HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: HM Revenue & Customs 2019-20 Standard Report, HC 690

Monday 16 November 2020

Ordered by the House of Commons to be published on 16 November 2020.

Watch the meeting

Members present: Meg Hillier (Chair); Gareth Bacon; Shaun Bailey; Sir Geoffrey Clifton-Brown; Barry Gardiner; Dame Cheryl Gillan; Mr Richard Holden; Sarah Olney; James Wild.

Gareth Davies, Comptroller and Auditor General, Andy Morrison, Director, National Audit Office, and David Fairbrother, Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-108

Witnesses

I: Jim Harra, First Permanent Secretary and Chief Executive, HM Revenue & Customs, Justin Holliday, Chief Finance Officer, HMRC and Angela MacDonald, Director General, Customer Services, HMRC.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

HM Revenue & Customs 2019-20 Annual Report and Accounts (HC 891)

Examination of witnesses

Witnesses: Jim Harra, Justin Holliday and Angela MacDonald.

Q1 **Chair:** Welcome to the Public Accounts Committee on Monday 16 November 2020. We are here today to take our annual look at HMRC's Standard Report, its annual report and accounts. We have key officials here, whom I will introduce in a moment.

Obviously, HMRC has played a critical role in the early stages of lockdown. I repeat our thanks to HMRC staff from last Thursday for the efforts that went in to get the furlough scheme in particular off the ground. But beyond that wider response are a lot of day-to-day operations that HMRC undertakes, which we have been looking at for a number of years, so we want to probe what the future strategy is for HMRC, what the impact of covid has been on business as usual, and how the transformation plans are going—everything from the new office hubs to IT transformation.

I welcome our witnesses: Jim Harra is the first permanent secretary and chief executive of HMRC; Angela MacDonald the deputy chief executive and second permanent secretary; and Justin Holliday the chief finance officer and tax assurance commissioner at HMRC. Welcome to you all.

Before we get into the main session, we have a couple of quick points to raise. We touched briefly on this on Thursday, Mr Harra, but we are interested in the issue of firms that have taken large amounts of taxpayers' money in furlough but continued to pay dividends or even very high executive salaries. Will you explain whether there are any controls on future furlough money, and whether companies that accept it have to trim their dividend payments as a result?

Jim Harra: There are no formal controls. We set out in guidance, obviously, that we expect companies to claim these grants only if they need them, but there is no fixed rule about what they can and cannot do in terms of their normal arrangements for paying executive salaries or dividends.

Q2 **Chair:** Have you given any advice to Ministers about the optics of this and, obviously, about the cost to the taxpayer of giving out large sums of money to businesses, which are then still making a lot of money? In particular, the supermarkets, which have had some press coverage, have not done badly out of covid, but have been able to take furlough money in certain parts of their sector if they so need.

Jim Harra: First, I would not expect supermarkets to be big users of the furlough scheme, although I appreciate that they can benefit from other state help during covid-19. We have looked at all these matters and I think it is quite difficult to have a blanket rule. Dividend payments often are paid out of retained profits rather than current profits and they are part of a regular flow of income to investors, which of course the Government has not put in any support for. But I do appreciate that the public want to see sufficiently tight controls around this, so that the money is going to people who genuinely need it. Obviously, the furlough payments do not benefit the companies themselves; they get passed through to the employees who are genuinely furloughed.

Q3 **Chair:** There is a lot here, and perhaps this is one issue that we will continue to need to raise with Ministers. Presumably, from your point of view, there is no technical reason why conditions could not be attached to any of the support schemes, but particularly furlough, where large numbers of employees in some companies are being paid not to work but their company is still paying out dividends because it is still doing okay and making money. There is nothing technically to prevent that from happening.

Jim Harra: It is possible to attach eligibility conditions. For example, you mentioned high executive salaries, and there are caps, obviously, on the amount that we will pay under furlough. If a highly paid executive, for example, is furloughed, they will not receive anything approaching their usual income. So it is possible to attach conditions, but it is quite difficult, I think, to define them in a way that traps what people would regard as undesirable without unintentionally also trapping something that is necessary.

Q4 **Chair:** Since we last saw you, on Thursday, have you had any indication that any more companies are likely to pay back their furlough money?

Jim Harra: That is an ongoing process. Some companies, a small number of companies, have voluntarily paid back money that they were entitled to but which they ultimately concluded they did not need. Obviously we encourage them to do that, and we have actually created an online facility for them to do that. What we are pursuing, of course, is money that people were not eligible to receive.

Chair: We want now to come back to the issue that we did talk about at some length on Thursday. Some other issues have arisen since, and I think all of us on this Committee and elsewhere are rather like a dog with a bone on the knotty issue of people who are freelance or self-employed and who have not had help under either of the main support schemes. I am going to ask Sarah Olney to kick us off on this.

Q5 **Sarah Olney:** Hello, Mr Harra. I want to ask particularly about contractors who may previously have been self-employed but, because of IR35 coming in, came on to the payroll. There are certain sectors that now insist on contractors coming on to the payroll to comply with IR35 requirements. I have had a few of these in my constituency. They had been going from payroll job to payroll job, but just on short-term contracts, and then they found themselves between contracts at that point in March where the cut-off date for the furlough scheme was and have therefore found themselves without any help. If they had been able to continue to be self-employed in the way they wanted to be, they might have had an opportunity to claim under the self-employment income support scheme, but as it is, they have found themselves without anything at all unless they have gone on to universal credit.

I just wondered: in the months since that first happened—obviously, we have had a new announcement about furlough in recent weeks—has HMRC not been able to come up with any way at all of helping that particular class of people, who after all were in that position because they were complying with the HMRC requirement around IR35?

Jim Harra: First, I would say that no one who is self-employed is caught by the IR35 rules. Those rules apply to people for whom the nature of their engagement is employment. But we did take a number of steps in the design of the furlough scheme to enable as many people as possible to stay within it. For example, if you were someone who worked on a series of short-term contracts and you had a contract in place when the furlough scheme started, your employer was able to extend that contract and furlough you, and we would pay you under the furlough scheme.

I appreciate that there will be people who had short-term contracts that expired between 28 February and 19 March who were not caught by that, but we did make the rules apply to as many people as we possibly could. We also extended them to apply to people who were on IR35 proper. Although they were not, strictly speaking, employees, they were on pay-as-you-earn and we incorporated them as well. But I do appreciate that there are some people for whom the nature of their engagements means that they would not have been on a payroll at the point when the furlough scheme took its cut of payroll for its purposes.

Q6 **Sarah Olney:** The point I was making was that they were on payrolls only because they were required to be by IR35 and they would otherwise—if they had had a choice—be self-employed. Are you saying that once that particular group of people had been identified, there was no way at all of making any provision for them?

Jim Harra: I repeat that for anyone who was self-employed, IR35 did not require them to go on to payroll. What IR35 does is to say that if the nature of your engagement is one of employment rather than self-employment, then you must pay employment taxes, either under IR35 or by being taken on to payroll.

I feel that we did everything we could in the design of the scheme to enable people on short-term contracts to benefit, for example by allowing those contracts to be extended and then the person put on furlough during the period of covid-19, even though in normal circumstances the contract would have come to an end.

Q7 **Sarah Olney:** I have a large number of these people in my constituency, because of certain sectors, for example, that employ contractors—live events, the media and so on. That is quite a big sector in my constituency and a lot of people who have been employed in that way have suffered greatly under covid, and are now really anxious about the fact that IR35 is still due to be implemented in the private sector in April 2021. Are there any plans to change that at all in the light of the impact on all of these sectors during covid?

Jim Harra: No, there are no plans to extend that further, and we are actively working with engagers to make sure that they are able to comply with that from April.

Q8 **Chair:** Can I come in on this issue? I know that we discussed this last week, but I wanted to highlight the case of a constituent of mine, whose case is similar to those Ms Olney was highlighting. He works in the creative industries on large productions, including "Rocketman" and "Les Misérables", as a boom operator. Unhappily for their household, his wife is a camera operator, so they are both in a difficult place.

However, because they are on short-term contracts repeatedly, a point I raised on Thursday—contract after contract, so PAYE job after PAYE job, but very short term—because of the cut-off dates, as he puts it, "I know people who do the exact same job as me in the same industry, who, with slightly different dates, have received over £19,000 each through furlough from March to October," and that is just down to the luck of having the right dates on your short-term contracts.

I repeat what I said on Thursday—these are people with strong tax records. You have got information about what they have paid. Is there no way you can devise a scheme that would make sure that people who have paid their tax fairly and always worked through the system get something back through the system, or through a new scheme especially designed to catch the people who have fallen through the gaps?

Jim Harra: I appreciate, as I have said before, that unfortunately we were not able to help everyone through the schemes that we have in place. In the case of the furlough scheme, it was designed to help people who were on a payroll as of 19 March and who were then furloughed by their employer, and therefore someone who was not on a payroll at that time would not have been able to benefit under the scheme. We did make that as flexible as we possibly could, for example by allowing short-term contracts to be extended and by allowing people who had been made redundant to be rehired and then furloughed, but there was a limit to how much we could do to bring people within the scheme who were simply not on the payroll at the cut-off date that was included in the design of this scheme.

Q9 **Chair:** But I repeat, Mr Harra, that these are people who have got tax records. In the case of this particular constituent that I have given you—and I could have given you many other personal testimonies—they have worked regularly, they have paid tax and, as Ms Olney said, sometimes they have been forced into a tax regime other than their optimal one, as they would see it, because of rules that HMRC has set. They have willingly, or certainly legally, gone ahead and done that.

You have their records, you know they have worked, you know they have paid tax, sometimes pretty consistently over some years, but because they don't quite meet these direct criteria, they get absolutely nothing. Of course, some of them will have saved up as well to cover their fallow periods, especially if it is seasonal work that they do, which then makes them fall foul of a claim for universal credit.

Have you thought of going back through their tax records and trying to find a way of matching what they paid over the last three years in tax and attaching some sort of algorithm or scheme so that they could get a proportion of the tax that they paid, in effect, as furlough money?

Jim Harra: I sympathise with people who found themselves not in employment on the date when the cut-off was taken for the scheme, and there are a number of reasons why someone may have been in those circumstances. They may simply have been between jobs, whether those were long-term or short-term contracts.

We were aware of that issue and we did what we could within the design of the scheme to enable as many people as possible to qualify, but there are no plans to do further work on new schemes for people who have not been able to benefit either from the furlough scheme or the self-employed income support scheme.

Q10 **Chair:** So there are no plans. Nowhere in HMRC is anyone working on the creative industries. Let's highlight the creative industries today. That is one area where there is a well proven and well-worn record of styles of working, so it is not new. It's not that people are just between jobs in the same way as if you had changed from one job to another. This is people whose whole livelihood is being between jobs and moving from one job to another because of the nature of the business. You are basically saying that there is no further policy work being done in HMRC to look at support for those people. Can you be categoric? A lot of our constituents are hoping that there will be light at the end of the tunnel, so it would be helpful if you could be clear about whether there is even a prospect of anyone doing any work on this.

Jim Harra: The Government have recognised the impact and have announced a number of grant schemes, but when it comes to income support schemes that HMRC administers, those are as announced, and the Government have not announced any plans to introduce further schemes in addition to the furlough scheme and the self-employment scheme.

Q11 **Chair:** To be clear before I pass to Dame Cheryl Gillan, you say the Government have no plans, but is there anywhere in HMRC where you are looking at the technical side of whether anything could be worked out, even if you have not yet given that advice to Ministers? Advice to Ministers is not something that you would reveal to us, but is anybody working on this group of people who have nothing, particularly in the creative industries? Let's keep on that for a moment.

Jim Harra: People in HMRC work on what they are commissioned to work on. We have two major schemes to implement, which will help millions of people, although not everyone. We do not have people working on other things off our own spec.

