years are available for us to pick up and work, if they reach the priority level. If there are other more recent risks in terms of value to producing yield, or otherwise managing the tax gap, then that would trump them. But, yes, they are available; they are not lost.

We did take care during the pandemic that, where we were running up to a statutory deadline, for example, we protected ourselves by making the assessment or taking whatever compliance action needed to be taken—notwithstanding that we were otherwise pausing some of our activity.

Q86 **Anne Marie Morris:** Okay, but despite all that, you still have a challenge, in that if that yield went down, you are clawing that back as well as carrying on dealing with current issues in terms of yield. Surely that must mean either you need more staff, or you need to do something differently. I suspect people are all working jolly hard. You are not going to get twice as much work out of the same resource to help you get over this particular issue.

***Jim Harra:*** Potentially, but if you take a Mr Smith, who was running a business and was non-compliant in 2020-21, we didn't pick up his case because our staff were working on other things. He is still non-compliant in 2024-25. We pick up his case and we can go back into that year. It is still only one case to work; it is just we are going over a longer period of time.

In terms of how we look at yield, what we need to do over a period of time is to make sure that we are managing the tax gap and that our yield performance is sufficient, so it is preventing the tax gap from growing and also reducing it to the extent that we have been given additional resources or powers to reduce it.

You can't really determine whether we are doing that in a particular year. You have to look at it over a period of time, so yes, we need to restore our yield performance and I am confident, for example, that in the current financial year we will see an increase in compliance yield compared to the previous two years. Taking a year in isolation is not really telling you whether you are managing the tax gap; it is over a cycle, if you like.

Q87 **Anne Marie Morris:** But the gap we are talking about is more than the year the pandemic spread, which impacted your tax take and the economy for more than 12 months, so it is actually a bigger chunk than that. At the end of it, in any event, every individual taxpayer has a cutoff of 20 years. Albeit that is a collective of taxpayers and they are each going to be in a different place at the end of that 20 years, but none the less you have some hard stops, so there will be a need to try to work out how many of those you need to get sorted and how you are going to cope with the increased number, in terms of resources. I totally understand what you are saying, Mr Harra, about them being compliant this year but in three years' time, hey presto, it surfaces.

***Jim Harra:*** It is definitely very challenging for us. Whereas a few years ago, we were consistently exceeding the amount of compliance yield needed to maintain the tax gap, in this year and the coming years it is going to be very challenging for us to do that, for a whole variety of reasons. First, as you said, there is recovering the performance, but in addition the tax receipts are growing, the number of taxpayers in the economy is growing and the number of taxpayers in the more complex parts of the tax system are growing. All of that makes it more challenging for us to manage than it has been in fairly recent past.

Q88 **Anne Marie Morris:** There were record revenues in the second year of the pandemic. Are you confident of the catch-up? With compliance yield at a historic average of 5.2% of revenues— Effectively, during the pandemic up went the recorded revenues, so in theory you ought to get a compliance yield of above the historic average. Is that realistic?

***Jim Harra:*** I will hand over to Penny in a moment. Over time, yes, but there is a timing issue. When receipts go up in a particular year, the yield that we collect from our compliance settlements in that year will almost certainly relate to previous years, because we are working on tax returns that may be a couple of years old. That is a key reason why you didn't see a bounce back of compliance yields in the same way that we saw receipts go up. But yes, over time we will need to be able to do that.

Q89 **Anne Marie Morris:** Okay, I am going to ask you a question and I am not sure you are going to give me the answer.

**Chair:** So cynical.

***Jim Harra:*** We'll try.

**Anne Marie Morris:** What level of compliance could you commit to for the next three years?

***Jim Harra:*** I have written to the Committee already, in relation to this year, to say that we are trying to achieve £36 billion, which would pretty much be a record level. But that is what we set ourselves based on the Office for Budget Responsibility assessment of the amount of compliance yield that would be needed to sustain the tax gap at its historic level. That is very challenging for us to deliver. What we forecast, for management purposes, is a range that we think we can achieve. That target was right at the top end of that range, which is not usual for us. Usually, we have a bit of a buffer there. So it is quite challenging. We do forecast what range we think we can produce.

