



Treasury Committee

Oral evidence: Tax Reliefs, HC 723

Wednesday 17 May 2023

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Members present: Harriet Baldwin (Chair); Rushanara Ali; Mr John Baron; Anthony Browne; Dame Angela Eagle; Emma Hardy; Danny Kruger; Rt Hon Andrea Leadsom; Anne Marie Morris.

Questions 188 - 297

Witnesses

Jonathan Athrow, Director General, Customer Strategy and Tax Design, HMRC; Philippa Madelin, Director, Wealthy and Mid-Sized Business Compliance, HMRC; Jane Whittaker, Director, Knowledge, Analysis and Intelligence, HMRC.

Examination of witnesses

Witnesses: Jonathan Athrow, Philippa Madelin and Jane Whittaker.

Q188 **Chair:** Can I welcome our witnesses to this afternoon's Treasury Committee evidence session on tax reliefs? May I ask you to introduce yourselves?

Jonathan Athrow: My name is Jonathan Athrow. I am director general for customs strategy and tax design at HMRC.

Jane Whittaker: Hi. My name is Jane Whittaker. I am the director of KAI, which stands for "knowledge, analysis and intelligence". It is the main analytical unit in HMRC.

Philippa Madelin: Hello. I am Philippa Madelin and I am the director of wealthy and mid-sized business compliance.

Q189 **Chair:** For the benefit of our viewers, none of whom is going to speak fluent acronym, we can perhaps cope with "HMRC" but anything beyond that might be a bit complicated. Jonathan, how many tax reliefs do we have in our tax system?

Jonathan Athrow: We have around 1,100. Jane has the exact number.

Jane Whittaker: We have 1,180 tax reliefs at the moment, of which 841 are structural tax reliefs, so they are inherent to the calculation of tax



liabilities and the applications of the correct rate. We have 339 non-structural tax reliefs. These are tax reliefs that are often designed to encourage a particular behaviour. The number changes at Budgets and fiscal events because sometimes there are policy changes. That is why the numbers can change around a bit.

Q190 **Chair:** That is the first definitive piece of data we have had on that, so that is wonderful. Jonathan, could you talk a little bit about the impact that the abolition of the Office of Tax Simplification is having on your work? Specifically, how are you embedding the work of tax simplification? Regardless of how many specific numbers of tax reliefs there are, everyone would agree that that sounds jolly complicated.

Jonathan Athow: The Office of Tax Simplification worked on existing tax law. That is important: it was not involved in the process of developing policy; it looked at existing tax law.

Q191 **Chair:** So it looked at this vast number of tax reliefs.

Jonathan Athow: It would look at what is in existence. When we are working through policy development with our colleagues in the Treasury, we look at proposals as they are coming through. That is where we are starting to embed tax simplification in that process. We will be looking at different things, such as what the burden of complying with a new tax proposal is. Are there ways in which we can align definitions so we have a single way of looking at proposals? Is it clear and coherent? Are there risks of driving perverse behaviours, distorting behaviours of taxpayers? Those are the sorts of things we look at as we are developing our tax policy.

The first announcements we made around some of the simplifications post the decision to abolish the Office of Tax Simplification were on the Tax Administration and Maintenance Day back in April, where we looked to extend the cash basis, so that the smallest businesses can report on a cash basis, which is simpler for them. We also announced that we were going to be doing a systematic review of our guidance for small businesses, because we know that guidance is very important.

As we are developing policies, we are looking through and discussing the sorts of issues that I touched on in terms of simplification, alignment, avoiding unnecessary distortive behaviours and making certain people are fully aware and ensuring that they have the right guidance. That is how it then works through, as we are developing tax proposals for the Government.

Q192 **Chair:** Would you say that there are a record number of tax reliefs in our tax code at this point in time?

Jonathan Athow: I do not know whether we have a reliable set of data over time. The danger of trying to look at metrics for measuring complexity is that one tax relief can be quite different from another. Some of them can be very simple. Some of them are actually designed to



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remove complexity from the system. For example, if I was talking about the savings allowance, this gives higher rate and basic rate taxpayers a certain amount of savings income that is non-taxable. That reduces complexity in the system because those taxpayers no longer have to interact with us.

I would be very careful about reading the number of reliefs or the number of pages of legislation and assuming that that translates into complexity. Complexity is more complex than that, I'm afraid.

Q193 **Chair:** It does not sound simple. Would you accept that there is room for improvement in terms of the simplification of our tax reliefs?

Jonathan Athow: Apologies if I was a bit overly light-hearted there. The tax system has become more complex. I would be very careful about saying, "This metric proves this". It is the cumulative effect of tax reliefs, other changes in the tax system and maybe the number of taxes. It is the entire effect of the tax system that adds to that complexity. Most commentators would say that the tax system has, over time, become more complex.

Q194 **Chair:** Would you describe the work over the years of the Office of Tax Simplification as having been successful? Would you say that it is being abolished because it failed to simplify the tax system?

Jonathan Athow: When Bill Dodwell and Kathryn Cearns were here before, they talked about some of the successes of the Office of Tax Simplification. I can clearly see that there have been successes. However, the challenges of sometimes making the tax system simpler come up against other policy objectives. It might cost money to simplify the tax system through policy changes. It might create losers or winners who you do not intend or conflict with wider policy objectives. The Office of Tax Simplification made a contribution to simplification, but it is a much wider set of issues that give rise to complexity in the tax system.

Q195 **Chair:** You mentioned winners and losers there. I think that ordinary taxpayers would feel that they did not have the opportunity to bend the ear of someone at HMRC if they wanted to find or argue for a new tax relief or they wanted to argue for them obtaining that tax relief. Does HMRC have good policies in place to record when you have taken meetings with specific lobby groups and who you have met with?

Jonathan Athow: Yes. We are very transparent. We have a number of committees that we will have that come together, sometimes on very straightforward matters, so we have a committee looking at guidance, but sometimes on other aspects of policy and administration of the tax system. We are very transparent about that. We record those meetings. We often publish minutes of those meetings.

Q196 **Chair:** Those are recorded in public so the public can see those?



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Jonathan Athow: The public can see the wide range of conversations we have with individuals.

Q197 **Chair:** Would you be kind enough to share with the Committee the list of those organisations and lobby groups that you have met with over the last 12 months?

Jonathan Athow: It would probably be under the auspices of sharing the details of the committees and groups we come together with, but we can certainly do that.

Q198 **Chair:** There would not be other ways in which people can bend your ear about their particular tax relief?

Jonathan Athow: We are at other events. Last week, I was at an event called Accountex, which brought together accountants and tax advisers. I am out there speaking to people on a regular basis. If there is anything meaningful, that would often be dealt with through those groups.

Q199 **Chair:** The hospitality you might have received and all that gets recorded for the public to see?

Jonathan Athow: We record our hospitality and those sorts of events. I get invited to receptions by the Chartered Institute of Taxation. I am happy to attend those and make certain I am talking to relevant people. We certainly do not want to be locked in our offices.

Chair: That is all out there in the public domain and you will share it with the Committee. Thank you very much.

Q200 **Anne Marie Morris:** Jonathan, scrutinising these tax reliefs, there are an awful lot of them. Is there any system or systemic way in which you actually go through all of them, whether it is chunking them year by year—so many this year and so many next year—to look at whether they are still value for money and still on point for delivering the policy intent, rather than in conflict because something else has happened in the meanwhile?

Jonathan Athow: I will talk about the overall approach and then Jane can probably say a little bit more about how we do the regular monitoring and evaluation. Within HMRC and the Treasury, there are teams that are gathered around particular taxes. I have an Individual Policy Directorate and within that there will be people who are responsible for income tax or national insurance. They will be looking at the system on the whole, in the round, to understand whether there are particular challenges with particular tax reliefs. Are we seeing problems with compliance that people in Philippa's area are addressing?