Q12 **Dame Cheryl Gillan:** Thank you for those answers, Mr Harra, but I will probably not be as kind as our Chair. It is all very well sympathising with these people—I have a large number of them in my own constituency—but it doesn't put food on their tables, and they really have been unfairly treated and have missed out. You categorically said that no further work is going on in this area, but it would be good to know that you had quantified the number of people affected and the industries in which they had been affected and what it would cost to be able to compensate them in some way. If you are not carrying out any work, and if I put in an FOI request, would you have to carry out that work so that we could have that information?

Jim Harra: You are asking me about something that I am not an expert in, so I would need to get advice, but my view would be no. An FOI request requires me to disclose information that I have. It does not require me to do work to produce information that you would like that I do not currently have.

Q13 **Dame Cheryl Gillan:** "Now I need your advice", says the senior official. How would you advise me and the Committee to go about quantifying this area and identifying it? I would value your advice, and of course we could act on it.

Jim Harra: I should say I am here to advise Ministers. By all means, if you ask me, we will look for whatever information that we have that we can give you, but I reiterate what I think the Chancellor has said, which is that we cannot help everyone. We have designed schemes to help as many people as we possibly can, but I do appreciate the circumstances. Because of the way people are engaged, they may not have been on a payroll at the date that the scheme took effect. I am sorry that they cannot get any support, but there are layers of support, and I hope that most people can get support from somewhere if it is not from our scheme.

Q14 **Dame Cheryl Gillan:** Mr Harra, your sound system is cracking up on me, so I am not entirely sure I got all that, but I presume that that means you will write to the Committee and give us what information you can. At least we will have an undertaking that you will look at this area to see whether there is any latitude or leeway, because for all of us on this Committee, and for all MPs, we are now seeing a large chunk of people that we feel have not been treated in an even-handed fashion. I appreciate we can't save every job, but we are talking about people who, by an accident of maybe even 24 hours, are not eligible for these schemes. It would be in derogation of the Government's duty not to examine this. I am sure we will press—at least I and my colleagues can press—Ministers to ask you for that information, so I urge you not to say that no further work is going on, but to consider very strongly doing further work on it because I am sure the Committee will visit it again, with the Chair's permission.

Jim Harra: I will certainly write to the Committee with any information that I can give you.

Q15 **Chair:** Thank you very much, Mr Harra. We would stress that a lot of the jobs that we were just describing are viable jobs. A constituent pointed out to me that they have contract work lined up, but it keeps being delayed because of covid restrictions being delayed. They will have work again—they are highly skilled and technical. Their sector is not going to die, but it is not active at the moment. As Dame Cheryl says, we cannot save every job. But the jobs that will be there—people have got to have something to live on in the meantime. We will have to leave that there for now.

I want to pick up on a serious matter. Just to explain for those who may not be familiar with the way that Government is funded, obviously taxpayers pay their money to HMRC, but then Parliament votes on estimates that Departments put in for the amount of money they will need in order to function for that year. If there is a problem with that amount and they think they will need more, they can apply for an excess vote, which is extra money that is granted because they are going to go above the estimate. In submitting your supplementary estimate to the Treasury in February of this year, Mr Harra, your Department incorrectly reduced the amount of cash you needed for the 2019-20 accounting period by £1.2 billion. By not identifying that error, it ultimately led to your breaching your net cash spending control by £726 million. These are telephone number figures. Can you explain in simple terms what went wrong and what you are doing to sort it out?

Jim Harra: Thank you, Chair. I will have a go at explaining in simple terms, and I might ask Justin Holliday to come in to help with that. First of all, when I wrote to you on 3 April about this, I apologised, but I would like to add my apologies now. I agree with you that it is a serious matter for a Department to breach its voted controls, and this was an embarrassing error on the part of the Department.

In our case, our funding comes from two sources: the voted supply, and a non-voted supply. We prepared an estimate that included both, to give visibility of our total expenditure, but then we needed to adjust that to arrive at the net cash requirement, which is the voted control. In doing that, we incorrectly treated our non-voted working capital, which resulted in an error in that supplementary estimate. There were no wider impacts for the overall fiscal position, but clearly, nevertheless, it should not have happened. Our internal audit carried out a review afterwards to understand what had gone wrong, and to make recommendations to improve matters so that they will not go wrong in the future. That includes strengthening the financial models that we use and the quality assurance checks that we make prior to submission of the estimates. But I will perhaps ask Justin Holliday to elaborate on that, because it is Justin's area of the Department that produces the estimate.

Q16 **Chair:** Mr Holliday, how are you going to explain this spreadsheet error, which is effectively what it was?

Justin Holliday: First, let me reiterate Jim Harra's apology for what is an embarrassing mistake, and reiterate the fact that there was no real-world impact from this error. I also want to draw out for the Committee that there are quite a number of parliamentary controls that HMRC and Departments like HMRC have to abide by. As you pointed out, Chair, this is one that we have breached. We have not overspent; we did not exceed our budget. But we did use up more cash than we had predicted, which is the net cash requirement figure.

As Mr Harra has said, the error arose because of the way that we are funded. In the statement of parliamentary supply, which I am sure the Committee is familiar with, we distinguish between our non-voted and voted funding. Indeed, the majority of our funding is actually not voted for through the estimates but is supplied under separate authority. What we did in calculating our net cash requirement for the voted estimate was make incorrect adjustments to exclude the non-voted spend. That is what ultimately led to the error.

Let me say just one more thing in terms of the consequences. My concern when this came to light was that it might affect the Government's borrowing requirement and the way the Treasury was calling for money from the market, which seemed to me to be a possible real-world impact. I was reassured that these control numbers are not actually used in that part of the Treasury to manage that. It was a technical error, but I am confident: we have revised our processes and agreed the internal audit recommendations.

Finally, I would add that this is quite an arcane area of Government practice. It is something that is quite unique to the way the Government is controlled. I have deliberately made sure that there is a bigger pool of people who understand this rather arcane subject.

Chair: Thank you for that. Both of you have talked about it being an embarrassing error. I have to say that taxpayers sweating over their tax returns—some of them, I hope, got them in before the end of January—will find it ironic that, due to the technical error, the Comptroller and Auditor General had to qualify his opinion on your accounts. I do not know whether the Gareth Davies, the Comptroller and Auditor General, would like to come in to make his point about the qualification.

Gareth Davies: Obviously, we are obliged to qualify our regularity account when there is an unauthorised excess vote of this kind, and that is important because the cash limit system is the way that the Government, in the end, controls its expenditure in year. That is why it has had such importance in the public spending system.

Q17 **Chair:** We take your apology and assurance that it won't happen again, but we were quite surprised that such a spreadsheet error could take place. I feel like saying something on behalf of all taxpayers. You seem almost relaxed about it, Mr Holliday. If a taxpayer makes a small error on their tax return, it can be quite difficult for them. Have you got anything that you would like to say to taxpayers?

Justin Holliday: I assure you, Chair, that I am not relaxed. Maybe it is the medium that is portraying that. I can't do anything other than repeat my apology. In terms of the way we look at taxpayer error, we look at whether people have made a reasonable attempt to get it right, and if we find that somebody has made an error despite reasonable care, we treat that differently from an error made without taking reasonable care.

Chair: Thank you for that small reassurance for taxpayers who are having a difficult enough time of it at the moment, let alone if they have any problems with their tax return. I am going to bring in Mr Richard Holden MP, and then we will move on to the main session.

Q18 **Mr Holden:** Mr Harra, I want to come back to you on a question that we raised with you last week about constituents of ours who had had grants paid in the last financial year, but which were really for this financial year, purely because councils have been doing their best to get money out to them as quickly as possible. I have written to you and the Chancellor about this following last week's session. I just wondered if you had any update for my constituents or the Committee?

Jim Harra: I'm afraid I haven't, Mr Holden. I know I spoke to you after the hearing last week to get more clarity about what the issue is. Thank you for your letter. I will follow up with you as soon as I can, but we need to look into it and make sure we understand the ins and outs and what, if any, the options are.

Q19 **Mr Holden:** I would just highlight to you that it seems totally ridiculous to be in the situation that taxpayers end up worse off because the Government gave them a grant than they would have been the other way around. This is causing a huge amount of upset to many people who were affected by this when they have just done the right thing, especially when they are now applying for other grants now. I don't want to see local businesses in my patch not applying for those grants because they are worried about the situation that happened previously. If you could get back to us as a matter of urgency on that, it would be appreciated.

Jim Harra: I will do.

Q20 **Chair:** Now we need to move on to the substantial part of our hearing, looking generally at HMRC's overall performance over the last year. Obviously, last year was the last normal year that you are going to have for some time, Mr Harra, as the impact of covid-19 is going to be immense. Do you have an estimate of the impact of covid-19 on tax revenues for this financial year and projections for financial years following?

Jim Harra: It is not HMRC who would make such projections; it is the Office for Budget Responsibility. They did publish a report in July. They will publish another one, I think, on the 25th of this month, when you will receive an update. Clearly, what you can see from the information that we have published, both statistically and in our performance report, is that receipts to date are significantly down this year compared with last, although higher than the previous forecasts by the OBR.

There are obviously two factors contributing to that. One is that the economic impact of covid-19 is depressing the income on which receipts would be paid. In addition, the Government has agreed to allow people to defer payment of certain taxes, particularly VAT and the income tax payment on account at the end of July, until next year, which will also depress the receipts for this year.

On 25 November, you will get the official updated forecast of the impact on receipts. The OBR has said that, in addition to the impact this year, there will be a reduction in receipts for all years in their forecast period.

Q21 **Chair:** You are right, of course, that technically the OBR is the body that makes the forecasts, but in your internal planning you are surely doing some work to work out what investment you need to put into compliance and what the impact of the drop in receipts will be, because presumably, as you have said, you are hoping to get some of them back in future years because of the deferrals. Can you flesh out a bit more precisely how you are working through that change in tax flows into the Exchequer as a result of covid?

Jim Harra: To the extent that a reduction in receipts relates to a reduction in the underlying liabilities, that is correct. As a tax authority, we can collect only the receipts that are due. What we are watching out for and planning for is the impact on compliance, and therefore the work that we will need to do to manage a new compliance risks horizon from this.

I know it is a word that is used very frequently, but covid-19 is an unprecedented situation. The nearest parallel that we have is the economic downturn following the 2007 financial crisis. We have, obviously, evidence from then of what that meant for the tax gap and taxpayer behaviour. It is not clear that, in a period of economic downturn, the tax gap, with the exception of one element, is significantly affected.

The one element is non-payment. To the extent that people or businesses become insolvent without paying their taxes, those taxes are lost. That was something that we saw following the 2007 financial crisis when, in the two years following that, you saw losses due to non-payment increase. That was particularly the case in relation to VAT.

This time, we have a significant debt balance that has increased largely as a result of policy decisions to allow people to defer their tax. Our aim is to get as much of that as we can into managed payment arrangements and to minimise our exposure to losses through insolvency. That would be the main impact that we would expect to see on the tax gap and on compliance levels. Obviously, if people genuinely become insolvent, there is not much action we can take on that, because that is just a consequence of what has happened to them.

Q22 **Chair:** What are your projections on insolvency so far? It is difficult to tell, because the support schemes are still in place. There is a lot of talk about what is viable and what is not. Have you done any analysis of what you think the likely impact will be on the Exchequer of insolvency?

Jim Harra: Obviously, at the moment, there is a moratorium on creditors causing insolvencies. We are working with the Department for Business, Energy and Industrial Strategy to understand what the effect will be later.

Obviously HMRC will be a large creditor of the economy as we come out of that.

Our intention is to give people as much time as they need to pay their tax and not to use bankruptcy or insolvency except as a very last resort on non-viable taxpayers. The position we are in now on debt is that it probably peaked in August and has gradually reduced since then. The results that we published last week show that it reduced over September. Although we have not published October's results yet, I would expect it to have reduced again during that period. However, we have an unusually large debt balance—about £27 billion—that is not in any payment arrangement at the moment. Our aim is to get as much of that as possible into a managed arrangement, so that we and the taxpayer have some certainty about what is going to happen.