Q90 **Anne Marie Morris:** Have we gone to three years, or just the year in the letter?

***Penny Ciniewicz:*** I think that is fair. Our performance expectation is usually set with reference to the Office for Budget Responsibility's assessment of what it would take to maintain the tax gap, and this year, particularly, we are seeing that it is plausible but very stretching to achieve that. Over the next few years, we will see those additional compliance staff that I have described, who are now in the final months of their training, start to come into teams to deliver routine compliance work. I would expect their experience to start to grow and, therefore, the delivery to grow.

As I said right at the beginning, we did receive quite a significant injection of resources to help us keep the tax gap stable. Obviously, there are lots of factors now that we cannot necessarily predict the impact of in terms of what it will take to keep the tax gap stable. The impact of inflation, for instance, as Jim has said, and the impact of growth in receipts—those things flow through further down the line and even within a normal cycle of looking at our performance, without a pandemic, you will see years that are outliers.

In 2019-20—the year directly before the pandemic—we saw a very small number of very big cases, which added £4.7 billion in one year to our compliance yield. Those things both make comparisons difficult. They are also part of the landscape that helps us to maintain the tax gap, because we expect that there will sometimes be unusually large cases. It is a very difficult one to predict. We focus on ensuring that our people are trained and deployed to a really broad range of work and to the right risks, just try to keep our eye on maintaining the tax gap, and keep focused and work hard.

Q91 **Anne Marie Morris:** Okay, so I am not going to get the answer, as I predicted, as to where we are going to be in 3 years' time.

Mr Harra, you clearly recognise some of the issues that are going to give problems to the taxpayer, and therefore to you in terms of collection—whether it is inflation, cost of living or energy prices. Have you actually tried to analyse this to look at the percentage risk and over what period that risk will remain, based on the economic forecast from the OBR, so that you can get something that is a bit more scientific in terms of the impact over a period of time due to these three or four identified factors on the tax take, which therefore gives you something that is a bit more scientific to predict where you are going to be?

***Jim Harra:*** When it comes to the fiscal forecasting, it is really the Office for Budget Responsibility that does that. We supply it with lots of data and operate models for it, but it is its responsibility to do that. It does make certain assumptions on that. From our point of view, we—I do not know whether "scientifically" is the right term—do very methodically look at the picture of risk. What are the risks that we think are going to drive the tax gap? We quantify them.

Q92 **Anne Marie Morris:** What are they right now, and how are they quantified?

***Penny Ciniewicz:*** I do not have that at the moment. A lot of that is operational information that we use, and we tend not to disclose the contents of the strategic picture of risk, because part of it is using data and information, and we would prefer not to help those who would rather not pay their tax by telling them exactly where we think they might be focused.

However, we use that information to rebalance our prioritisation of resources, and to plan to deliver our investigative capacity. As Jim said, it also informs advice to Ministers on where they might need to close loopholes. It forms the backbone of a whole range of our activities.

***Jim Harra:*** To reassure you, although we have to keep details of the strategic picture of risk confidential because it is operationally sensitive, we do share it with the National Audit Office and the Treasury. There is scrutiny of it, and our use of it, but we do not normally disclose it.

Q93 **Chair:** Do you have a target percentage for yield and therefore the tax gap? It was 5.2% of revenues that you had as a compliance yield, wasn't it? Going forward, are you trying to increase that? I know when we have pushed you on this over the years, you tell us you are world-beating, so you can cut that bit!