We look at the tax system in themes. We will look at tax reliefs. One very important thing to say—perhaps I was not quite articulate enough earlier on—is that tax relief is just one part of the tax system. We need to look at the tax system in the round. Sometimes, it is the reliefs that are



important. Sometimes it is other aspects of the tax system that cause us difficulties.

Q201 **Anne Marie Morris:** Does that mean that quite a number of those, particularly the small tax reliefs, get missed? If you are looking at income tax in the round, I am guessing that there are quite a few reliefs and looking at all of them might be quite a challenge. Are you focusing on the ones you think are most fiscally important?

Jonathan Athow: There will be a number of ways and it flows through into some of the evaluation work Jane will talk about. There are a number of ways we would look at them. If it is a very minor relief, that would justify less scrutiny. If it is an area that we think, for example, is subject to compliance risk, so people misusing the relief, that would generate more scrutiny. If it is an area that our customers, taxpayers, are telling us that they are finding it hard to comply with or we are getting lots of feedback that people are making errors, again, that is something we would look at. It is a number of factors. It is hard to put it all down into a simple formula.

Q202 **Anne Marie Morris:** That sounds more like a reactive approach, so when you can see something is not working, as opposed to proactive. You have all these little reliefs; if you add them up, although individually they are small, they are probably quite a large chunk of revenue.

Jonathan Athow: Indeed, and we will look at these. We will probably come on to research and development tax credits later, but we looked at, for example, whether we could bring together the scheme for larger businesses with the smaller scheme. Is there a good case for rationalising those? Often people are looking at these reliefs as they are thinking about what the future policy development will be. However, when we are doing this evaluation we need to use data to drive those decisions, how big those reliefs are and what the estimates of the effectiveness of those reliefs are.

Jane Whittaker: I am sure that the Committee will be aware that we have been doing a lot of work in the last three years or so to increase the number of non-structural reliefs for which we publish a cost estimate. Where we can and have the data, we will also publish something about the expected number of users of the relief as well. We do that across the piece, so for those 339 non-structural reliefs we are covering as many of them as we can. We have been increasing the number that we cover. We still have 44 reliefs to review and we are gradually adding to the extent of information that we publish there.

We publish at least once a year. Actually, in recent years, we have been publishing tax relief statistics broadly twice a year on average. There is another publication due next week, which will include another 10 reliefs¹

¹ The witness later confirmed that the publication included an additional "6 reliefs", not 10 as stated.



that we have recently reviewed. Also, on transparency, we have published a list of the objectives for all those non-structural reliefs as well, which helps to be a little bit more transparent about the purpose of them.

We have done a couple of things. There is a lot of information in the statistical publication about the largest 36 reliefs. You can see in the publication the changes in the costs of those reliefs over time. You can also see some commentary about what the original expectation of the costs of those reliefs would be when they were first introduced and so on.

We have also published our evaluation criteria, and I think that this is what Jonathan really wants me to talk about. We have been increasing the amount of formal evaluation that we do of tax reliefs in recent years.

Q203 Anne Marie Morris: Is this historic ones or future ones?

Jane Whittaker: It is both. We have published 22 tax relief evaluations since 2015. We have another 10 or so in various stages from scoping through to being in the field with particular pieces of external research. We have published a set of criteria that we use to prioritise which reliefs we will evaluate. That takes into account the size of the reliefs. We are looking at those top 36 in the first instance.

We also look at the extent to which the tax relief policy has been reasonably stable in recent years. Where there have been lots of changes in policy, it is quite hard to evaluate properly. We also look at existing evidence that is available in the public domain—we might have previously evaluated a similar relief for example. We also look at the methodological feasibility of undertaking evaluation, because some of the reliefs are quite complex. We need to make sure that, if we are investing an internal resource in that evaluation, we can actually do a proper job, given the data and methods available to us. I do not know whether that helps at all, but it means that, at the moment, we are rather more focused on evaluating the largest, most costly reliefs.

Q204 Anne Marie Morris: You mentioned criteria and size was obviously one of them. What are the other criteria and is there a reason why you have gone for the biggest? Size can mean a lot of things, depending on how you define what size means.

Jane Whittaker: One other criteria I touched on, but maybe too quickly, is the stability of the tax relief design, so whether there have been changes in that policy in recent years. It is quite hard to evaluate a change right away. You need time for the data to build up. I feel like I have forgotten one of the criteria. I will flick through my notes in a moment. Many apologies.

Another criterion is how technically feasible it is to evaluate the policy. It will pretty much always be possible to go and talk to users of reliefs to understand their experience of claiming, how easy it is to comply with the process, but it is not always straightforward to get a quantifiable impact



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of a particular relief. Sometimes, methodological challenges mean that we do not think that we can run a decent evaluation. That is a challenge in particular areas, such as pensions tax relief, for example.

Q205 Anne Marie Morris: Does that worry you? Because of the complexity of doing the investigation, there might be some issues around some of the reliefs that are not properly reviewed to see whether they still offer value for money to the taxpayer.

Jane Whittaker: We try to run a set of research and analysis short of a full evaluation. There have been a number of pieces of work and consultations, for example, around pensions recently.

Jonathan Athrow: There are two aspects to that. We have to offer Ministers the best advice we can on the effectiveness of those reliefs. Ultimately, it is for Ministers to make a decision on whether they want to go ahead with the relief or make changes to it. We try to offer the best advice we can on how effective that is.

Sometimes a formal evaluation can be part of that. Going back to research and development, we did some formal evaluation of how much extra research and development you get from those reliefs. They influenced decisions, for example last autumn, on changes to the relief. Otherwise, at other times, we assemble what evidence we have to support Ministers.

The other aspect—I might bring Philippa in on this one—is that we also have a number of staff who are there to administer those reliefs. We have a number of members of staff who are there to make certain those reliefs are complied with, and we can use that information as well. It is less formal. It is not the big economic evidence, but it also gives us insight into understanding what is going on on the ground. Philippa, I do not know whether you want to say a bit about how your staff help feed into that work.

Philippa Madelin: Certainly, I am happy to add in. It is important to remember, as Jonathan was talking about earlier, that, because of the scale and number of reliefs, they are all administered slightly differently, depending on their nature. Some of them are accounted for automatically, so as part of a business calculating its profit and loss, for example. Others have specific criteria or processes that underpin them. HMRC tailor our response according to the scale and complexity of the reliefs, but also the way in which they are administered.

In the directorate that I oversee, we have a number of reliefs. We risk assess those reliefs. Some are easier than others to risk assess, depending on the level of third-party information that we hold that we can check against. Then we will, in line with the self-assessment tax return framework, look to process as many as possible as quickly as possible, while checking on those that potentially hit our hallmarks of risk for further investigation.



Q206 **Anne Marie Morris:** That is very helpful. Jonathan, a lot of what has been talked about is about historical, as I understand it, review, analysis and then advice to Ministers about what should go and what should stay. What about going forwards? Do you have a good approach in terms of looking specifically at the value for money and effectiveness in delivering policy of any new relief that is put on the table?

Jonathan Athow: There are two ends for answering this. One is, if Ministers have said, "We would like a new relief and we would like to incentivise a particular behaviour," we have put together a framework now where we sit down with the Treasury and look at the evidence as to whether a tax relief is a good way of achieving that outcome. In public policy terms, taxes or tax reliefs might be one way of doing it. Public spending—grants—might be another way of doing it. Regulation could be an alternative way of doing it.

We have a framework now where we sit down with the Treasury and look at those to try to make decisions. When we are advising Ministers, we put together the best advice we can. Sometimes there are uncertainties here, particularly if we are in a new area of policy where there is less evidence. We try to bring that evidence together to say, "This is our best estimate of what this relief will do."