The Chancellor made a major announcement at the end of September that in the case of deferred VAT and deferred income tax paid on account, which is about £37 billion, when the deferral periods expire people can go into an instalment arrangement and pay it off over the course of about 12 months. We will be watching keenly what happens after 31 January and 31 March, as people take that up and start making their instalment payments.

Beyond that, there are non-VAT and non-deferred SA debts that we need to get into a payment arrangement with customers, but our priority until now has been to make sure that those people are paying their ongoing liabilities, as opposed to the debt from the past, which we think is the most secure way of administering the tax system going forwards, to make sure that debt balance does not continue to grow. Obviously, as I said, it has been good news that it has reduced in the last couple of months, but we have some big payment dates coming up, in particular 31 January for self-assessment.

Q23 **Chair:** You are obviously watching it closely. From your experience of the previous crisis, do you believe that the instalment arrangement facility will make it more likely that you will recover money? Presumably that is the reason for it. Can you talk through the evidence that you have for going for an instalment payment system and what the impact will be on the flow of tax coming through the system?

Jim Harra: We have long experience of running time-to-pay instalment arrangements to recover tax debts. They have a very high compliance rate—to date, roughly 90% compliance with the terms—which means that the vast bulk of that tax gets collected and the number of insolvencies gets minimised.

We are going into an unusual situation and it remains to be seen whether we will continue to see those kinds of compliance levels. It will depend on the nature of the economic recovery after all of this. We have no cap—no fixed rule—on the amount of time that you have to make the instalment payment. It depends on each customer's circumstances. While we have standard self-serve arrangements, if anybody feels that they cannot meet the instalment payments under that, then we can agree a longer period of time. Our priority will be to enable viable businesses to continue, while paying their debts off, over a period that they can afford.

Q24 **Chair:** You talked about viable businesses, but what about individuals? We were touching earlier on a segment of the population that works freelance or is self-employed in different ways. Do you have a similar approach to support them to pay back any taxes that they owe?

Jim Harra: Obviously most workers have tax deducted under pay-as-you-earn, so they will not have a debt to HMRC, but anyone who pays tax under self-assessment could well have a debt or find that on 31 January they cannot afford to pay what they owe. We have an online time-to-pay self-serve facility, for anyone owing up to £30,000. They do not have to speak to an adviser in HMRC. They can go online and set up an instalment arrangement, if they need to.

If anyone finds that those standard arrangements do not work for them, because they are unaffordable, they can speak to a debt adviser in HMRC and we can look at having a bespoke payment arrangement for them. That applies to anyone in debt to HMRC, not just businesses.

Q25 **Chair:** Of course, for a lot of people on those sorts of contracts, the tax bill may be the biggest creditor. That could force them into bankruptcy, which has a long-term impact on an individual and is a dignity issue for someone who has previously held their head well above water. Have you got the right skills in-house? We are going to touch on your staffing later, but you talk about debt advisers and setting up payment plans. Have you got enough people able to do that, to ensure that you are giving taxpayers the reassurance that, yes, you want their tax, but you will give them time to pay and make sure that those payment systems are set up?

Jim Harra: I believe so. It is a specialist skill, so it is not easy for us just to transfer additional people on to it, but we have managed that service throughout covid-19. We have increased the limits on which people can self-serve. For example, for the self-assessment people who I mentioned, we have increased the limit from £10,000 to £30,000. More people will be able to use that without having to contact us so that we can keep our skilled staff available for those who really need to speak to us—we can manage the demand in that way. We will obviously keep that under review and, if we need to supplement that, we will do so.

Q26 **Chair:** How are you getting the balance? We have spoken in previous hearings about the fraud and error in furlough payments and other support schemes. You are obviously trying to keep that down and keep on top of it, and prosecuting if necessary—that takes a lot of resources—as well as supporting the bulk of taxpayers who are just trying to do the right thing but are struggling. How are you getting the balance between those things? Either can lead to problems, and if you spread too thinly, that does not help either.

Jim Harra: In relation to debt specifically, in the early stages of covid-19 lockdown, frankly, we suspended all debt recovery action and we moved all our staff on to supporting customers with time to pay and in understanding their options. More recently, we have restarted debt recovery action. We have used data analytics to identify businesses that we believe, from the information that we have, ought to be able to pay their tax, and we have approached them to understand why they have not and encouraged them to pay.

As I say, the debt balance that peaked at about £72 billion at the end of August is now down to £69.5 billion at the end of September, and it will continue to go down, I believe, over the course of October, because of the restarted debt recovery action. We are applying it sensitively to those people who we believe ought to be able to pay not only their ongoing liabilities, but some of the debt that they have built up. We have seen a response from them that is quite encouraging. For others, we want to leave them for the deferral period until the end of January or March, and then make sure that we catch them with an instalment arrangement that they can afford to pay.

Q27 **Chair:** A lot of people are waiting to see what will happen in their lives, and in your case, you presumably have the Treasury breathing down your neck, urging you to get the tax in. Ultimately, any delays in that tax take effectively fall on taxpayers' broader shoulders. What discussions are you having with the Treasury about the pace at which you can take that? What is the balance, from the Treasury's end, between keeping businesses afloat and letting them pay their tax more slowly, and getting that tax revenue in so that there is some support to pay for the huge expense of supporting people through covid-19?

Jim Harra: The Treasury most certainly has not been breathing down our necks to collect that tax. Since March, it has obviously been mobilised to support the economy and protect jobs and viable businesses, and it would not want HMRC doing anything to undermine that policy. On the contrary, it would want us to administer that system in a way that supports it. We do obviously keep Treasury Ministers and officials informed of our approach, particularly on any ways in which we change our operational policies, so they have been informed of the action that we have taken since the end of August to restart debt recovery in a sensitive way, and they are supportive of that. We are very much aligned with them in making sure that we are supporting the economy as well as running the tax system.

Q28 **Chair:** We will come back to some of that later. I want to touch on Eat Out to Help Out. Can you tell us what you have learned from that scheme, for which you required ministerial direction before it was established because you had some concerns? What have you learned since its operation?

Jim Harra: I did seek a ministerial direction because there was limited evidence to enable us to assess the value for money of that. Understanding the guidelines from the Treasury, as an accounting officer, I require direction where you do not have that evidence. If we had had more time, we would have been able to gather more evidence, but we simply did not have the time. The Chancellor was well within his rights to make the decision that he did, and to give me direction as he did, which of course I duly followed. Thereafter, our aim was to make it run as smoothly as possible for the restaurants and securely, so that we protected the Exchequer from error and fraud.

I think that, operationally, it went very well. We handled all the registration claims from restaurants very smoothly. There has been very little contact in relation to that, and people got their money quickly. We have also done some data analytics to identify any claims that look significantly out of step with what we would have expected. We either stop those claims, if it is clear that they are egregious, or we put them into a post-payment compliance action. We have already begun that, including by making three arrests for a suspected fraud in relation to the scheme.

Q29 **Chair:** It ran for a month. It obviously brought money into businesses, but what evaluation have you done of the impact on the tax take?

Jim Harra: The Treasury will be announcing in due course its plans for evaluating Eat Out to Help Out and the other covid support schemes. From the point of view of achieving its objective, clearly, from the claims received, restaurants did successfully reopen in August. There is already some evidence to show that, because the scheme was targeted on Monday to Wednesday, that significantly increased footfall during those days without reducing footfall by an equivalent amount in later days, and therefore increased overall demand for that sector as it reopened. However, there will need to be a fuller evaluation of the operations, the error and fraud risk and whether it achieved value for money in due course.

Q30 **Chair:** That raises a couple of questions. First, although parts of the hospitality sector are VAT exempt at the moment, were bits of the supply chain paying more VAT because they were able to keep operating? Did it have any impact on VAT take?

Jim Harra: A reduced rate of VAT was also applied to the sector at the same time which, together with Eat Out to Help Out, acted as an incentive on the sector. Some restaurants will have passed that through to their customers, because it is a competitive market. Others will have been able to use that reduced VAT rate to help with their own—

Q31 **Chair:** But did you do any analysis of whether, as a result of, for example, a pub or restaurant opening, there were any benefits to the tax system down the line, compared with businesses that kept going? Did you see any difference?

My other question was about evaluation. We are already in mid-November. The scheme ended at the end of August, and you say that the Treasury will evaluate it. There is a lot of talk about another Eat Out to Help Out scheme for Christmas. You seem to be saying to me that there will not have been an evaluation of how well the first scheme worked and whether it delivered its objectives before that one is introduced.

Jim Harra: The scheme ended at the end of August in the sense that it was during that month that the discounts applied, but of course restaurants had a period after that in which to submit their claims, so it was really the end of September before that was complete, so there has not been a great deal of time to evaluate that. However, we have obviously done some work, and there is certainly evidence that it achieved its objectives, in terms of boosting demand in restaurants and footfall, therefore enabling them to reopen.

Q32 **Chair:** You are very careful in your words, Mr Harra. I know you well enough to know that you are choosing your words carefully—"it achieved its objectives in increasing footfall". However, you head HMRC, and your job—your whole raison d'être—is to get tax in to pay for public services. What was the tax impact for your Department? Obviously, you administered the scheme, but what was the impact, tax-wise, of taxpayers' money being spent on the discount to keep businesses going? What is your evaluation at this stage—even if, at the moment, it is not a full and detailed evaluation—of whether it actually had an impact on the tax take? Obviously, the VAT holiday—

Jim Harra: It wasn't an objective of this to increase the tax take. In fact, the Government introduced a reduced rate of VAT for this sector, which will have depressed the tax take from it. Its purpose was to boost demand and footfall during that restart period, and therefore to help the restaurants to reopen and to encourage people to feel confident about going into covid-safe restaurants during that period. It quite clearly achieved those objectives. Ultimately, what tax we will collect from the restaurant sector for this tax year, or what VAT we will collect from them, remains to be seen, and a whole range of other factors apply to that. However, VAT will be reduced because the rate was reduced.

Q33 **Chair:** That is the actual take of VAT, but you can still work out how many businesses were paying VAT at a reduced rate, or would have paid VAT on their transactions. In a way, although the money coming in was reduced, clearly, you can still see what would have come in at the normal rate of VAT. That is a good proxy, surely, for whether businesses were surviving and being successful and were, therefore, well placed for long-term recovery. Surely, you have been looking at that in your role as head of HMRC, rather than whether members of this Committee or others had a £10 discount on a meal, which was a great thing for them and for restaurants. I am really after whether you think the money has had a beneficial impact on future tax take for HMRC.

Jim Harra: Compared to the counterfactual—if we had not had this scheme—there will undoubtedly be greater taxation collected from restaurants, because staff were employed and there was increased turnover in the restaurants, but it is too early to tell how much that will be. In any event, that was not the objective of introducing the scheme, so whether I have collected more tax would not be a measure of its success.

Q34 **Chair:** Okay; that is interesting. What is your latest estimate of fraud and error? You mentioned that you had had three arrests so far for fraud. Have you done a more detailed analysis for fraud and error in this scheme?

Jim Harra: No, not yet. First of all, our compliance work, in relation to Eat Out to Help Out, is impacted by the fact that across the country, restaurants have gone back into a lockdown. That restricts our ability to engage with them in post-payment compliance. That will be slightly delayed compared with our initial plans. We have identified, as I say, those high-risk cases where we believe that the amount of the claim we received was out of proportion with the information we already held about that business, which might mean that income in the past has been suppressed or that the claim was inflated. We will take action in relation to those. We should have started that in the past few weeks, but we have had to slightly postpone it due to the lockdown.

Q35 **Chair:** You have a potential scheme coming. Would you seek a ministerial direction again if it were introduced from, for argument's sake, 3 December, when we are expected to come out of this lockdown?

Jim Harra: First of all, there would have to be another scheme. If there was, I would have to look at what the advice was when we were advising on that scheme and whether there was more information. As I said, last time there was simply a lack of information, particularly counterfactual information, which meant that it was not possible to predict it with sufficient certainty. I do not know whether that would change if there were another such scheme, but nothing has been announced.