***Jim Harra:*** So you do not want me to repeat that; okay. We have a tax gap that is about 5.1% of the tax take. It has been relatively stable for a number—

Q94 Even though in the pandemic—

***Jim Harra:*** Based on early assessment, it has been relatively stable for a number of years. It will be interesting to see what happens to it during what has been quite a period of volatility. The methodology we use is: what would be needed to sustain that and prevent it from growing, because that then affects the OBR's fiscal forecast? And what further things could you do to reduce it, whether that be providing additional resources for our compliance team, or making changes to policy to close loopholes or whatever? We can then score this as additional yield. That is on the scorecard at each fiscal event. In advance of each fiscal event, we advise Ministers on what we need to do to sustain the tax gap, and what the scope is for bringing it down.

Q95 **Chair:** Could you give us a percentage target or range?

***Jim Harra:*** No, I cannot. I can say that we want to keep the 5.1%, and then anything on top of that depends on what action Ministers choose to take, either around our resourcing or around policy measures. There is transparency around it at each fiscal event, because the amount is scored and certified by the OBR.

Q96 **Chair:** Are you alarmed at all, Ms Ciniewicz? We have various deadlines—Ms Morris has touched on some of them—relating to how far you can go back and look at things. Actually, it might be worth laying that out, just so that we can set this in context. You are going to hit some of those: the fouryear deadline and then—is it seven years for most tax affairs? And then it is—well, you tell me, because you are more experienced here.

***Penny Ciniewicz:*** We are not alarmed, because as Jim said, we took care during the pandemic years to make sure that where we were coming up against deadlines that would prevent us from, say, opening an enquiry, we acted to open the enquiry, although we might not have been able or willing to pursue it, in order to give a taxpayer a period in which to cope with particular pressures.

Q97 **Chair:** So you can have an enquiry left open. Is there a time limit for when you must close an enquiry?

***Penny Ciniewicz:*** There is certainly an expectation that you will progress it in a timely way, and a taxpayer can apply to have an enquiry closed if they believe that it has run on too long, or that we are not acting in a timely way. We think that that has largely protected the position in cases that we know about. Obviously, we constantly look at different aspects of the tax system, and therefore it is inevitably true that sometimes we will look into a particular aspect of tax—

Q98 **Chair:** Can you give us an idea, in numbers or percentages, of the number of enquiries you have opened as a marker? Compared with a normal year, have you opened more—

***Penny Ciniewicz:*** I am not sure we would be able to collect that information. Certainly the number of enquiries—

Q99 You could look at it, presumably, in terms of the longer length of time that you are taking to deal with them. Are there proxies that you could use?

***Penny Ciniewicz:*** There might be, although it might be a bit speculative.

Q100 **Chair:** It is just that it has an impact on the taxpayer, who is sitting there worrying. Of course, they can apply to expedite the case.

***Penny Ciniewicz:*** Of course, and we certainly look at the timeliness of our enquiries. We certainly have data on the enquiries that we paused during the pandemic, and the very vast majority of those are completed, although inevitably some complex enquiries take longer to conclude.

Q101 **Chair:** My concern is that you open one on a fairly simple matter, and it is just sat there open, waiting, because you do not have the resources to deal with it, and you just wanted to guard your position. You are telling me that you are getting through those simple ones quickly.

***Jim Harra:*** In the cases that we pause, we do have data. I think there are only about six or seven that are still paused.

***Penny Ciniewicz:*** No, that's not true. Four are paused, actually.

***Jim Harra:*** Four—there you go. We do not routinely open enquiries and then not work them. During the pandemic, we did protect ourselves by opening enquiries, but paused enquiries are now all actively being managed, apart from four. In terms of how we safeguard taxpayers in relation to that, first, we have a commitment that we will periodically communicate with everyone who is under enquiry and tell them the status of their enquiry. Furthermore, we will explain to people who are under enquiry that they have a right to apply for their enquiry to be closed if they think we have had long enough to investigate.

Q102 **Chair:** We have all been visiting businesses in our constituencies. For some, the worry about possibly owing money is that they are facing energy price rises, rent hikes and so on. They are very worried. They want to comply, but if there is an enquiry opened that is not being dealt with, there might be another debt that they might have—or there might not. There might be another payment that they are expected to make.