Because of the work Philippa's team does, we also then understand from an operational point of view what sort of reliefs are easy to administer for us and hard to abuse and the ones that are more risky. As Philippa said, if a relief is based on some information that is easily verifiable or can be checked by third-party data, that is easier for us to administer. Where the criteria may be more open or we do not have third-party data, that is more challenging. We will also provide that advice to Ministers about the challenges of administering that, drawing on our experience of administering the reliefs.

Of course, whenever you are making predictions about the future, they are inevitably uncertain. That is where our monitoring comes in to make certain we understand. We expected this relief to cost this much money. Has it cost more? Has it cost less? If it has cost more, is that for a good reason because we have had more behaviour, or is it for a bad reason because people are misusing the relief in some way? Those are the approaches.

Q207 **Chair:** We have been hearing a lot of evidence from people who are affected by the end of tax-free shopping, particularly in major shopping centres such as London. Have you done any evaluation on that yet?

Jane Whittaker: We have not evaluated, although we were of course involved in costing the original decision.

Q208 **Chair:** The numbers that the Chancellor has quoted are your numbers.

Jane Whittaker: I am not sure of every number that the Chancellor has quoted. Certainly when the policy to end that tax-free shopping was



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announced we would have been involved in the costing for that, so assessing the impact on revenues of that change, alongside the Office for Budget Responsibility.

Q209 Danny Kruger: Jane, I think that 1,180 was the number you gave of the number of tax reliefs in the system. This is a very general question, but I would be interested in your view on how coherent you think that whole body of reliefs is. We have discussed the complexity of it, but what about in terms of coherence? Would you be able to say that there are one, two or five themes that you could categorise those tax reliefs under, in terms of their intended effect? If you were looking at it all from a bird's eye view, what would you say was the intended effect of the tax relief system in terms of economic activity?

Jane Whittaker: Jonathan will probably want to answer that one.

Q210 Danny Kruger: I will give my second question as well. Assuming that they are not all brilliant, what is the most egregious tax relief, in terms of the cliff edge particularly? I am interested in cliff edge effects here. What do you think is the worst cliff edge in the system?

Jonathan Athrow: On the former, I think that there are probably about four or five different categories of relief. Some of them are there to simplify the system; the savings relief is there. There are some that actually reduce reporting requirements. People do not have to report small amounts of dividends, so there are some that are actually there to achieve that.

There are some that have economic behavioural effects. Research and development tax credit would be a good example of that, where you are looking for an effect on a particular economic outcome in terms of research and development. Sometimes you are talking about distributional effects, by which I mean you want to support particular groups of taxpayers. Many of the reliefs in VAT would fall under that category.

I think that the marriage allowance was seen as being very important. The Government at the time thought that it was very important that the tax system recognised marriage. Sometimes it is an issue of recognition. There are a number of those themes that you would group them under.

From a tax administration point of view, some of the issues that we find difficult to administer in the system are those areas where the definition is broad and where there is no third-party information. That makes it quite difficult.

Q211 Danny Kruger: Can you give an example?

Jonathan Athrow: One thing that we will probably come on to is research and development tax credit. By definition, research and development is a broad topic.



Q212 **Danny Kruger:** That is difficult for you. What about in terms of its effect and the economic impact of a cliff edge?

Jonathan Athow: The issue you will find with cliff edges is that we either have a cliff edge or we taper away a relief. Some things are very difficult to taper away. If it is a benefit in kind, free school meals being a very good example, you cannot really taper those away; you either have to have entitlement for them or not. Free prescriptions are similar. For some of the other reliefs, you have the choice of a taper, but that adds to complexity.

One area that I certainly see a lot of correspondence on, and perhaps you do as well as constituency MPs, is high-income child benefit charge. That is challenging to implement, because sometimes people are unaware of their eligibility for it. That would be a feature of the tax system. It has a taper, not a cliff edge, but that can be challenging for us to implement and for taxpayers to comply with.

Q213 **Danny Kruger:** There is lots there that I could get into, but I only have a few minutes. I want to jump to VAT. We are very conscious of the number of businesses that cluster beneath the £85,000 threshold. Do you see it as part of your role to reduce the administrative burden for businesses reaching the VAT threshold? What can be done, short of raising the threshold, which just pushes the problem further up? How do you think we could simplify it and encourage businesses to keep growing beyond £85,000?

Jonathan Athow: There are two things. One—this might sound slightly glib—is to try to make the VAT system as straightforward as we can. We already have a fairly streamlined system. We digitised elements of that or introduced digital services. Those are things that you can do.

One proposal that I have seen being put forward is the idea that you might have some sort of graduated introduction of VAT, a sort of tapering in. The challenge there, and I am looking at the Chair—

Chair: It is even more complex.

Jonathan Athow: It would be complex. It avoids this threshold issue, but then there is a potential of complexity for businesses. The challenge is whether you can use digital technology to mask some of that complexity. Those are the sorts of issues, the sorts of trade-offs you face with that sort of system. If you want to avoid the cliff edge, you end up getting into something like a taper or various ways of transitioning into paying full VAT. That comes at the risk of complexity. Of course, the businesses that would be brought into that taper are potentially the ones who are further up or further down, that are currently either in or out. You end up with those sorts of scenarios. People have put forward those sorts of proposals.

Q214 **Danny Kruger:** Are you looking at that? Is examining options like that part of your remit?



Jonathan Athow: We would look at any option around administering, whether it is policy or into administration. It is our role to make certain that all those ideas are kept under review.

Q215 **Danny Kruger:** I do not know whether this is one for Philippa because I am going to talk about the effect on mid-sized businesses. Maybe that one is as well. Inflation is dragging all sorts of businesses across cliff edges that they did not experience before. Is that something that HMRC looks at on behalf of businesses to see the effect of inflation?

Jonathan Athow: Yes. It is very relevant for us. The more taxpayers there are and the more taxpayers there are in more complex parts of the tax system, that drives increased contact for us and potentially increased burdens for individuals and businesses. That is something that we are very much alive to. Thresholds are frozen and inflation is bringing more people into different parts of the tax system.

Philippa Madelin: In terms of our ability to support customers in that way, we tailor the support that we are able to give to businesses depending on their size and complexity. The largest 2,000 businesses have a customer compliance manager who is able to help prevent errors happening before they can occur and work with them through the complexity of their tax affairs. As you move into the more small and medium-sized businesses, we tend to focus on life events for businesses, so where they are potentially entering into more complex elements as their businesses grow. We offer that range of support through the compliance offering.

Q216 **Danny Kruger:** Lastly, on the same topic, Bill Dodwell suggested that cliff edge thresholds should be reviewed every five years. He said to the Committee, "What seems to happen is that things just sit and ossify." Do you recognise that problem and should there be some sort of obligation to have a regular review of cliff edges or tax reliefs in general?

Jonathan Athow: It is very important to keep the tax system under review in the round. Sometimes that is thresholds; sometimes that is reliefs. One thing we might come on to later is that there was concern many years ago about how film tax reliefs were being abused. We monitored that and made changes to it. It is really important that you stay on top of the tax system in the round.

Sometimes that is around thresholds or cliff edges; sometimes that is around other behaviour. You need to rely on all the sources of evidence we were talking about, whether it is the statistical or economic evidence or the compliance evidence, and bring that together. Reviewing the tax system is very important because the way in which people use the tax system changes over time and abuse can arise, sometimes quite quickly.

Q217 **Emma Hardy:** The Institute of Chartered Accountants in England and Wales told us that poorly designed tax reliefs can skew behaviours in ways that are not originally intended or create opportunities for



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exploitation or abuse. Do you agree with that?