Q36 **Chair:** Nothing has been announced, but you must be planning for the possibility of this, because it has been well trailed in the press that it is being discussed by Ministers. Surely, someone in HMRC is thinking this through.

Jim Harra: We advise Ministers on lots of things, but nothing is decided until it is decided.

Chair: You are adept at getting off the hook, Mr Harra, but you are right that Ministers ultimately make the decision.

Q37 **Sir Geoffrey Clifton-Brown:** First, I want to declare my interest as a tax-paying business. You said earlier that businesses or individuals that were in problems would have as much time as they need to pay their tax. The deferral of tax in July will have to be paid in January. They will also have to pay the next tax demand in January, part of which will be tax on profits made, but part of it will be on estimated profits going forward. I can foresee a number of small businesses having cash-flow problems paying both lots of tax together. Will you treat that in the same way, so that they will be given enough time to pay two lots of tax when their cash flow allows?

Jim Harra: You are right. Normally, at the end of January, there are, in effect, two lots of tax to pay. You have to make your final payment for the previous tax year and a payment on account for the current tax year. This time around, there will be three lots to pay, because you will also have the tax that was delayed from July to add to that. I have two things to say about that. First, the payment on account for the current tax year is, as a rule, calculated on your previous year's profits. If taxpayers feel that their profits this year will not be like that, and therefore that payment on account is not a realistic estimate of what they will have to pay this year, they have the right to adjust that. You can go online and do that. There is a form, which I think is called an SA303, online, which enables you to adjust your payment on account. If you go on to gov.uk, it explains how to do that. I would expect a large number of taxpayers to adjust their 2020-21 payment on account because this year is clearly going to be out of step for many of them with the previous tax year.

Beyond that, if you have a payment due on 31 January, yes, we will, of course—we cannot take money off people who do not have it, and we do not want to force anyone into an insolvency if what they need is time to pay. If you wish to self-serve time-to-pay, provided your tax bill is no more than £30,000, you can go online and do that yourself and the system will set up an instalment arrangement for you. If that instalment arrangement is not affordable for you, you will need to speak to one of my colleagues to make sure that you have an affordable arrangement.

My key message to people is to please do that. Do not put your head in the sand, because if you simply do not pay, we have no way of knowing what your personal situation is. Our usual processes will therefore crank into action, and they may not be appropriate to you. First of all, I urge people: file your tax return, because that tells us what the liability is. Then, if you can't pay it, please use the online service or if you need to get in touch with us, do so. But do not miss a payment or miss an instalment payment without letting us know.

Chair: Okay, I think that message is loud and clear. Thank you for that. That is very helpful to a lot of people out there who are worried about how they are going to pay their tax bill.

Q38 **Mr Holden:** Mr Harra, going on to the coronavirus job retention bonus scheme, quite a lot of businesses in my constituency have been in touch with me. It has been something they were relying on to come in in the new year. Can you give us an update about what the plans are on this? Has it been cancelled or just delayed?

Jim Harra: The plan was that the job retention scheme would have ended at the end of October and then there was an incentive, through the bonus payable at the end of January, for employers to keep people on the payroll.

Mr Holden: Exactly.

Jim Harra: Now that the retention scheme has been extended to 31 March, the Chancellor has announced that that incentive is not required in January and therefore the bonus will not be paid then. He has said that he will look at what incentive payment is required after the end of the job retention scheme, but there has been no formal announcement about what that is going to be or when that would come in.

Q39 **Mr Holden:** Is the job retention bonus scheme being knocked on the head, as far as you are aware, and then perhaps another scheme will be looked at in the future?

Jim Harra: That is correct. I have downed tools on any work to pay the bonus at the end of January, because it has been announced that that will not go ahead. I remain ready to implement any scheme that is put in place, and the Chancellor has said that he will look at the need for that.

Q40 **Mr Holden:** Okay. He is looking at the need for it, so there is no guarantee that there will be a scheme; it will just be dependent on the circumstances at the time.

Jim Harra: I wish you had asked my Treasury colleagues this last week, because they are the policy makers. The Chancellor has said that he will look at what retention incentive is required in the future, and I suspect that will depend on what the circumstances are as we emerge from the extended job retention scheme.

Q41 **Mr Holden:** I understand. This would have been quite an expensive scheme, wouldn't it? This is a lot of taxpayers' money. Can you just remind me of the ballpark figure on it?

Jim Harra: I cannot recall whether there was anything published about how much that would cost. Again, that would have been a matter for my Treasury colleagues. I am not aware that the Government made an estimate about how much that would cost. If they did, I will let you know, Mr Holden.

Q42 **Mr Holden:** Thank you. I think it was in the mid-to-high single-figure billions. It was not a small amount of money, but it is interesting to know that you have downed tools on it. We are just going to have to wait and see whether there will be any form of scheme in that Department at all.

Moving on to the broader schemes, how is it that you manage to strike the balance between checking that the support money is there and going to those who need it, and also ensuring that it is free of fraud and error? How are you managing to strike that balance, and what are the levels you are prepared to accept?

Jim Harra: You are right. I think the key balance that had to be struck was helping as many people as we possibly could, and getting the help to people as fast as we possibly could, but also managing and controlling the risks of error and fraud. The first real line of defence, really, was in the design of the scheme, so as far as possible we designed the schemes in a way that protected them from, in particular, criminal attack. They were based on data that we already held about employers, employees and the self-employed, and their income levels. In addition, we had a period between a claim being made and payment being made—roughly about 72 hours—which was enough time for us to risk assess all claims, and identify any very high-risk claims that could point to criminal attack, and do checks before they were paid. We stopped about £63 million-worth of payments during that period. Other risks, it is our intention to manage downstream post-payment, over a period of time.

Q43 **Mr Holden:** Exactly, and we have seen those in paragraph 2.13 of the NAO Report. I am just interested: we have gone through a lot of the different taxes that you see, and the rates of compliance, and the rates of fraud and error that you generally accept, and those are usually within the range of under 1%—maybe under 2% on the outside. On the coronavirus job retention scheme, looking at a much bigger area of that, of between 5%

and 10%, from evidence that you and others have given to this Committee before, do you find that is an acceptable level of tolerance for fraud in this scheme?

Jim Harra: First of all, I don't think any fraud is tolerable. However, you mentioned 1% to 2%. I would love to be able to come before the Committee and say that that was the level of error and fraud, for example, in the tax system. It is not, frankly. What we see in the tax gap is that in recent years it has ranged from a low of 4.7% up to about 7.5%. In tax credits it runs at just around 5%. So those are the kinds of figures that we normally see and we are constantly trying to manage down. In the case of the coronavirus job retention scheme, we have made a planning assumption for our compliance work on the basis that there could be 5% to 10% fraud and error in there. At the bottom end of that, that would be in line with what we see in tax credits and the tax system. At the top end of that, that would be significantly higher, and it would be very unwelcome to me. I would seriously hope that it comes in well below that.

So we do not have a tolerance, because it is a balancing act, and it kind of depends on the objective you were trying to achieve and how serious the situation is, what you would tolerate. I would say that is really a political judgment and not a fixed rule. In the case of these schemes, as with anything that we do, we advise Ministers as best we can about what we think is going to happen, so that they can make their choices, and in these schemes Ministers did make, obviously, quite difficult choices, which we discussed right at the very start of this hearing, about who they could include and who they would have to exclude from this scheme in order to manage the error and fraud rate.

Q44 **Mr Holden:** Indeed, and you are talking about billions of pounds of money, here, potentially, as has been said previously. You said it is a political judgment, similar to the Eat Out to Help Out scheme, which was also basically a political judgment. Why did you ask for a ministerial direction in terms of the Eat Out to Help Out scheme, and not in terms of the coronavirus job retention scheme, when you are similarly talking about potentially billions of pounds of money in a political judgment?

Jim Harra: Because in the case of the coronavirus job retention scheme and the self-employed income support scheme, there was good evidence of what it would achieve and what the counterfactual would be if we didn't put it in place. So I was satisfied at that time that there was an urgent need to act and that saving jobs during a temporary downturn would give value for money for the Exchequer. In the case of Eat Out to Help Out there simply wasn't the data available to determine whether it would be value for money. I emphasise that does not mean that I felt it would not be. It was simply that I couldn't satisfy myself to the same degree, and the advice that both I and the Chancellor received from the policy advisers said that there was significant uncertainty. In those circumstances, I felt it was right that there would be a political direction about that and not an official accounting one, so to speak.

Q45 **Mr Holden:** Mr Harra, you are therefore suggesting that there was a significant need to act in terms of the furlough scheme, but not a significant need to act in terms of the Eat Out to Help Out scheme and support for hospitality at the same time?

Jim Harra: Absolutely not. As I said in my letter to the Chancellor, which was published, it was entirely within his rights and it was perfectly understandable—

Q46 **Mr Holden:** We understand his judgment call. We are just interested in yours, because you are also making a judgment. You said that on the furlough scheme you were satisfied, but you were not satisfied in terms of the Eat Out to Help Out scheme.

Jim Harra: Yes, there was not sufficient evidence available to me to satisfy myself, and therefore I needed to get a political direction for that, which the Chancellor was within his right to give me and—

Mr Holden: Absolutely.

Q47 **Chair:** To be clear, Mr Harra, this Committee does not have a particular objection to ministerial directions, but we are interested in how they are applied. It is a slightly different pattern in different Departments and indeed, as Mr Holden is highlighting, even in your own Department.

Jim Harra: As an official, it is usually an extremely unusual event, but during covid-19 we knew that there had been a number of directions required because of the level of uncertainty of the situation and the speed at which we needed to act.

Q48 **Mr Holden:** I will just come back briefly, if I may, Chair, to the scheme we were mentioning before, the job retention scheme. The estimates—I have managed to find them—were £6.1 billion and up to £9 billion if fully utilised. Are you not concerned about businesses potentially being able to meet their tax liabilities later this year, including income tax and national insurance for businesses, if they are not getting this retention money in the new year?

Jim Harra: The job retention bonus would have been a payment to employers, which they were not obliged to pass on; they could keep it for themselves. I suppose it is possible that they would then have used it as cash flow to help them to pay their tax bill, which would have been paying out with one hand and getting it back with another, but it is not proceeding, for understandable reasons. I have not modelled any impact as a result of that on tax receipts, because I think there is such a number of different variables that will play into what taxpayers are able to pay, either on 31 January or on 31 March, when the—

Q49 **Mr Holden:** I understand. Were there any models that you did on how many jobs this scheme would have protected?

Jim Harra: The policy advisers certainly would have done modelling, and it was a scheme in which, again, there was a significant level of uncertainty. There would have been jobs, for example, that would have qualified for the bonus but would have been retained in any event; there would have been jobs that were only retained as a result of the bonus, which obviously is what it was aimed to do, and there were others perhaps for which that level of bonus would not have been sufficient. There was significant judgment required and significant uncertainty, but there was a clear policy rationale for it at that time, with the gap between the end of the retention scheme and possibly the point when the economy was really back up on its feet. I think that is something the Chancellor will look at again.

Q50 **Mr Holden:** Indeed, but at £9 billion, there would have to be a pretty strong justification for you not to call that into question and ask for a ministerial direction. What were the ballpark estimates on that?

Jim Harra: I did receive a ministerial direction in relation to the bonus scheme, which obviously now falls away because the bonus scheme falls away, but I don't have information about that. I am not aware that any such projections have been published; obviously, if the scheme had gone ahead like all the others, there would have had to have been an evaluation of it after the fact, but the fact is that the scheme is now in abeyance.

Mr Holden: Thank you very much indeed.

Chair: Thank you very much, Mr Holden. We will now go to Dame Cheryl Gillan. I know Dame Cheryl has some very specific questions, so I urge witnesses to keep their answers precisely to her questions. She is well honed and well prepared, as ever, and we just need to be aware of time.

Q51 **Dame Cheryl Gillan:** This is the section on covid-19 and its impact on HMRC's performance. I hope it will not pose too much difficulty. Obviously, you have done a complete about-turn from being a Department that is mainly a tax collector to being one of the biggest spenders across Government. How has that affected the Department? How are you coping with that complete change?