***Jim Harra:*** We know it is stressful to be under investigation and to be uncertain about your tax affairs, and stressful to have a large tax bill that you do not know how you will pay. That is one of the reasons why we are trying to give people who are under investigation more certainty about the state of play and what they can do about it. In the case of debts, we really encourage people to engage with us early, and not put their heads in the sand. The propensity to pay part of our debt strategy is quite important in that regard. If we have a customer who has shown a high propensity to pay in the past—they have a good payment record—and now are in debt, our strategy will be to contact them and ask whether they need time to pay their debt, rather than take enforcement action. However, where people have had a historical propensity not to pay—

You have laid it out very clearly in the letter, which was interesting and heartening to read.

Q103 **Anne Marie Morris:** Let's go back to those happy taxpayers, whom we all love, who actually want to pay their tax. As you said, Mr Harra, they are the vast majority. Most people want to do the right thing. They want to pay their tax, not least because they are terrified of what the consequences might be for all sorts of other issues—credit ratings and so on. Earlier, you set out what you had done to try to help that. It is a mixture of what you allow them to do through an automated system on the internet, and what you enable people to do on the telephone.

However, I repeatedly hear from constituents that even if you do not need to defer, can pay and have the money, just trying to get through is very difficult, because some of the online systems fall down. I know that from personal experience. I tried to set up an account for capital gains tax. Could I do it? No. After three attempts, I got a note back saying that there was a technical fault, and to please report it, so I reported it. I sent an email, and got an email back saying, "We can't fix this; go back to the oldfashioned method of picking up the phone or writing a letter." I was a bit frustrated—here I am; I want to pay my tax.

**Chair:** And the deadline is looming.

**Anne Marie Morris:** Exactly. So I then get on the phone. I tried three times. On the third occasion, I waited for an hour. Finally, a lovely lady picked up the phone. She was very apologetic and said, "It's awful you have had to wait such a long time." We have so many people who want to pay their taxes; they want to do the right thing, but they can't. Then she said, "Oh, but I can't access your record"—you will understand why—"but the department you need to talk to is closed." Then we go through, "We will try to ring you back in three days."

At the end of the day, that is just one example. My question to you is, given that I am sure I am not atypical—certainly I recognise what happened to me in what I hear from my constituents—is there recognition in the Revenue that there is a bit of a missed opportunity? There are all these people who want to pay their tax, but—my goodness!—it is jolly hard to do that. Are you looking at new ways of enabling the communication? It seems to me that it is a bit clunky. There are some things you can do, but if it works, it works; if it doesn't, it doesn't. The time it takes is just extraordinary.

**Chair:** Long question.

***Jim Harra:*** First, apologies for your experience. I very much hope it is atypical. We have digital services that have very high satisfaction levels, and they include the ability to pay online. The vast, vast majority of people should not have to ring us to pay their tax; they should be able to do that on our mobile app or on our online account. We have recently introduced, using new banking platforms, the ability to pay your tax through an automatic link to your mobile banking, and we have had very good feedback on that.

We have a payment transformation programme that is rolling out new methods of payment. That will make it easier for people to pay and, importantly, make it easier for us to allocate that payment against the right liability. If we don't succeed in doing that, we will think that someone who has paid is in debt, because we won't have allocated it in the way they need. We have both a good set of services and an improving set of services for the vast majority of people. I have been tracking the payment profiles running up to 31 January, and we can see that many millions of people are succeeding in doing that.

When it comes to phoning us, we are not able to handle all the calls that we receive within the times set out in our service standards, particularly at this time of year. I am confident that in the run-up to the 31 January peak, despite the very high volumes, everyone who needs to talk to us can get through, but they may have to wait a considerable time, and on occasion they may have to call back. We aim to deflect as many callers who can do things online as possible to the online service, so that we have the resources to speak to the people who genuinely say, "Listen, I've had this message from the online service saying it will not work. I need to speak to a person to resolve that." That is our strategy.