Jonathan Athow: Yes. We try to turn that round as much as possible and design the tax system in a way that helps people to comply and minimises the chances of non-compliance. As I just said, the film schemes historically were an area where there was distortion and abuse. You then have to think about what you can do to address those concerns.

Q218 **Emma Hardy:** Where are the areas where you have most worry? What is the most abused relief? You have mentioned film quickly, but what are the other ones you are concerned about?

Jonathan Athow: We tend to look at the tax system as a whole through a measure called the tax gap: that is the difference between the tax we should get and what we do not get in. You will see particular areas. Sometimes they are not necessarily connected with reliefs but more generally with the operation of the tax system. We know, for example, that small businesses tend to have higher levels of non-compliance.

If I were to mention a particular relief, one we have been concerned about and continue to be concerned about is research and development. As I said, the criteria through which you qualify for that are deliberately and necessarily open. It is an open definition of research and development and there is no third-party data for us to corroborate against. Partly, we have already taken action around that. There are some measures that came in this year, beginning in April. We are also doing more in-depth research on research and development tax credit. We are doing something called a random inquiry programme to make certain we have the most accurate approach we can to research and development. That is an area of concern for us for the reasons I have just set out.

Q219 **Emma Hardy:** What is it about tax reliefs that makes them vulnerable to abuse? You have mentioned R&D, where it is a vague perimeter. Is it where there are vaguer perimeters that you have more abuse? What are the other elements?

Jonathan Athow: Philippa might want to come in from an operational point of view. Often, it is where the criteria for it are less easily verifiable. As I said, my favourite example is the marriage allowance. We can easily verify if somebody is married by finding a marriage certificate and therefore it is really easy to determine eligibility. With research and development, you do not have those criteria. Also, potentially, sometimes there is more money at stake.

Philippa Madelin: It is back to the point around some being easier to administer than others. As Jonathan says, we take action when we see that. Film tax relief is one of them where, instead of paying out to individuals and partnerships, we made it so that only production companies themselves could claim the relief.



That also linked in to avoidance that we saw as part of sideways loss relief. Having taken the action in film tax relief, we also then needed to take action in sideways loss relief. That is where we were seeing artificial losses created to claim relief against people's general income. We took a number of steps, with the Government restricting the amount that you could claim in relief and capping that, but also making sure that people could not claim relief who had taken part in relevant tax avoidance arrangements.

When we see that sort of abuse, we are then able to think about the best way to stop it. The third-party data point is important. For tax relief like patent box, for example, at the click of a button we can check that all those applications have a patent registered on the public patent database. We are able to know up front that an intellectual property exists and therefore that that company is likely to have a verifiable claim for IP.

Q220 Emma Hardy: You have just described that you go to address a situation with tax abuse, the tax abuse moves somewhere else and you have to almost be following it around. Compared to the people who are working at a very high level to always identify the loopholes, shall we call them—"tax abuse" is another way—are you resourced enough to be able to work at the same pace at they seem to be able to work at to identify these loopholes and ways to prevent themselves paying the tax they should?

Philippa Madelin: We put our resources in HMRC to those areas where we think tax is most at risk of not being paid. There are many reliefs that are applied automatically, that we see no inherent issues with, that are easy for us to administer and where we are able to prevent non-compliance happening.

A good example of this might be business expenses. Generally that comes off the profit and loss at the company and we are able to restrict to the maximum amount claimable on the form itself, so that we know that people will not be able to go above a maximum. That is just one example of what we do to prevent it.

Q221 Emma Hardy: When I was reading *Taxtopia*, I was thinking from having looked at that about the money that can be earned in the private industry by people, accountants, working to identify loopholes and ways to abuse the system compared with what you are able to get working in HMRC. Are you always fighting a losing battle against the people who are out there looking to identify problems in the system?

Jonathan Athow: I would go back to a wider compliance issue. Maybe tax avoidance is a good example of one where it is a constant arms race to make certain that we are matching those people trying to market those schemes. Over a period of time, we have successfully done that. We are starting to get ahead of many of the avoidance schemes and reducing it to a real minimum.



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The challenge is that there are always going to be people looking at our systems. That can be tax reliefs or any part of our system. It can be registering for VAT or other things, where people are looking at that system and trying to spot weaknesses. We have very skilled people in Philippa's area who help us understand, "I can see that, if you do this in this particular way, there is a risk here." Of course, there is a group of people out there who are very well incentivised to try to find weaknesses in our system.

We have a lot of skills and experience within HMRC, in Philippa's area and elsewhere, with people who can understand that. It is just an inherent part of the challenge of us responding. Of course, people who are trying to use these systems in this way will often not want to volunteer or talk too loudly about what they are doing. It is a real challenge for us to find those particular strategies and work out the best way of addressing them.

Q222 Emma Hardy: If you are able to pitch to Treasury, which might be listening, could you do more with more resources or people to look at this?

Jonathan Athow: We make what is called in the jargon spend-to-raise bids. We have made those; where there is a good business case, for example to invest in additional staff members to identify and work through particular cases, we will make that case to the Treasury. There can be a wide range of ways in which we can get additional revenue in. Sometimes Philippa's area will benefit from those cases where we can make a good case that deploying extra staff, extra resource to bring in more data or some combination of the two will allow us to do that. We will do that on a regular basis, when we have a good business case for doing that. Otherwise, our spending review settlement is set on the basis of giving us flexibility to respond to new challenges.

Q223 Emma Hardy: I totally appreciate that you are doing the best you can with the resources you can. I just personally think that, as the only revenue-raising Department in the Government, they might want to resource you a bit more effectively.

Thinking about the design of some of these, you mentioned earlier on that you talk to Ministers, you have a framework and you work on the design. Do you do stress testing as well and modelling to look at how, from the design process, you can try to limit out as much abuse as possible? How does that work?

Jonathan Athow: The development process for a new part of the tax system, whether that is a relief or anything else, sometimes has a number of tracks to it. One is legislative. We have to legislate for it, whether that is primary legislation, say in the finance Bill, or secondary legislation. We then have to design the IT systems to deliver that, and we then have to work on the business processes that are there to either administer that part of the tax system or help us verify it.



That is where Philippa's staff will come in. If we are developing something new that Philippa's staff are going to be delivering, we involve them early on and make certain they input into that development as we are working through. It is not as if we simply put a new parameter in the computer and turn it on. We have to go through that whole process of delivering that. For example, the announcement around the new research and development support for knowledge-intensive businesses is being developed and worked up with Philippa's people to input into how we can minimise the compliance risks of those sorts of approaches.

Q224 Emma Hardy: Finally, the Office of Tax Simplification suggested that HMRC is not getting external input on new taxes and reliefs at the right time. It argued that, consequently, areas for abuse are not being identified early. Is that a fair criticism?

Jonathan Athow: There is always a challenge with development of tax policy that certain elements of it need to be fairly well developed before they are announced. There are limits sometimes on what we can share. Ministers would like secrecy around certain elements of that. We also do not wish to provide undue advantages to any particular taxpayer by sharing information with them, so we have to be very careful in how we do that.

Increasingly, we are using more and more consultation when we make changes to the tax system. Again, back in April we will have done many consultations on different aspects of the tax system to make certain we bring that input in. There are sometimes limitations around how we can engage with others, given the sensitivity of these issues and the issues you were talking about earlier in terms of propriety and making certain that we are being fair to taxpayers and tax advisers as well.

Q225 Mr Baron: I would like to pursue the scope and possibility of sunset clauses, which give an expiry date in law for the tax relief provision in particular, and whether they would be useful in simplifying the tax system, particularly in this area. There is no doubt that our tax code has become more complex. It ran to something like 5,000 pages in the mid-1990s and had doubled to 10,000 by 2010; it has now doubled again to 20,000 pages.