Jim Harra: We see ourselves as a financial department, so we handle large sums of money. In fact, some of our tax regimes—particularly VAT—involve very, very large amounts of repayment. We are used to paying money out as well as collecting it, and we are used to understanding how urgent it is for our customers to receive their payments. Personally, I think we coped very well, in that we were able to use our existing infrastructure and our colleagues' skills to run these schemes really smoothly, but of course that has had implications for the administration of the tax system at the same time.

Q52 **Dame Cheryl Gillan:** And what are those implications?

Jim Harra: I might ask my colleague Angela MacDonald to give more information about the impact on our service levels, but we did have to divert colleagues away from providing support to people in the tax system and also compliance work in the tax system, in order to make sure that people were supported under the new schemes and understood what it was they had to do, as well as policing those schemes. That had an immediate impact on our service levels in the tax system. If you look at our performance levels on service last year, 2019-20, what you see is that in the second half of the year, we got those up largely to our service standards, but as soon as covid-19 hit and we had to divert resources away, that fell away. For example, our average speed of answer on our helplines started to increase. Angela, perhaps you can give more detail.

Q53 **Dame Cheryl Gillan:** Before I come to Angela, may I continue with you on a number of questions, Mr Harra? You reallocated over 9,000 staff to covid-19-related roles, which was a huge reallocation, at the same time as more than 50,000 staff—about 80% of your workforce—were working from home. Do you currently have any plans to reallocate staff over and above those who have already been reallocated, and what has been the impact of those reallocations and this different form of working on staff welfare and productivity?

Jim Harra: If I pick up the latter first, you are right that in the middle of March, like every other employer, we had to get our people working from home. On any given day, about 8% of our workforce works in the office, and about 92% are working at home. Over the course of a week, about 16% of colleagues come into the office, because some people, like myself, will come in for one or two days but not every day.

We moved really fast to make sure that everyone was able to access systems, and therefore support customers and keep the business going. We strengthened our VPN, for example, to enable all of that remote access. Subsequently, we strengthened that both by sending out more kit to people at home, to enable them to work better and look after their welfare, and also by implementing certain projects. For example, at the start, we could not send our helpline telephony out to people at home, and therefore we had to try to get customers to switch to webchat, because that was the support we could do from home. We have since implemented a project that means 7,000 colleagues can take helpline calls at home as well.

Q54 **Dame Cheryl Gillan:** Can I ask how much you spent on the equipment to ensure that the welfare of your staff working from home is maintained?

Jim Harra: I know that we have paid for about 23,000 pieces of kit. I do not have the value of that offhand, but I can certainly give you that information. What we have allowed our colleagues to do is order equipment and then claim it back from us, so if they need a riser for their desk, or a keyboard or a mouse or whatever, they can go ahead and procure that if that makes them more effective, and then we reimburse them for it.

Q55 **Dame Cheryl Gillan:** Have you been installing broadband for employees, for example?

Jim Harra: We have not been installing broadband, no. We rely on our colleagues using their own broadband, but if people have expenses from working from home, we pay up to £6 a week for excess expenses.

Q56 **Dame Cheryl Gillan:** Have you any plans to increase that? My staff are allowed to have £27 a month tax-free to compensate them for the excess costs they have from working from home. I presume that means that it is not taxable. Have you any plans to change that?

Jim Harra: You are right: first of all, there is a standard allowance of £6 a week in the tax system for people working from home. That was increased from £4 a week in April. There are no plans to change that. However, any taxpayer who is incurring expenses in excess of that can claim the excess, although they will have to evidence it to us, whereas if they just claim the standard £6 a week, that is just a standard thing that they are able to do online.

Q57 **Dame Cheryl Gillan:** Lastly, presumably you are now working on what the implications are for your traditional methods of tax collection with this new way of working. Obviously, you assume high levels of compliance normally. Does that remain appropriate now, in the new post-covid world?

Jim Harra: Obviously, we are not in a post-covid world yet, but as I said earlier, we have experience of previous economic downturns and recessions and the effect they have had on compliance. The last major one was the 2007 financial crisis. If you look at the tax gap measures in the years after that, with the exception of non-payment because of insolvency, there was not a significant and discernible impact on compliance levels. We expect people to continue to behave largely as they have in the past, but we will be monitoring.

Q58 **Dame Cheryl Gillan:** Your new methodology of working fits with that quite well?

Jim Harra: Yes. Obviously, we have temporarily had to adjust our working methods. In particular, some of our compliance activities involved visiting premises, and we have been restricted in our ability to do that. We have restarted it in a limited way. For example, in our criminal investigations, we now in a safe way—either socially distanced or using PPE—conduct that in the same way that the police do. More routine compliance work that involves taxpayers' premises, we have generally not restarted yet. That is really around the margins. The vast majority of our compliance work is done remotely and does not require visiting premises. That is an adjustment that we have made. Hopefully, we will go back to whatever is the most effective way in the future.

Q59 **Dame Cheryl Gillan:** Thanks. May I come to you, Ms MacDonald? Sorry, you thought I was coming to you sooner.

Angela MacDonald: That's all right. I was ready.

Dame Cheryl Gillan: I am sure you were, but I thought it better to finish with Mr Harra first. Obviously, the NAO Report has looked at your customer service targets. In particular, you only met three of the eight customer service targets in 2019. The performance data show that over the three years certain areas of your performance have fallen. Why did you struggle to supply a good level of customer service even before covid was brought into play?

Angela MacDonald: When I was before this Committee this time last year, I talked about the experience that we were already having in the 2019-20 year. In the first half of the year, we have struggled with recruitment and we were 8% or so below our needed headcount. Those kinds of situations, particularly in customer services, have a material impact. What I was clear about when I was before the Committee in October ’19 was that we expected this to be a year of two halves, and that we would see significantly improved performance in the second half of the year, which indeed is exactly what happened.

The challenge for us in the way that the targets are measured is that it is a cumulative situation for the whole year, so if we are behind in the first part of the year, no matter how well we do in the second half, it is a very big challenge to catch up. But our second half-year performance was heading back towards target, and certainly, had we not been hit in March, I would have expected that we would have hit both the telephony and post targets for the second half of the year. That was our plan, and we were on track for that, but then March happened, obviously, which rather had an impact in that last month of the performance year.

Chair: May I interrupt? Both Dame Cheryl and Angela MacDonald have bad sound. Ms MacDonald, if you keep speaking at that pace, you are just about all right. Dame Cheryl, if you can pull back a little from your computer—it gets a bit better when you lean back. That is about the right position. It was difficult to hear. Sorry, Dame Cheryl, back to you.

Q60 **Dame Cheryl Gillan:** I am still trying to understand why you missed your recruitment targets. They were missed by quite a considerable amount—by 40% in April and May 2019, and by more than 30% still in September. Is HMRC not a good place to work?

Angela MacDonald: I have to say that I think HMRC is a fantastic place to work. You have to remember, Dame Cheryl, that at that time we were having a good couple of goes at leaving the European Union, and therefore we were looking to increase our resources in order to support that. We also always have turnover as part of our business as usual, as any other organisation does.

There were some inefficiencies in our process. We prioritised putting resources into our EU exit work, as opposed to into business as usual, because that was the right thing to do at the time. Therefore, we got a little behind with the business-as-usual environment. Since then, we did a full review of how the recruitment process was working fully end to end, and put in some significant improvements to that process. As a result of that, we have been significantly better positioned all the way through, including not only the recruitment that we would normally have had this year but the material recruitment necessary for the end of the transition period, which is heading towards us at the end of December.

Q61 **Dame Cheryl Gillan:** I still don’t understand why at the same time you redeployed a whole load of people on to the EU exit process from customer services. At one stage—I think in October 2019—you had more than 1,000 staff redeployed from that area. Surely there were other areas you could have redeployed staff from. Why was the priority to take the customer services staff out of an area that was showing a weakness in your performance?

Angela MacDonald: Customer services is not the only place that needs to be given resources to support the UK transition work. We have to provide material volumes of colleagues into policy, projects and change, IT, and our compliance community, so the leaving of the European Union impacts all the technical specialisms and areas within HMRC. Therefore, we were delivering what we needed to do for resourcing. You can see that the impact on resourcing from customer services impacts what happens inside only customer services. We were also pulling resources over into compliance to prepare for future compliance, and as I say into change, transformation and IT. There is a whole-system need to provide support.

Obviously, we are funded for that, so there is not a challenge of overarching funding, but as you can imagine there is a logistical exercise. We need to find, recruit and train those colleagues and make the changes necessary to support them.

Q62 **Dame Cheryl Gillan:** So you don't have any problem with having the money to make the improvements and get back to the previous levels of service—or, indeed, to improve them if they need improving. What are your long-term plans? How are you going to improve your performance?

Angela MacDonald: For customer services in particular, the service is always very sensitive to having funding. We are always working hard to try to understand the moving of the requirements for customers, because it is absolutely not a static position. We are also having to adapt as the requirement on us moves from the Treasury.

As you can imagine, at the moment, if you look at our 2020-21 performance, we are focusing on the challenge of whatever happens with the movement of the schemes. New schemes are announced, and we therefore need resources to support all of those. We then have many scenarios for what UK transition might look like, and we have contingency plans as needed in those areas. We then need to work out what that means as we go into next year, depending on the situation, because that maybe impacts on our overall volumes of demand. We are always working closely with the Treasury to be clear what we think the requirement is going to be, and then discussing it with them to make sure we have the headcount needed or to be clear about what service we can provide for the money we are given.

Thinking about where we are right now and anticipating what might happen in the rest of this financial year, we are bringing in additional colleagues. We have gone out to purchase about 1,000 colleagues of contingent labour in order to support the covid-related schemes, which will go on for far longer than we had originally anticipated. That layers on top of the fact that we have got UK transition coming at the end of December, and then in January we go into the busiest period for HMRC tax, which is the self-assessment tax peak that happens in January. So, as you can imagine, this is a multi-dimensional planning position, with many services to deliver, and our challenge is to make sure that we try to get the balance of the right volumes of colleagues in the right place, trained in the right stuff at the right time.

Q63 **Dame Cheryl Gillan:** Can I be clear about this area? I would like to know what you consider to be an acceptable level of customer service performance, obviously given the current restrictions. More importantly, however, when will you publish the new performance targets, because, as I understand it, you have not yet formulated or published new external performance measures to reflect the data that has been coming in? Certainly, that is what the NAO Report says. It would be interesting to know what your timetable is exactly, what those targets are, when you are going to publish them and what changes you are going to make to your key performance indicators to improve the experience of customers.

Angela MacDonald: Our target performances for this year are already published. It is very clear what our target numbers need to be for 2021. There are a whole array of them, but some examples are to hit a five-minute average speed to answer calls and to achieve at least 80% of our post being turned around in 15 days.

Just to be clear, we are delivering. For instance, on the delivery of our service for post, we are delivering target performance; we have been doing so all through this financial year, and that is what our published statistics show. Our telephony performance has been somewhat more variable, and as you quite rightly pointed out earlier it has been impacted by having to deal with nearly 1 million phone calls related to schemes and 366,000 webchats that we were not expecting to have, so we have diverted there. Nevertheless, our target performances for this year are quarterly; they are published and out there every quarter.

In line with conversations that have been transparent to this Committee before, we are thinking about how to broaden the nature of the kind of statistics that we might be held to account against. This year, we have been publishing a significant array of experimental data; that has also been coming out every quarter also, to give whoever is interested material insight into everything that we are doing.

We are hopefully getting close to agreeing a spending review settlement with the Treasury for next year. As part of that, we will agree with them what the performance targets will be for next year, and building on the knowledge and the insight gained from all of the data that we have been, as I say, experimentally and transparently publishing. So, it wouldn't be usual for us to make a commitment to next year until our spending position is agreed, and we will be doing so as per the usual process.

Q64 **Chair:** Could I ask that you write to us once the spending review has happened, when you have got your plan for your performance for the year ahead?