Until very recently, our approach for everyone who rings us was that if they want to speak to an adviser, they can. They join the queue, and we get to them as fast as we can. I don't really think that is sustainable for us, given the volume of calls. We have to get to a position where we are able to deflect people into the best possible channel for them and for us. That is what we are working through as we speak.

If we look at the current peak, we are in the last week of the Self Assessment filing period, so this is our busiest time. Our calls to the Self Assessment helpline every day are about a third higher than they would normally be. Although we have redeployed an extra 850 people on to that helpline, it is not enough to give all those callers the service that I would like to give them.

Q104 **Anne Marie Morris:** A couple of questions emerge from that. First, is there a way that you can quantify it? It is almost: can you know what you don't know? Do you know how many dissatisfied people there are? Do you record how many people hang up, so you have some sense that, despite all these systems, there is this quantity of unsatisfied customers who are struggling to get through to you one way or another, but who find that the phone doesn't get picked up, the call times out, or the IT system just won't let them get through?

***Jim Harra:*** We have a lot of analytics about the experience that people are getting, both on the phone and online. We have exit surveys that ask what the experience feels like, and we can do quantitative analysis. For example, on our digital services, satisfaction levels are running at around

80%. People are saying, "Yes, I am satisfied with that experience." I think about 118,000 people used the digital assistant in the last two months for self-assessment.

It has successfully automatically answered about half those enquiries, and the other half have gone through to a web chat with an adviser, where they have had a good level of service—better than we are offering on the phone. We have a lot of analytical data. We believe that about 65% of calls to the self-assessment helpline in the last two months could have been dealt with by the online services, if we could have successfully deflected people to those services.

Q105 **Anne Marie Morris:** Okay, but you still haven't dealt with those people who don't fill in your satisfaction survey. If you are an unhappy punter, you aren't going to be filling in a survey. You are not going to waste your time answering, "Am I more or less satisfied?" Satisfaction surveys have a place—they are very important—but they do not tell you about the people who had such a bad experience that they could not even be bothered to fill in the form.

Lastly, is there a way of tracking things before you get to, "Here's a form to fill in," or "Will you reply to a questionnaire in a call back?", which I think is more like what you do? Then, you could actually record, when you are not able to engage with an individual through a satisfaction survey or a communication, lost calls that never got answered, and people who got chucked out on the internet and never got any further.

***Jim Harra:*** Yes, we have all of those analytics. If I can give you an example on call handling, this month, we have had about 555,000 calls to the selfassessment helpline. We have played "busy" messages to about 4,000 of those calls, which means callers are told, "We cannot get to your call; please call back." The rest are able to get through to an adviser, if that is what they need to do, but with a wait time that is running, I think, at about 23 minutes at the moment. All those analytics give me confidence, in the run-up to the self-assessment deadline, that while I am not giving customers the rapid experience that I would like to give them, they are able to get through if they need to, and can get their enquiry answered.

**Anne Marie Morris:** Thank you.

Q106 **Chair:** I have to say that the little video explainers are very helpful, for me, anyway—for my very simple tax affairs, I should stress. I want to go back to the issue about resourcing. We have touched on it before, Ms Ciniewicz, but you might be aware that this Committee is quite a champion of having more people in HMRC, because we think that is good value for the taxpayer. If you could get more money from the Treasury for more staff, how long would it take to train them up? Have you done any assessments on the impact that would have on yield?

***Penny Ciniewicz:*** We regularly talk to the Treasury about performance, and, as part of that, about resourcing. Obviously, at fiscal events—at Budgets—we also receive spend-to-raise investment in additional resources. That conversation frequently flows between us, and, as I indicated, certainly in the last spending reviews, we have also received additional resources to help us maintain the tax gap. It is absolutely an ongoing conversation.

We know that there is a positive rate of return from investment in compliance resources. Obviously, the marginal rate of return drops as we work our way through our priorities—there are lower rates of return—but there is definitely a case for investment, and that is shown by the fact that the Treasury—

Q107 **Chair:** You have given a very diplomatic answer. However, imagine that, instead of me sitting here, it was the Chief Secretary to the Treasury or the head of public spending at the Treasury. If you were to pitch, tell us how many people you would need to make a material difference. We have seen your numbers drop and then go up. We get very frustrated by that. Then you have to bring on new people. You have to recruit them and train them, and, as you highlighted earlier, it takes a while to get their productivity up. What would your pitch be for the number of people you need?