Sunset clauses are not widely used when it comes to tax reliefs in particular. Why is that the case, given that, provided sufficient notice is given—maybe a five-year view—it would give plenty of time for businesses to invest, but would also focus minds and give notice on whether the relief was actually achieving its goal?

Jonathan Athow: There are uses of sunset clauses. I believe that some of the creative industry reliefs that were made more generous during the pandemic have a sunset on those. They are used, but it is rare.

The challenge that comes, particularly on the business side, is that businesses like certainty. We have heard a lot around simplification and simplification is important, but sometimes certainty counts a lot for



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businesses to allow them to invest. Particularly if they are taking decisions that might have implications for decades, they would be looking for certainty.

The other challenge with them is that you want a system that is kept under review. That is really important. Sunsetting is one way of doing that. There are other ways in which you can do that.

Q226 Mr Baron: Can I come back to you on the issue of business? Given my outside interests, I know a little bit about this. I would suggest to you that, as long as you set a timeframe sufficiently in advance, that is certainty, provided that it is not too short term. If you give a five-year, seven-year or maybe even longer timeframe, that is certainty.

It cannot be denied that we have a very complex tax system; 20,000 pages to the tax code itself is just one example of that. It is more complex than most other systems. We have had evidence to the Committee: for example, the Institute of Chartered Accountants in England and Wales, a body that should know something about this, has said that, provided there is sufficient notice given in advance of that cliff edge when it comes, when the sunset clause is due to kick in, it could help to achieve the Government's strategic objectives and simplify the tax system.

Jonathan Athow: It can. The question is finding the right reliefs to apply that to. As I said, the creative industry relief has an element of sunset in that.

Q227 Mr Baron: Yes, but, with respect, we have nearly 1,200 reliefs. There is no shortage to choose from. Sunset clauses still run to a small minority of those reliefs. I suppose what I am trying to press you on gently is whether we could not be a little bit more inquiring as to whether sunset clauses, which are hardly used, could be a force for good in trying to simplify the tax system.

Jonathan Athow: They could. You would have to choose very carefully. If I look at some of the largest reliefs, I do not think that those are areas where you would want to consider sunsetting. Is zero-rated VAT on food something you would think about sunsetting? That feels quite qualitatively different from something like the creatives relief. You would have to choose carefully where you use that tool.

As I said, things such as the savings allowance are actually designed to be simplifying for taxpayers. I do not think that that is something that you would want to think about necessarily putting within a sunset. You can do it. There is scope for thinking about using it more.

Q228 Mr Baron: I accept your point that there are certain things, such as zero rating on food and so forth, that would be here to stay. There are many others where one can think of examples where perhaps closer examination of whether that relief is achieving its goal has to be a good thing when it comes to assessing its impact on economic growth. I could



cite you a number of examples, including capital allowances and all these sorts of things, where it is incumbent on you, as central to this, to keep an eye on this to see whether they are still achieving their goals.

Jonathan Athow: I could not agree more. If you look at the evaluation we have done or the work we do, for example on looking at capital allowances, looking at the impact of research and development tax credits, those sorts of things, those are things we are doing to make certain we keep those under review.

Q229 **Mr Baron:** May I press you on this? You say that you are keeping them under review, but still we do not see much evidence of the number of sunset clauses kicking in or being introduced, or indeed tax reliefs going down; that would be integral to tax simplification. I take you at your word that you say that it is under review. I am suggesting to you that that is not having much effect.

Jonathan Athow: I would not dispute that the tax system has become, over time, more complex. There are a number of reasons for that. Some of it is because the tax system is trying to do more to support economic growth or to achieve other public policy aims. I do not disagree with your point. We are trying to work out what the best mechanism for getting to a rational discussion around reliefs is.

Q230 **Mr Baron:** Why do you think our tax system is more complex than most? Most other jurisdictions have similar sorts of problems, certainly in the developed economies and ours. We do not have a unique economy. Why is it that our tax system is so much more complex?

Jonathan Athow: There have been changes over time as the tax system has been asked to do more. Many years ago, there were no such things as research and development tax credits or the patent box—those tax-advantaged ways of investing. It is partly that the tax system has been asked to do more.

Q231 **Mr Baron:** Would you agree that it is too complex?

Jonathan Athow: Whether it is too complex is not a judgment for me. It is more complex than it has been. As I have been very open about, there are parts of the tax system that are more challenging for us to administer than other parts of the tax system.

Q232 **Mr Baron:** Do you think that you have the resources needed to undertake the regular reviews? I am getting a picture here of sunset clauses hardly being used, which would encourage a review. You are, quite understandably, saying that you regularly review, but still the number of tax reliefs is going up. The tax system itself is not being simplified. Do you have resource to do this without sunset clauses?

Jonathan Athow: Over time, we have put more resource on to evaluation. The work that Jane talked to has required more resource to be put on to that. At the moment, yes, we are deploying more resource, because there are more parts of the tax system to administer. I do not



think that there is a challenge at the moment about us not having resource to fully manage the compliance risk.

Of course, as a Department, we are being asked to make efficiency savings. As many of you will know, being constituency MPs, there are concerns about our ability to answer phone calls and those sorts of things. In terms of monitoring and being able to deal with compliance risks, that is not a particular challenge at the moment.

Q233 Dame Angela Eagle: In passing, were any tax reliefs or rules identified as part of the 4,000 EU regulations that were going to be sunsetted in one big go at the end of the year until the U-turn? Is the tax system completely separate from all that? Quite a lot of EU law was taxation.

Jonathan Athow: It does not really affect many of the reliefs. The main areas where this is an issue is VAT, because that was very integrated with EU rules. It does not affect the broad policy decisions, for example on the zero rate of VAT on food.

Q234 Dame Angela Eagle: That is only because we had it when we went in.

Jonathan Athow: Yes. It might affect, for example, the case law on which the boundaries of that are determined.

Q235 Dame Angela Eagle: You mean the difference between cakes and biscuits and all that kind of thing?

Jonathan Athow: Yes, we are in danger of degenerating into satire, I fear.

Q236 Dame Angela Eagle: It is not satire. It is all about how you define Jammie Dodgers and Jaffa Cakes, which is the obvious one.

Jonathan Athow: Yes, exactly. I feel that we are already going down that path.

Q237 Dame Angela Eagle: It is around VAT. What about excise duties?

Jonathan Athow: Yes, excise duties to a lesser degree, but they are much more simple in their administration. VAT is a larger tax because there are many more features to it. It applies to excise duty to a certain degree, but much less so. It would be around the boundaries of rebated oils and those sorts of things, which is important for certain taxpayers but is, in the scheme of the tax system, much less of an issue.

Q238 Dame Angela Eagle: Which tax relief's cost has changed the most since it was introduced, of these 36 big ones? It is always a sign that it has either worked and behaviour has changed, as you were saying earlier, or some huge scamming is going on.

Jonathan Athow: I would have to ask Jane whether she has that to hand. We publish, I think, five-year projections for the largest tax reliefs. I do not know whether you have that to hand.



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Jane Whittaker: I do not think that I could tell you that it was definitively the largest increase, but we published some information on percentage increases in costs between 2017-18 and 2021-22 in our latest statistical publication. The largest percentage increases there were around the research and development tax relief for small and medium-sized companies and the tax relief for high-end TV, which is relatively new.

Q239 **Dame Angela Eagle:** When you see that, surely you zone in to try to find out what is actually happening and whether it is a good or a bad thing?

Jonathan Athow: Yes.

Jane Whittaker: Yes. Indeed, we have evaluated both of those. I think it is true to say that we have published the evaluation of high-end TV relief and other creative reliefs very recently. We have talked quite a lot about research and development tax credit recently and we have published evaluations on that as well.

Q240 **Dame Angela Eagle:** What about pension tax relief? That is one of the big ones as well, is it not? That is now being used in a way that I do not think was intended when it was introduced.