Angela MacDonald: Definitely—I am very happy to do so, Chair. That's not a problem.

Q65 **Dame Cheryl Gillan:** You can categorically say now that you will be ready for the backlog of cases and for the January self-assessment rush? You can give us that undertaking and assurance?

Angela MacDonald: Yes. To be absolutely clear, I do not have material backlogs of taxes or benefits work in HMRC. We have our plans in place for January, and at this moment in time we are confident that we will be able to deliver.

As you can imagine, there are a range of scenarios, though, because as I flagged to you, we have multiple sets of things on the go. We have the covid-related activity, we have the UK transition and we have our usual "business as usual" busiest time of the year. I have many plans and many contingency plans for that, so if everything goes OK then we will absolutely be able to deliver all of those plans.

Can I guarantee you that something I did not see coming will not come over the hill? I am afraid, Dame Cheryl, I can't make you that promise—

Chair: I do not think that anybody will make that rash prediction at this moment in time, but we get the point.

Dame Cheryl Gillan: It is worth a try though.

Angela MacDonald: I know.

Q66 **Dame Cheryl Gillan:** People do like to—*[Inaudible]*—when it comes to dealing with the tax authorities, as you know. I have just a couple more questions. I will come back to you, Mr Harra, as you have had a break. I want to know how working patterns and your plans for the future affect your plan of having 13 regional hubs with physical presence. What are you planning to do now on that front?

Jim Harra: First of all, we remain committed to reforming our office estate. We have a legacy of a large number of small offices, which reflects the way we used to administer tax many years ago, when I first joined the Department, which is not fit for what we need. Therefore, I still expect to have 13 regional centres. The implementation of some of those is delayed because covid-19 has had an impact on the construction industry. However, we continue to make progress. In fact, during the covid-19 period, we have opened a new regional centre.

However, I believe that our experience of working from home will mean that we will have more flexible working arrangements in the future. I do not think, at this stage, that it would be part of our standard arrangements for a lot of people to have full working-from-home arrangements, but I would expect that many more colleagues will be able to spend, say, two or three days a week working at home if they want to. That will affect the quantity of estate that we need.

The locations where we have our regional centres are, generally speaking, Government hubs, and therefore the estate is very flexible, in terms of who occupies it. Indeed, we have already reduced our footprint in a number of our regional centres to make space for other Government Departments, so I am confident that we will be able to implement that efficiently.

Dame Cheryl Gillan: Do we have a schedule of what you have at the moment, vis-à-vis these 13 hubs? Do we know where they are, the terms of their leases, what they cost?

Chair: Yes, we have that information, Dame Cheryl, unless there has been an update.

Q67 **Dame Cheryl Gillan:** I just wanted to check. I just wanted to know whether—particularly in the light of what has been revealed about the financial situation of, for example, Croydon—any of your space comes from local government?

Jim Harra: One of our regional centres—the very first that we opened, in fact—is in Ruskin Square in Croydon. It is a major location for our compliance work, in particular. We currently lend some of the estate there to the Department for Work and Pensions, which uses it to—

Chair: I think Dame Cheryl was asking more about the financial interdependence between HMRC and local authorities.

Dame Cheryl Gillan: And with local authorities, and Croydon.

Chair: It is not about the physical location but more about the financial intertwining.

Dame Cheryl Gillan: But as you have raised that one, is it a local government building?

Jim Harra: No, that is an HMRC-specific building. There are no occupants of that building other than HMRC, although we have now, as I say, lent some space to the Department for Work and Pensions. We obviously engage with local authorities where we are setting up regional services, to make sure that they help us to get the best possible deal from our developers, and that it meets our needs. There is no direct relationship with the local authority in relation to that.

Chair: I will just bring in Sir Geoffrey Clifton-Brown on this point, Dame Cheryl, and then we will come back to you.

Q68 **Sir Geoffrey Clifton-Brown:** Mr Harra, you will recall, when we had this hearing a year ago, that I was very critical of HMRC's policy of taking non-breakable 25-year leases. That was well before covid. As a result of covid, we are likely to have more home working, not less, and office rents are likely to drop considerably. Is that policy now even more unwise, with hindsight, than when I was criticising it last year?

Jim Harra: I am not sure that I would agree with the concept of being unwise with hindsight. I believe that we have a flexible estate that meets our needs but which can be adjusted to our requirements effectively, but I will ask Justin, who is responsible for this area, to give you a bit more detail on that.

Justin Holliday: Broadly speaking, the answer is the same as the answer last year. The most cost-effective way of getting good rent in the property market is to enter into longer-term leases. All of our regional centres are in attractive locations. If as a result of covid we end up learning that we can be more flexible and need less space, they will be readily lettable to other Government Departments, or indeed the private sector. I don't think we would have got buildings of the quality that we want to give to our staff if we had not entered into what are essentially market-normal leases.

Q69 **Sir Geoffrey Clifton-Brown:** Have you taken on any more leases on a 25-year non-breakable basis since we spoke about this matter last year?

Justin Holliday: Our strategy has not changed. I would need to check exactly the signing dates of the later leases in the sequence to be sure of that. I don't think so, but I would want to double-check the exact dates of signing.

Q70 **Sir Geoffrey Clifton-Brown:** Mr Holliday, why hasn't your strategy changed? When the whole of the private sector is moving towards shorter leases, you are still doggedly sticking to what was too long a lease in the first place. You surely ought to be looking at taking shorter leases, particularly in view of what has happened with covid and dropping rents?

Justin Holliday: At the risk of deflecting this point, our strategy was established quite some time ago. We are in the later stages of delivering it. If the Committee has an interest in the future Government strategy, there are other bits of Government that are pursuing hubs, particularly through the Government Property Agency. That might be something that you look at.

Chair: We have certainly spent quite a lot of time looking at this issue, but you are possibly right, Mr Holliday. The ship has sailed to some extent at HMRC. We remember that not many Departments had much appetite to fill the hubs then, before covid.

Q71 **Sir Geoffrey Clifton-Brown:** Can I get at least some assurance from you, Mr Harra, that before you take on any more of these big, long 25-year leases, you will at least consider what this Committee has said about dropping commercial rents, covid requiring less space, and what is happening in the commercial market out there?

Jim Harra: Sir Geoffrey, I certainly will. We engage, obviously, with the Government Property Agency. We are subject to approvals by the Treasury and Cabinet Office each time we make one of these decisions. There is not a plan that was set in motion five years ago that is just inexorably trundling on. Each decision is looked at in the light of the current climate. I have already seen that our new estate is very flexible, because I am already under pressure to give up some space in my regional centres for other Government Departments. I am confident that, in terms of the flexibility of the estate to meet my Department's requirements, we have got that built in, but I will certainly also pick up the issue about the prevailing practice in the commercial office market.

Q72 **Sir Geoffrey Clifton-Brown:** That is very kind. A quick question for you, Ms MacDonald: how many redundancies did you have to make for people not wishing to relocate to these regional hubs? If you don't know the answer, no problem. Perhaps you could write to the Committee.

Angela MacDonald: I will happily do so. It is worth pointing out that during these recent months we have had colleagues working from home. We have offered the opportunity for any colleague who is outside reasonable daily travel from a regional centre and who would like to stay with some more flexible working arrangement, potentially even full time working from home, the option to do so. We have seen a number of colleagues taking us up on that offer. The numbers are perhaps moving, based on a different working arrangement, thus enabling us to offer colleagues different flexibilities. In a prior world, when our IT was not quite in the same position, we would have been unable to do so.

Chair: There are lots of issues about the long-term impacts on people working at home. It sounds like a great step forward, but some groups are perhaps adversely affected by doing that. That is a debate for another day. Back to Dame Cheryl.

Q73 **Dame Cheryl Gillan:** That is a nice link on the IT, which I will come to in a minute. If you are writing to us from the Department, Mr Harra, could you also let us know how your recruitment policy will reflect the levelling-up agenda? And can you let us know about the physical presence of the hubs and how you are going to pursue that to see how that is complying with the new policy announcements from Government? On IT, if I can come back to you, Mr Harra, obviously you have been making progress with your IT estate. The last information I had was that you were planning to update the patch management policy, which should result in improvements to security and functional patching across HMRC. You are expected to complete that during this year and next.

What has been the impact of the relatively poor state of your IT on the cost-effectiveness of the tax system? How comfortable are you with the level of IT risk that you are currently carrying in the Department? How are you going to tackle those IT risks over the next few years?

Jim Harra: It is important that we have sufficient investment in renewing our IT estate so that it is on the most modern and flexible possible platforms, as well as continuing to maintain the legacy estate so that that is kept up to date and therefore safe from cyber-attack and catastrophic loss. In the case of our legacy estate, patching is probably a never-ending process.

Since becoming chief executive, I have commissioned a review of the technical debt in our technology base and our plans for remediating that and making sure that we are maintaining the legacy estate adequately, as well as what our case is for more investment. I would say that, at the moment, I am concerned that, as a Department, we spend an excessive proportion of our IT spend on live running of the legacy estate and an insufficient proportion on investment for the future and on modernisation.

I want to see that change. We will be looking for funding opportunities to do that. Obviously, the comprehensive spending review was a key opportunity, but now that that is going to be a one-year spending settlement, we will be looking for every opportunity we can to do that. In the meantime, we will obviously be doing all the patching and the version controls necessary to make sure that our legacy estate is kept secure.

Frankly, as in most areas, I would like to carry less risk than I am carrying, but I am satisfied that we know what our technical debt is, that we have a remediation plan and that we are currently, for example, in negotiations with Treasury for what funding we can get to address that. As I covered a bit at last Thursday's hearing, our experience of implementing the covid-19 schemes demonstrates what you can do when you have up-to-date technology and data, and what the restrictions and constraints on you are when you do not.

In particular, in the area of self-employed taxes, we have infrastructure, both data infrastructure and technology infrastructure, that, frankly, was put in place in the mid-1990s and has not been significantly reformed since. Obviously, it has been kept technically up to date, but that means it is not as flexible as I need it to be. There is a cost of inflexibility that we carry, which is an actual cost and an opportunity cost.

Q74 **Dame Cheryl Gillan:** Despite the CSR being only one year, which I understand is problematical, presumably your plans are far enough advanced that you have been able to lay them out to the Treasury and you can be as reasonably confident as possible that you will get, in the CSR, enough to maintain your momentum in that area, which is so significant and important to the performance and functioning of the Department.

Jim Harra: I never feel confident when dealing with Treasury. We did publish a 10-year strategy for modernising the tax administration in July. The Government has already committed about half a billion pounds of funding for us to modernise income tax through Making Tax Digital, which is a big step forward in enabling us to run the system better, have better data, and have better technology. But also—

Chair: We know what Making Tax Digital is supposed to do. We will come to that.

Jim Harra: The cost of maintaining the legacy estate is just part of our maintenance and therefore needs to be in our baseline. That is obviously the kind of discussion that we have with the Treasury all the time.

Dame Cheryl Gillan: Thank you very much.

Q75 **Mr Holden:** I want to move on to HMRC's future strategy, Mr Harra. The NAO Report points out that in 2015 you set the ambition of transforming yourself "to become one of the most digitally advanced tax administrations in the world." It goes on to say that this has been changed, which includes "closing the Compliance for the Future programme and pausing or deferring some aspects of other programmes including Making Tax Digital." What are the plans now for transforming HMRC?

Jim Harra: We did make progress on that in 2015. Am I the most digitally advanced tax authority in the world? No, I am not. Am I significantly more digitally advanced than in 2015? Yes, I am. For example, 22 million people have an online personal tax account. Dame Cheryl mentioned earlier the £6-a-week allowance for working from home. We have been able to allow about 970,000 people to claim that online through a new service, with very little resource effect on HMRC. So we definitely benefit from being more digitally advanced than we were.