***Penny Ciniewicz:*** I am not going to make a business case up here, if you don't mind.

**Chair:** I am pushing you, I know.

***Penny Ciniewicz:*** I am sure you would like me to.

Q108 **Chair:** Can you absorb them, as well? That is a practicality.

***Penny Ciniewicz:*** Absorbing new staff—trainees—is a challenge for us. We brought 4800 people into CCG, in pretty much one year was quite a challenge. It obviously has an impact on our productivity across the board, because we need to spend time recruiting people, and have people training and supporting them. That definitely costs us; long term, it pays back. My preference is certainly for a smoother profile of staff; quite how many depends on the impact that you want to achieve. We regularly recruit to replace people who retire or move on to other roles, and my preference is for fewer peaks.

Q109 **Chair:** I think you would have the Committee's support on that. What about attrition rate? How quickly are you losing people?

***Penny Ciniewicz:*** Our attrition rate is pretty steady. We do not see a particularly high rate of attrition. I cannot remember it off the top of my head, but it is not something that gives us concern—

Q110 **Chair:** Single figures?

***Penny Ciniewicz:*** Yes, definitely. I think it is a healthy rate of attrition, in that people do want to move and do different things, but it is not one that gives us concern.

Q111 **Chair:** Who is wanting to apply for this work? Are you doing graduate recruitment? What level of—

***Penny Ciniewicz:*** We get a really broad range of people. It is fascinating to talk to our compliance trainees. Some of them come very experienced; they are from many different walks of life. Then, as you say, we have a very good graduate training programme, and we have people coming out of university, not necessarily into the graduate programme, but into our compliance officer basic training as well. People bring in skills from lots of different backgrounds, and bring lots of life experience. There are also people fresh out of education; it is a great combination.

Q112 **Chair:** The last one from me is a bit off-beam. It is about VAT. A Member of the House of Lords, Lord Harris, has raised with me a concern about delays with VAT numbers. An organisation that he chairs said that it was three months before it could get a VAT number. Is there any particular issue around VAT numbers being issued, or is that a bad one-off?

***Jim Harra:*** The VAT system is a target for criminal attacks because repayments are a big feature in the VAT system. The first place that they manifest is when people are trying to register for VAT, so managing who gets on the register is a key part of our anti-fraud work. We saw a spike in VAT registration applications at the beginning of this financial year, which indicated that there was a particular criminal attack starting in which people were trying to get registered. That has sort of continued throughout the year, but there was a particular spike at the beginning, which meant that we had to put additional checks in on registration. Despite that, about 76% of the VAT registration applications this year were dealt with online and processed within seven days. For the 24% that we did not process online, we have a service standard of about 40 working days for dealing with them. The majority of them were dealt with within that service standard, but there were a number that took significantly longer, usually because they were flagged up as suspect and needed to be looked at.

Q113 **Chair:** The National Preparedness Commission was probably not flagged up as suspect, but maybe I will get Lord Harris to raise the matter with you directly. It meant that they lost out seriously on grants, opportunities and loans.

***Jim Harra:*** It is a big challenge for us to manage the fraud risk effectively, while having a proportionate impact on legitimate people who can get caught up in this. We try to target those checks as effectively as we possibly can, but when we saw a particular criminal attack, there had to be a oneoff impact, I’m afraid.

**Chair:** Thank you for explaining that. I am sure Lord Harris will take that up with you, if he hasn’t already. Thank you very much indeed for your time, particularly in the first half hour—we know that you are treading a line, but we appreciate your candour. We will publish the transcript of this—thank you to our colleagues at *Hansard*—uncorrected in the next couple of days, and will produce a report on this probably some point before the Easter recess.