Jonathan Athow: Pension tax relief is quite large and complex. There is a question of what the alternative you were measuring against would be. That is always quite challenging. What is the default assumption? Also, the way we look at the cost of pension tax relief is the current revenue forgone from people saving for pensions today, then we subtract the tax we get from today's pensioners. Sometimes we are not really looking over the life cycle of that.

Dame Angela Eagle: It is a snapshot.

Jonathan Athow: It is a snapshot, so it is therefore very difficult to fully understand that. While I think that the numbers are what they say they are, they have to be interpreted with a degree of caution. We regularly publish information on that. We have also published the distributional information on who benefits.

Dame Angela Eagle: That is clearly also important.

Jonathan Athow: We are looking at, for example, how many people in the public sector versus private sector benefit from those different elements of tax relief.

Q241 **Dame Angela Eagle:** I was thinking of income deciles rather than sector.

Jonathan Athow: I think that we published something on that as well, yes.

Q242 **Dame Angela Eagle:** On venture capital tax reliefs, there are three. There is the enterprise investment scheme and the venture capital trusts



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tax reliefs as well. What are the costs of the three venture capital tax reliefs?

Jonathan Athow: I do not have the number to hand, but I am certain that Jane does.

Jane Whittaker: I had to bring some tables, I am afraid, because I could not remember every single number.

Dame Angela Eagle: No, we would not expect you to.

Jane Whittaker: On EIS, the annual cost in 2021-22 was £2.6 billion. No, that is not right.

Jonathan Athow: I am sorry. Should we give you the numbers separately?

Philippa Madelin: I have this one. The reason it is a bit trickier is because the latest stats were only published today.

Dame Angela Eagle: I had not realised I had asked you such a timely question.

Philippa Madelin: Yes, it is hot off the press today. Across EIS and the VCT scheme, it was £2.3 billion² for 2021-22, with 4,500 companies claiming. For EIS, that is the largest number we have had since the beginning of the schemes, up 39% on the year before. That is largely reflection of post-Covid and post-pandemic investments. We do not see it as a trend of anything apart from economic activity.

Q243 **Dame Angela Eagle:** How do you assess and evaluate whether these are any good? We will come on to sunseting in a minute. They are in the peculiar position where there has been an announcement that they are going to be sunsetted. When I was at the Treasury I asked about the evaluation of these schemes, and I was told that it could not really be done in a satisfactory way. Has that changed?

Jane Whittaker: We have published an evaluation on EIS and VCT. I have a few findings in front of me that I can share. We did qualitative and quantitative research. Overall, the conclusion is that the schemes bridge a funding gap that would otherwise emerge. We had a little bit of information about how the reliefs are used. We found that schemes led to increases in sales, jobs and productivity as well as greater innovation across the products and services provided.

Q244 **Dame Angela Eagle:** Do we know how many of the 4,500 companies that claim the reliefs survive over the medium-to-long term? Is there any

² The witness later confirmed that the £2.3bn figure refers to the amount of investment raised by companies under the Enterprise Investment Scheme. The cost of the tax reliefs was £540m for the Enterprise Investment Scheme, £95m for the Seed Enterprise Investment Scheme and £340m for the Venture Capital Trust Scheme reliefs.



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evaluation on a company level?

Jonathan Athow: I am not aware of it, but, again, perhaps we can write to you with more detail.

Q245 **Dame Angela Eagle:** It would be really interesting if you did. I was very unhappy about the level of assessment and evaluation of these schemes, because they are not cheap.

Jonathan Athow: No.

Q246 **Dame Angela Eagle:** In theory, it is a good thing to finance new start-ups, so everyone thinks they are fantastic, but nobody was really evaluating properly whether they were value for money and whether there might be other ways of doing this.

Jonathan Athow: We will write to you with the evaluation evidence we have and anything we have about the survivorship of those businesses.

Q247 **Dame Angela Eagle:** You did not have anything when I asked before, albeit that was a few years ago. It would be interesting to know whether anything has been developed to check whether these companies ever survive.

Philippa Madelin: One important part of this is that we do say companies have to be in existence for three years afterwards for those relief claims to be valid. We have also introduced in some of the schemes company-age limits as well as lifetime funding limits. That is to counter the abuse of those schemes. We do look to restrict these reliefs.

The Government's Patient Capital Review in 2017 led to the risk-to-capital condition being introduced in 2018. That further made sure there was genuine risk to capital and long-term growth plans for those companies. We have introduced various measures and conditions to ensure we are investing in the right type of companies that this was intended to benefit.

Q248 **Dame Angela Eagle:** That sounds positive. The EIS and VCT schemes are due to be sunsetted in 2025. Why did that come about? Was it due to EU state aid rules?

Philippa Madelin: We had a sunset clause here because, as Jonathan mentioned earlier, there was an identified market failure where these types of companies were unable to access funding from the financial sector. The Government stepped in, but they introduced a sunset clause for exactly the reasons we were talking about earlier, which is that it may not be an ongoing market failure. At such point as we came to the sunset clause, we should then review whether this was still ongoing.

Q249 **Dame Angela Eagle:** These schemes have been in existence for a long time. They may have evolved a bit, but they certainly did not come into existence over Covid or the lockdown period.



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Philippa Madelin: EIS and VCT have been here since 1994 and 1995. The seed enterprise investment scheme has been here since 2012-13.

Q250 **Dame Angela Eagle:** Why is there a sunset clause in that context, since they existed long before there was an issue with either Brexit or Covid?

Philippa Madelin: The context is that the economic environment changed substantially in that time. As you mentioned, there is a large cost associated with this. The Government could say, "We do not need to step in with these reliefs." We have announced recently, because the market failure still exists, that there is a commitment to extend that sunset clause beyond 2025. We have not commented about how far that will go yet.

Q251 **Dame Angela Eagle:** Is there an issue with European Union state aid rules, particularly with respect to Northern Ireland and the Northern Ireland protocol, when it comes to these schemes?

Jonathan Athow: No, not that I am aware of. As you say, they are longstanding schemes. I am not aware of any particular concerns on EU state aid.

Q252 **Anthony Browne:** My questions are going to focus on the taxpayer response to different tax reliefs across the piece. We were just talking about the EIS schemes, but this applies everywhere. We were talking about R&D tax relief earlier and whether that encourages greater research and development. Does pensions tax relief encourage greater pensions payment? Does first-time buyer relief on stamp duty encourage more first-time buyers? I was just wondering what research you do across the piece into how behaviour changes in response to these different reliefs.

Jonathan Athow: Let me set out some of the steps we will take. At one level, we can ask people how a relief has affected them. That is sometimes quite useful for understanding design problems, for example. "We would have taken this up, but it was designed in such a way that means it is really hard for us to claim,"—those sorts of things. Sometimes we can get that sort of qualitative research.

The other research we will do is much more about harder edged economic analysis of those schemes. As Jane said, sometimes those schemes can be evaluated fairly straightforwardly, although I am certain there are many statisticians and economists who would say it is much harder than that and that it is not straightforward.

For the research and development tax credit, we did an evaluation of how much extra research and development we got for each of the two schemes we had. In other areas, it is much harder to trace decision-making and how this affects outcomes. Sometimes the way it affects behaviour requires a number of different stages, and we do not know exactly whether the tax relief is the thing that might have made the behaviour more likely.



Pensions is quite difficult to evaluate for that reason. Trying to escalate what would have happened without the reliefs is quite challenging. There are often a number of other aspects to pensions. People might be responding to pension tax reliefs because of other changes in the tax system. We certainly saw that when the additional rate of income tax was first introduced. We did see some changes in behaviours there, some of which was around how people used tax reliefs.

Q253 **Anthony Browne:** This was people putting more money into pensions.