Going forward, we published our 10-year strategy, called "Building a trusted, modern tax administration system", in July of this year. That sets out the Government's plan for modernising the administration of tax, which includes modernising, obviously, HMRC as a tax authority. That is really about making sure that we have a more resilient and agile technology and database from which we can get better at administering tax, but also be a better resource for the country in the way we have been over the last few months during the covid-19 period. In there is an ambition to have better, more realtime data about our taxpayers and also digital systems that increasingly move away from simply enabling people to transact with us and actually are used to manage the relationship with the taxpayer and manage their compliance behaviour and to limit the scope for error and—

Q76 **Mr Holden:** Thank you, Mr Harra. Can you outline something for us? Sir Geoffrey picked up on some of these points, quite sensibly, in his questioning about the estate. The working practices have changed fundamentally, and you are looking at the new 10-year strategy now. How can you ensure that this transformational strategy won't just waste taxpayers' money as the last one did, because you ended up seeing a system just dramatically changing?

Jim Harra: I do not believe that the last one did. In SR15 we achieved efficiencies of almost £700 million a year, which are sustainable; we also modernised our technology estate, and increasingly are modernising our physical estate, in important ways.

The key aims of the strategy going forward are really to improve our resilience and agility. You are right: obviously, over that 10-year period, technology will change and the nature of what we are trying to do will change. So it is not about having a rigid plan; it's about having a set of principles for what a resilient, flexible tax administration looks like and iteratively making progress on that.

Q77 **Mr Holden:** We will definitely be coming back to this, because covid and everything else have changed the nature of work to such a degree that we need to drill into it in several different areas, but I want to move on—as time is running a little short—to universal credit. Two thousand claimants were expected to transfer to the pilot for universal credit. Can you tell us how many had actually gone over by March of this year?

Jim Harra: At 2 April, at the end of the 2019-20 tax year, about two and a third million families were still claiming child tax credit and working tax credit. That is down from—I think, from memory—about 3.5 million at its peak, and that is because of a sort of natural transfer to universal credit as people—

Q78 **Mr Holden:** Exactly, and as far as the pilot went, 2,000 claimants were meant to be transferred as part of the scheme. How many actually went across?

Jim Harra: The managed transition of customers has been deferred, because the Department for Work and Pensions obviously have seen a very significant increase in the number of universal credit claimants and therefore they are focusing all their resources on managing those new customers. In the meantime, the planned migration of the remaining tax credit customers to UC is on hold, and we do not have a re-planned date for that. It was scheduled, we had been advised, for September 2024, but that is now not likely.

Q79 **Mr Holden:** Indeed. The pilot for the 2,000 people began back in July 2019—so well before any covid outbreak—and by the end of March, they had managed to move only 10 people over rather than the 2,000. We had that 2024 date, but there is now no date for the movement of everybody else from tax credits to UC. Is that what you are telling us?

Jim Harra: Certainly the beginning of the migration has been postponed, and there will therefore have to be a re-plan. It remains to be seen whether that re-plan will bring us in on 2024, but the initial plans have not commenced in the way that was expected.

Q80 **Mr Holden:** Everybody is giving a huge amount of praise to the DWP for setting up the UC system, but that has come at the expense of quite a lot of significant changes for the long-term benefit of the system, hasn't it?

Jim Harra: From HMRC's point of view, we continue to administer the tax credit system for our customers. The plan was for a careful migration over time: initially a natural transition followed by a managed transition. We are quite happy to look at how you change those plans and keep them flexible and responsive to the needs of UC claimants in particular, who have very significantly increased in number.

Q81 **Mr Holden:** Are you happy to do that? People will get slightly more cash under UC than if they stuck to legacy benefits such as tax credits.

Jim Harra: I might ask Angela MacDonald to clarify that. In our case, we are not holding claimants prisoner in tax credits and, in particular, anyone who has a change in circumstances can move. Generally speaking, we find that claimants like tax credits—they are familiar with them—and have not wanted to move unless their circumstances change.

Chair: Ms MacDonald, have you anything to add to that?

Angela MacDonald: Bearing in mind that universal credit is an amalgamation of a number of different benefits, the attitude and the benefits or disbenefits for a particular customer of moving on to universal credit can be many and varied. Mr Harra is absolutely correct: if a customer wishes to close their tax credits claim and go over to universal credit, nothing prevents them from doing so. I do not think that you can make the sweeping statement that all customers are better or worse off with one or the other.

Chair: That is a helpful clarification, thank you.

Q82 **Mr Holden:** Thank you very much, Ms MacDonald. Mr Harra, how deprioritised are tax credits and the transformation programme?

Jim Harra: From HMRC's point of view, the fact that people are going to migrate to universal credit means that there is a short-term planning window, so any investment in tax credits would have to pay back in a very short time. With hindsight, with the plans having moved, we might have made investment at a time when we chose not to because we believed that the scheme was going to be closed sooner than was actually the case. We are not investing heavily in the technology of tax credits; we are managing it as a legacy service pending the movement of people to universal credit. The Government's investment is in universal credit.

Q83 **Mr Holden:** HMRC's latest estimate of the level of error and fraud in tax credits has fallen from 5.5% down to 4.9%. That is quite significant. We are talking about overpayments of more than £1 billion a year—that is serious money. You said that fraud and error will remain as long as tax credits remain, so what are we doing to reduce that fraud and error within the existing system, or is it all put to one side as we rush to sort out universal credit for the short-term?

Jim Harra: Is it absolutely not put to one side. We have a ministerial target to keep error and fraud in tax credit overpayments to within 5%. In 2018-19, which is the last year for which we have figures, it had actually decreased to 4.9% from 5.5% the previous year. We have a very active strategy to keep on top of that, which has been significantly reformed in the last 12 months, to increase the emphasis on fraud—

Q84 **Mr Holden:** I understand, but this is basically a legacy Cinderella service now, is it not? It is not moving forwards. You have even said that the 2024 target has been scrapped. We are looking at a significant amount of error within the entire service. There is no long-term plan to get it moved over, so what more can be done? Can it be looked at in more depth? What is the actual situation here?

Jim Harra: I have not said that the 2024 target has been scrapped. What I have said is that the start of that migration has not happened—

Q85 **Mr Holden:** The start has not happened—yes.

Jim Harra: We do not yet know what the outcome of that new planning will be. Tax credit is not a Cinderella service in terms of making sure that customers get the tax credits they need and do not get the tax credits that they are not entitled to, but it is run on legacy systems. We have actively reformed our compliance strategy in relation to tax credits. That has borne fruit, as the reduced error and fraud shows. However, getting it significantly below 5% is extremely challenging. What we have done incrementally is get it down to below that level.

Q86 **Mr Holden:** We understand that it is extremely challenging. In the debt figures to HMRC we can see that there was just under £5 billion of tax credit debt at the end of March 2020. That is a huge amount of money that people are waiting for. How has covid impacted on the plans around debt? Have you stalled that? Are we expecting to see higher numbers in the debt count now?

Jim Harra: Tax credit debt is not money people are waiting for; it is money that has been overpaid to them. It is an inherent problem in the design of tax credits, which is one thing universal credit is intended to address.

Q87 **Mr Holden:** I am sorry, Mr Harra—what impact has covid had on that debt?

Jim Harra: I would not have expected it to have a significant impact on it. We have adjusted the eligibility criteria for tax credits to take account of the impact of covid-19 on people. That should mean that they do not receive an overpayment, which would otherwise have been the case, and therefore would not create a debt. I would not expect that to be significant.

Obviously, we have been transferring tax credit debt to the Department for Work and Pensions, as the customers transfer to them, so there can be a smooth takeover of that. The postponement of the managed transition will mean—

Mr Holden: They have not been moving very swiftly, though, have they? That's the point.

Chair: We have looked at that from the DWP end of it.

Q88 **Mr Holden:** Obviously, people are going to be struggling during the covid situation. We have now seen the extension of the furlough scheme into next year. What measures do you have to protect people, rather than having this money clawed back off them?

Jim Harra: The measures that we have introduced have included, for example, where people's working hours have been affected by being furloughed, we have adjusted the eligibility criteria so that that does not cause them to lose any tax credits. That is a temporary easement in the rules that means we should be able to maintain a smooth entitlement.

Also, the basic element of working tax credit has been increased by £20 a week for the current financial year, and universal credit has been increased by a similar amount, to make those schemes more generous to working families during the covid-19 period.

Mr Holden: Quickly moving on to the EU and the end of the transition period, you have a significant role in ensuring we are ready to end the transition period on the 31st and establish our new relationship with the European Union. HMRC is responsible for the key customs and border programmes.

Chair: Mr Holden, we will be covering that at the session on Monday.

Mr Holden: Have I jumped beyond that?

Chair: If we start on this subject now, we will repeat it at the session on Monday.

Mr Holden: In which case, I will hand back to Sir Geoffrey Clifton-Brown.

Q89 **Sir Geoffrey Clifton-Brown:** Mr Harra, page 69 of your report refers to the ongoing EU infraction proceedings against the UK in relation to the alleged treatment of Chinese footwear and textiles. Can you tell us whether that is likely to be wrapped up in the EU exit negotiations or whether it is likely to be subject to ongoing litigation after 31 December this year?

Jim Harra: I cannot confirm either way. The infraction has not yet been resolved; we continue to disagree with the Commission both on liability and on the quantification of any losses. It remains to be seen whether we will be able to resolve that infraction by agreement with the EU, or whether we will end up in litigation. I cannot say what the outcome will be.

Q90 **Sir Geoffrey Clifton-Brown:** I have a quick question on Making Tax Digital. You are consulting on Making Tax Digital in relation to businesses that pay corporation tax. That consultation runs from 12 November to 5 March next year, right over a period when there is lockdown. That seems very unsatisfactory. Is it likely that you will extend that consultation, considering the seriousness of the issue?

Jim Harra: We have only just issued that consultation, and we obviously engaged with representative bodies about whether they would be able in turn to engage with it. If there is any problem, we will of course look at whether it needs to be extended. However, it is quite a long consultation period by the usual standards, and many of the people who you would expect to contribute to it are working in a relatively normal fashion during this period. I am confident that we have got it right, but I am quite happy that we will look at it if we have not.

Q91 **Sir Geoffrey Clifton-Brown:** I have one further question on Making Tax Digital. That paper makes it clear that you are asking for VAT-registrable businesses over the threshold—that is £85,000—at least in the first tranche. From April 2023, you are asking for businesses with rental income over £10,000 to be included in Making Tax Digital. What was the rationale for the £10,000 figure? It will bring an awful lot of businesses into the scope of Making Tax Digital, at a lower threshold.

Jim Harra: I would need to write to you with the detail of the rationale for that, but our aim initially, in the first phase of MTD, was to bring in businesses that were most able to cope with the change. But it is obviously our ambition over time that this becomes the way we administer tax, and we will want as many businesses as possible to be engaging with it, including relatively small businesses, for which there are free, readily usable products that would enable them to engage with it and that would make their compliance burden easier for them.

The 2023 change relates to income tax for businesses, and it has been extended to include rental businesses for that purpose—it is not just traders. As you say, it has that de minimis level in it. On the VAT level, we expect that those businesses that are registered but have turnover below the threshold will also come into MTD. Indeed, about a third of those non-mandated businesses have already voluntarily joined the scheme.

Chair: It is something we will pick up again in the future. Let's go back to Richard Holden MP for a last couple of points.

Q92 **Mr Holden:** Thank you very much indeed, Chair. I want to have a quick whizz through the tax relief situation at the moment in relation to the Treasury minutes that we got back in September. Mr Harra, what additional work are you guys doing in addition to the Treasury minutes responses that we have had? Obviously, we are particularly concerned about the tax relief side of things. Pensions relief is worth £38 billion. You have 204 reliefs, the impacts of which are not known. Can you give us a quick outline to build on your Treasury minutes response?

Jim Harra: HMRC has already made considerable progress in relation to earlier recommendations to increase the quantity and quality of the statistics that we publish about tax reliefs, and we continue to do that. The most recent publication, on 30 October, brought more estimates of costings into the public domain, and we have also got a response on the evaluations.