Jonathan Athow: Yes, exactly. Sometimes there are other things going on that make that evaluation more difficult. Sometimes we can do that. As I said, research and development is an area where we do have some hard numbers for the extra research and development for every pound spent on the tax credit.

Q254 **Anthony Browne:** We had some evidence from the Institute for Fiscal Studies, which suggested that, on the personal taxation side, the behavioural effects are greater for people on higher incomes because they have more options and therefore more opportunities, such as putting more money into pensions to avoid higher marginal rates, describing some of their normal income as capital gains rather than income and all of this income shifting.

Is that something you observe as well? Basically, people on higher incomes are more able to shift incomes and do things in different ways.

Jonathan Athow: I am in danger of getting into details, but, when we are making changes in our tax system, we have something that measures how responsive the income somebody reports is to the tax rate. That is called taxable income elasticity. It is an economic parameter. We generally see that those on higher incomes are more responsive. That can be for a number of reasons.

To a certain degree, there is more at stake for higher income taxpayers. The benefits of entering into these arrangements would be higher. Sometimes there are fixed costs if you are entering into a different way of organising your affairs. Sometimes that has a cost to it. You would expect that. Sometimes people have more options. If you are an employee, you often have very few options in terms of how your remuneration is offered to you. If you are in a different situation, you often have more flexibility. A number of those factors will affect why there is a greater response from higher income taxpayers.

Q255 **Anthony Browne:** How much of an issue is that? I do not know whether you can quantify it. The Institute for Fiscal Studies has done an estimate of the cost of income shifting, which is totally legal tax avoidance rather than tax evasion. Do you quantify how big an impact that is?

Jonathan Athow: We will quantify that impact.

Q256 **Anthony Browne:** You will quantify it. You have not done it at the



moment.

Jonathan Athow: When there is a tax change, we look not just at the theoretical liability that should be raised but also at how much that sort of behaviour will offset it. I am trying to think back to when the changes to the additional rate were announced in the growth plan. That would have had both the cost before the change in behaviour and the cost after the change in behaviour. We will always be very clear on that.

Where there is a large effect, we would make certain that is separately identifiable. Jane's team does that work. We always try to be very transparent about those effects.

Q257 **Anthony Browne:** Are we near the peak of the Laffer curve on any taxes? I realise the Laffer curve is a very complicated thing and that it depends on what options people have and so on.

Jonathan Athow: Certainly, the most recent work done on this was around the introduction of the additional rate and changes around that. The evidence at the time was that, given the other features of the tax system at the time such as the way NICs are levied and all those sorts of things, going above a 50% additional rate would not generate significant additional revenue.

For example, the Scottish Fiscal Commission, when calculating the effects of increasing their additional rate from 46% to 47%, suggested that the impact on revenues was quite modest indeed. If it is not quite producing a Laffer curve, that suggests—

Anthony Browne: This is the summit.

Jonathan Athow: Yes, indeed. Of course, there are great uncertainties around the effects of those. It depends on the rest of the tax system. Again, it depends on people's ability to flex, as you say, between income, capital gains and other things. It is not necessarily a fixed point, but it is fixed for the tax system you have at that point in time.

Q258 **Anthony Browne:** Presumably you differentiate between behavioural changes that you want to encourage and those you do not. With things like R&D tax relief, clearly that is in place to encourage more R&D. If it is not doing that, it is a failure. There might be other changes in behaviour, though, such as declaring more of your income as capital gains rather than income.

Jonathan Athow: Indeed, yes. Going back to research and development, there are two behaviours. We would like to see more research and development, but we also do not want to see abuse of the relief. As I said, we have some work in hand at the moment that we are planning to publish alongside our annual report and accounts. That will provide a much more complete estimate of error and fraud connected with research and development tax credits.



Q259 **Anthony Browne:** I have a lot of tech companies in my constituency. I did a lot of work on lobbying for changes in that when it was introduced, to get rid of the abuse without limiting the help to the companies that we want to encourage.

There is one final question I wanted to ask you. You have answered various questions about complexity, and you gave a very good diplomatic answer. You said the tax system was not too complex, but it was more complex. In your opening statement you argued, quite rightly, that you should not measure complexity by the number of pages in the tax codes because you could halve the font size and the number of pages would halve.

I am just wondering what objective criteria you could use for measuring complexity. On one hand, you could have so many reliefs or variations with huge compliance costs and administrative costs that we would say there are too many downsides and it is really quite complex. On the other hand, if we had a single flat rate for everything, like they have in some eastern European countries, we might say that is too simple for various reasons. What is the optimal rate of complexity? How do you decide whether something is too complex or not?

Jonathan Athow: I would very much like to know the answer to that.

Q260 **Anthony Browne:** The administration costs must be measurable.

Jonathan Athow: Yes, exactly. We do estimate the burdens on business of complying with our tax system. We look at that in the round. Again, sometimes the burdens come from applying for something that is beneficial to them. That is an imperfect measure, but it is one measure.

I would look at measures like behaviours we do not want to see, so distortive behaviours. To a certain degree, you could look at bunching and those sorts of things. That is one measure. Large amounts of bunching at particular points where people avoid going into a system would be an indicator of undue complexity.

Another factor is the amount of error you see in the system. When we look at the tax gap, we know there is a variety of behaviours, from people getting things wrong because they do not understand through to outright criminality. The number of errors we see is probably an indication of a degree of complexity. If you had a basket of those measures, you could look at that.

Q261 **Anthony Browne:** There is not a single kind of complexity; there is an index of complexity.

Jonathan Athow: There is not a single one. Sometimes the feedback you have as constituency MPs will tell us about the challenges in particular parts of the tax system. That qualitative feedback can also be really useful.

Q262 **Anthony Browne:** There must be a trade-off. If you have greater



simplicity, everyone understands it, compliance is a lot easier and there are fewer disputes, et cetera. There might be a cost because you are not adjusting behaviour in quite the way you want. You have to trade off those two.

Jonathan Athow: Yes, exactly. Even fairly uncontroversial reliefs, such as the zero rate for food, which would have wide political support, create complexity because, as we were talking about, we have to work out where the margins of that relief should start and stop. It is an ongoing challenge.

Q263 **Anthony Browne:** Coming back to the Jaffa Cakes question, presumably you could look at the number of legal disputes around taxes. If there are lots of court cases on whether a tax applies or not, it is going to be too complicated.

Jonathan Athow: Yes, exactly. We end up litigation at the margins of these cases. Sometimes that is helpful for clarifying a point about how we should administer taxation, but often there are substantial costs to litigation for the Government and the litigant as well. That is akin to my error example. It can be a symptom that there are problems with the system.

Q264 **Anthony Browne:** Finally, I will put in one little plea as a taxpayer. Can we put a greater premium on taxes that are comprehensible? I have spent too much of my life trying to understand these things. I am not getting into political differences here, but, when it comes to pensions, one of the reasons I argued in favour of getting rid of the lifetime savings allowance was because the whole system got so complex at that far end that 99% of pension contributors did not understand what was going on and people just withdrew from the whole system.

Jonathan Athow: One very important aspect of that is when rules are introduced that apply to a very small number of individuals who are very sophisticated, but then over time the economy or the tax system changes to bring more people into those rules, that can be problematic. Originally, when many of the calculations that underpinned the pensions tax system were put in place, they caught a very small number of highly sophisticated or well-advised taxpayers. As more people are brought into that system, it becomes more challenging for taxpayers to comply.

That is an aspect of complexity. Sometimes you introduce something that you think is fine because it only affects a small number of taxpayers, but, as it grows over time, that complexity grows into it. It is inadvertent growth in complexity because of changes in the economy.

Anthony Browne: I would love to continue the discussion, but I am going to get told off by the Chair for overrunning.