Next year, we will publish a list of all reliefs with the objectives to change behaviour, specifying what those objectives are. From spring onwards, we will specify in the tax information and impact notes that Parliament gets whether a new or amended relief is intended to change behaviour, and how we will measure that. From next year, we will also publicly report more information on the groups and sectors that benefit from the most significant non-structural reliefs.

Q93 **Chair:** To have that list of tax reliefs is a welcome step. Will it include every tax relief—even the ones that are pretty static?

Jim Harra: We will certainly publish a list of every tax relief, and we will publish as much information as we possibly can on each one of them.

Chair: Thank you. That's good to know. We will be crawling over it. The Committee will be very interested in that list.

Q94 **Mr Holden:** These commitments sound excellent. What about the pension tax relief? Why has an evaluation of that one been ruled out? I know there has been some work in the past, but why not a full evaluation, because it is such a huge one?

Jim Harra: I acknowledge that it is a huge relief. The Treasury set out in the minute the reasons why the Government did not accept that recommendation. There was a very thorough and major review of pension relief in 2015-16 when views were gathered from a very large range of stakeholders, and there have been in more recent years specific consultations on elements of the tax relief. The Government does not feel that now is the time to carry out a further evaluation of that relief.

Q95 **Mr Holden:** Has there been any discussion around what changes in the relief might be made in the future? Is that one of the reasons why no further evaluations are currently taking place?

Jim Harra: In my experience, elements of pension tax relief are changed with considerable regularity, so I would expect that elements of it would continue to be looked at. If they are, the Government will carry out consultations and evaluations of those aspects. But the recommendation to carry out a review of the whole of the relief was rejected because it is only about four years since a very wide-ranging review was done, and since then it has been looking at individual aspects of it.

Q96 **Mr Holden:** Obviously consultation is not quite the same as evaluation with regard to this. Have you done any technical workings on any potential significant changes to pension tax relief ahead of the Budget next year?

Jim Harra: There was a call for evidence in the summer on how we administer pension tax relief. Earlier in the year, there was also a consultation on the threshold for calculating the tapered annual allowance, and there was significant interest outside about the impact that that was having on certain groups. As I say, this is an area that is looked at and changed with considerable regularity, so I would expect that it would not be unusual in the forthcoming Budgets for aspects of it to be looked at, but there are no plans for wholesale review.

Q97 **Mr Holden:** So keep an eye on pensions tax relief for future changes. Moving to R&D, this is something that has been looked at in quite a lot of depth in some of our briefing sessions. There has been a huge increase in the reliefs. How quickly can we expect to see the abuse in the R&D tax credit system come down?

Jim Harra: You are right; there have been significant reforms in R&D year after year. This is another area of the tax system that is frequently changed, and those reliefs for small and large businesses have been made more generous in recent years, which has had an impact on take-up. I expect us to publish evaluations of the current reliefs shortly.

In terms of abuse, we have an estimate of the level of error and fraud in R&D, which I think is something like 3.6%. That is lower than the tax gap as a whole, but it is nevertheless significant in relation to what is a very large relief. We continually look both operationally and in policy terms at what we might be able to do to manage that. In particular, there have been a number of easements introduced in the small business relief in recent years, and in one of those areas, which was the removal of a cap by reference to payroll, the Government have consulted and brought forward proposals to tighten that up again, specifically because of concern about abuse of the relief.

There is a challenge with these reliefs, which in some ways is a bit similar to what we discussed with the covid-19 schemes. It is important that we get the relief to people quickly. We have service standards that we need to hit to do that. That gives us only a limited time to do pre-payment checks on claims, and we are therefore reliant a lot on post-payment investigation. We do have dedicated staff who do that, and we have recently added a further 100 full-time equivalent staff on to that because of the scale of these reliefs and therefore the scope for abuse happening. I think it will constantly need to be evaluated and adjusted to achieve the right balance.

Q98 **Mr Holden:** I understand. Mr Harra, is it 100 staff just for the R&D or across the reliefs more generally?

Jim Harra: That is just for R&D.

Q99 **Mr Holden:** Because we are looking at £8.8 billion of reliefs in this, which I think has more than doubled in recent years, so this is something we definitely need some proper investigative work into.

More broadly, the guesstimates are quite broad on a lot of these reliefs. With the extra data you are publishing, which you are going to provide us with next year, do you think you will be able to give us a better estimate of not only the value of the relief, but also the value of the fraud and error in the system?

Jim Harra: We will provide whatever we can. In some very key reliefs, such as R&D, we are able to quantify the relief pretty specifically because it has to be claimed, but in other areas reliefs are just given in the course of the tax system. They are not specifically claimed, and therefore we must make estimates based on other data. But for key reliefs such as R&D, yes, I would like to know internally for my planning, and externally to be transparent about the levels of error and fraud, to the extent that we know that.

In the case of R&D, as you say, the amount claimed has risen very substantially in recent years, and of course the reliefs have been made more generous in policy terms. There are two things that we need to monitor in relation to that. One is obviously error and fraud, but the other is the additionality that we are getting in return for that more generous relief, in terms of the additional R&D activity that we are seeing in the economy.

Q100 **Mr Holden:** One thing the Chancellor has raised recently, and quite rightly so, is that, as we are looking through covid, things are going to be tighter in terms of the public purse. Are you coming under increased pressure in terms of error and fraud? What things do you think you could do better? Where do you think you can move more quickly?

Jim Harra: Am I under pressure? Obviously, all Chancellors would like me to reduce the tax gap, because it is a way of raising additional revenues without having to put up taxes, but we also have to run the tax system in a sustainable way. So, yes, I am always under pressure to come up with ways of reducing the tax gap, either through being operationally more effective or through policy change, which can protect the regime from error and fraud without doing undue damage to achieving its objectives.

Q101 **Mr Holden:** Have you had any increased targets on that over the past few months?

Jim Harra: We have traditionally had a target for the number of additional tax revenues that we bring in—for example, in the last spending review. We do not have a target for the current year, because of the very exceptional circumstances this year and the level of uncertainty about what yield we can bring in from our compliance work. But yes, traditionally, the Department has had increasing compliance yield targets as well as being targeted to identify policy changes that can increase revenues without—

Q102 **Mr Holden:** I get that this year is a slightly difficult one, but do you think that has in any way made HMRC take its eye off the ball, or do you think that is a perfectly reasonable response? Are you expecting those to return next year?

Jim Harra: We will definitely collect less compliance yield this year than we did last year. It remains to be seen—

Q103 **Mr Holden:** Do you know by how much, roughly?

Jim Harra: We have not made a projection up to the end of the tax year yet, but in the publication that we released in our quarter 2 performance stats last week, we did make a forecast for the next quarter, and it is significantly reduced compared with the previous year. Whether that has a direct relationship with the tax gap remains to be seen; the fact that we will bring in less compliance yield does not necessarily mean that you will see the tax gap go up. That is something that we will measure later.

Mr Holden: I have a final question to Mr Holliday before handing back to the Chair. The annual report says on page 180, under "The Resource Accounts", that Parliament authorised a net cash requirement for the Department of £15.5 billion. Against that limit, the Department incurred an actual cash requirement of £16.3 billion, breaching authorised limits by—

Chair: We covered this, Mr Holden.

Mr Holden: Indeed we did. All right, I shall leave it to you. Thank you, Chair.

Q104 **Chair:** Thank you very much, Mr Holden. Just a last couple of quick points. First on the spending review, Mr Harra. Presumably, you are hoping to be a net recipient because of the important work you will be doing with compliance and supporting collecting tax. Have you any hints for us? Would you like to lay out to the Treasury what your demands are in the spending review? This is your chance for a quick advert.

Jim Harra: I know my predecessor, at this point, would have completely landed the Treasury in it. First, like all Departments, we are up against a very tight spending settlement. What we have been doing with Treasury colleagues is setting out what it is we think we need to run the system, and the opportunities that are available to them if they have money to invest in us. What I am determined to do is get the best possible settlement that will enable me to run the tax system next year and make progress on my strategy.

Q105 **Chair:** I think that is probably all we will get from you at this point, and time is tight. I have a quick question on something that was reported by the *Financial Times* today about something this Committee spent a lot of time on a few years ago. The Committee under my predecessor really focused the light on transfer pricing. I see that you have written to businesses, according to the *Financial Times*, warning them that you will be looking at this very closely. What hopes have you got that you are going to make progress on tackling transfer price and in getting more money into the British Exchequer?

Jim Harra: There are two big changes that enable us to tackle multinationals' international tax planning. One is the diverted profits tax that was introduced in 2015, which has so far brought in about £6 billion through additional corporation tax and VAT, as well as directly from the tax. The other is the changes that have been agreed in the OECD's base erosion and profit shifting programme. What we have done is identify a number of businesses—not as many, unfortunately, as the *FT* would have you believe—where we consider there is a high risk that they have not got their transfer pricing right and we have opened up a facility for them to disclose their errors before we investigate them.

Q106 **Chair:** Okay, so you are hoping they will fess up. So it is not 2,000 of the largest businesses. How many is it? What is a ballpark figure?

Jim Harra: At the moment, for example, on diverted profits tax, we have about 100 cases open, so it is considerably smaller than that.

Q107 **Chair:** Are you saying it is 100 that you have written to?

Jim Harra: No, we have 100 open investigations in relation to the diverted profits tax. We have written to several hundred, but not the number that is in the *FT*.

Chair: Several hundred or 700?

Jim Harra: I think it is less than—I will write to you with the actual figure.

Q108 **Chair:** So it is several hundred, not 2,000. That's helpful. I am very pleased, of course, that there is still an element in the Finance Bill to be enacted—a sunrise clause that we as a Committee are keeping a close eye on, but with covid it is very challenging.

My very final point—it might be to Ms MacDonald—is that Lee Rowley, the Member of Parliament for North East Derbyshire, has had a constituent write to him. We will send you the details—or he will, no doubt. It is about inheritance tax and the very complicated forms that you have to fill in. That is a proxy for my question about the bureaucracy involved in some of the tax system.

You have got Making Tax Digital and you have better customer service at the front IT end, even if the back end needs a lot of work still. Yet, some of the bits of the system—inheritance tax is being closely scrutinised at the moment—are very complicated. He talks about how he ended up with 15 different forms plus other attachments for a relatively small estate that was exempt from inheritance tax. Are you planning to look at the bureaucracy involved with some of those taxes? It makes life difficult for people, particularly with inheritance tax, which is often on death, and so at a difficult time in their lives.

Angela MacDonald: Yes, it is a well-made point. Inheritance tax is one of the areas that we have identified as one of the most difficult situations. It is obviously an immensely complicated area of law, with the interaction between HMRC and other parts of Government all coming together in this experience, as you say, at quite a difficult time. We have started to make some improvements. We have mapped the entire end-to-end customer journey and we have started to make improvements in it in the way that we would for many other areas. It is true to say that there is further to go, but it links into what Mr Harra was saying earlier about the opportunity for investing in our IT and getting ourselves into a more modern position on our IT. It is also important that it is not only about IT, but about the way we communicate with customers, and how we help them to understand and navigate. You should not have to be a tax expert in order to navigate these situations.

Chair: That is exactly the point, Ms MacDonald. We have raised it on this Committee before. Big businesses or very wealthy people have relationship managers, as you called them at the time. I think you changed the name after Caroline Flint, a former member of this Committee, highlighted that. But it is harder for people who are just doing it on their own, compared to people who have tax advisers. The wealthy can buy the advice and others have to go through a complicated paper trail.

I think we have made the point—thank you. I am glad that you are looking at that. I am sure that Mr Rowley will write to you separately on the issue.

Thank you for your time and patience. Again, we congratulate and thank your staff, Mr Harra, for the hard work they have done over covid, but our job is to hold you to account and keep your feet to the fire to ensure you do not rest on your laurels. There is still a lot to be challenged, as you heard today. To reiterate the point raised at the beginning about those freelancers who were forgotten, I think you will find that that will not go away. I am sure that you are mulling that over in your private advice for Ministers. Thank you for your time.