Q265 **Chair:** No, it is a great discussion. You are giving fantastic evidence, Jonathan. What I just heard you say was that ending the lifetime allowance has been a major simplification.



Jonathan Athow: I will use a number—

Q266 **Chair:** That is a simple “yes”, is it not?

Jonathan Athow: Yes.

Q267 **Chair:** You also said that previous evidence from Scotland and the previous experience of having a top rate of tax above 47p showed signs of not having increased revenue. I do not want to put words in your mouth, but that is what I heard you say.

Jonathan Athow: The increases became quite small at that level, which suggested that you were getting close to the point of revenue maximisation based on the evidence we had at the time.

Q268 **Chair:** We have had evidence in our cliff edge work about marginal rates of 55% to 60%. With the child benefit tax charge withdrawal, the loss of the personal allowance above £100,000 and free childcare also not being available, we have had marginal tax rates quoted at us, in some of the evidence we have received, of over 100%.

Jonathan Athow: Going back to my answer to Mr Browne, we see that higher income taxpayers respond more, particularly additional rate taxpayers. Those earning previously over £150,000 and currently over £125,000 tend to have the highest response. When you are looking at the high-income child benefit charge, that is further down the income distribution; they are likely to be less responsive.

You potentially have to weigh a higher marginal tax rate against the fact that this group of taxpayers tends to be less responsive on average. Those two factors are offsetting each other. When you are thinking about marginal tax rates, it is both what the level of the tax rate is and which group of people is affected by them, along with which options they have for changing their circumstances to pay less tax.

Q269 **Anthony Browne:** One of the things I have been interested in is stamp duty on residential properties, particularly primary residential properties. It is really a simple question. When you try to estimate the income from stamp duty when it is changed—it goes up or down—I know you look at the volume of transactions and the number of property sales. If the number of property sales goes down, clearly there is less income per property sale.

Do you look at the impact of other forms of revenue? When people move house, they do not just pay stamp duty. You can measure on average the amount they spend on a builder or on buying furniture and carpets. There is also VAT and all that. You pay VAT on your conveyancing fees and everything else. Do you look at all of those other sources of revenue rather than just the stamp duty?

Jonathan Athow: We would not do that directly. Where behaviour affects the tax base itself, we will do that calculation. Where income tax rates affect income tax, we will do that. Otherwise, we will work with the



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OBR. We will say, "This is the change in stamp duty. This is what we expect in revenue." The OBR would then say, "That affects additional transactions," and they would pass that back to us for us to put into our forecast. Those judgments are owned by the—

Q270 **Anthony Browne:** Do they look at the additional transactions in terms of other revenue streams, the non-stamp duty transactions?

Jonathan Athow: The OBR would also feed that into its wider economic model. They would be looking at whether there are other additional transactions and whether that affects the rest of their economic model. I do not know enough about the OBR's economic model to know how that would work. If there is an effect on the wider economy, it is for the OBR to make that decision as part of its forecast.

Q271 **Rushanara Ali:** I have a few questions on large tax reliefs and forgone revenue, but, before I go on to that, I want to ask you to comment on the report by the Public Accounts Committee—I appreciate this may not be directly your brief, but it is relevant to you as an organisation—that £9 billion in tax revenue was lost during the pandemic because 4,000 HMRC staff fighting tax avoidance were redeployed. I appreciate you might not have been witnesses, but at the time your boss was asked these questions by this Committee, me in particular, about whether HMRC needed resources so that core business was not going to be undermined. We were reassured that the resources that were needed were going to be provided, both by Government as well as the head of HMRC. It seems this has cost the taxpayer £9 billion.

The report goes on to show—this was in early May—that there are 32% fewer cases in 2020-21 than in the previous year. We all recognise the pandemic was difficult, but this is stuff that could have been foreseen. In fact, it was highlighted, yet we were reassured that all would be fine. What do you have to say to that?

Jonathan Athow: During the pandemic, we had to change our business to support individuals and businesses. Some of that was the CJRS and other changes to our business practices to support businesses.

Rushanara Ali: Yes, I appreciate that.

Jonathan Athow: Those people were taken off it. If we have a concern about a case from 2020, we can still investigate that. It is not permanently lost to us. We can go back and rework those cases.

We have recruited additional staff, and we have given evidence before about how the challenge with recruiting additional staff is that it takes time for them to become fully productive. We are recruiting additional staff and bringing them in. We are seeing our compliance yield increase over time. The next set of numbers will come out with the annual report and accounts.

Q272 **Rushanara Ali:** What is happening with the 4,000 staff? Did they get



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returned quite quickly after the pandemic to what they were doing?

Philippa Madelin: I am happy to come in here. When we needed to, we moved a number of those 4,000 staff you mentioned into the Taxpayer Protection Taskforce, which was specifically in relation to the schemes and clawing back any money lost to error and fraud. Those staff are now moving back into business-as-usual work.

Q273 **Rushanara Ali:** When did that come back? When did they start coming back?

Philippa Madelin: They have started moving back into business-as-usual compliance teams at the moment. They are going back into business-as-usual work, but that still includes the ongoing work related to the Covid schemes themselves. That is still being undertaken.

Q274 **Rushanara Ali:** You mean the £4 billion or so of fraud that was committed.

Jonathan Athow: Yes.

Q275 **Rushanara Ali:** We have £4 billion or whatever in fraud. I am losing count of the billions that have been lost to fraud, avoidance and the rest of it. There is a limit to the extent the Government can use the pandemic as an excuse for tolerating fraud and loss of revenue when we desperately need that money.

We all very much appreciate what HMRC officials had to do during the pandemic to reorganise and redeploy to deal with the challenges at hand, but what was made very clear by this Committee at the time on those virtual calls, right from the beginning, was that we were concerned that you would be under enormous pressure, given what you were having to do, and that other priorities would be deprioritised and we would end up in this situation. It is not like we did not see it coming, but we are where we are.

I am sure you will be reporting to the Public Accounts Committee as well. We have had some evidence on the Covid fraud, but it would be helpful for us to understand how much of that £9 billion and how much of the other £4 billion, from my recollection, you think you can recover or you have recovered. It would be useful if we could see the progress you are making. This Committee, along with the Public Accounts Committee, can shore up HMRC where needed and ensure the Government are giving you the resources and support you need to be able to do your jobs properly.

Jonathan Athow: I am very happy to provide more of the details in writing. After the fall in compliance yield, we are now seeing that grow back. We expect that to grow back over time. As those 4,000 staff become more highly trained and gain more experience, we expect we will see an increase in yield, but I do not have the exact numbers.

Q276 **Rushanara Ali:** Perhaps you could come back to us with some detail in writing after talking to other colleagues within HMRC who will be across



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some of the things you do not cover. Do you have a sense of what you can recover from that £9 billion over what timeframe? What should we be looking at in terms of losses that are going to be hard to recover?

Jonathan Athrow: I do not want to say something here that does not stand up to scrutiny, but, as I said, within that £9 billion, if there are cases that need to be worked, they can still be worked. In theory we can go back and look at those cases.

What we will always do, though, is look at the highest risk, where we can get the most revenue. We are looking at what we can do. We are given a certain amount of resource, and you and the wider public expect us to get as much money in through compliance yield. We will always pursue the cases that we think are the most likely to get the most money in. We can write you with the details of that.

Rushanara Ali: Yes, it would be really helpful to understand how you are prioritising that.

Philippa Madelin: I am happy to come in on the Covid error and fraud numbers in particular. The most recent statement to the Public Accounts Committee was that, of the £4.5 billion associated with those schemes, to date the teams have brought in more than £1.1 billion, but those numbers will be updated more formally in the annual report and accounts.

In terms of the wider numbers, as Jonathan said, we can write to you on those. In 2021-22, we secured an additional £30.8 billion in compliance yield from the work of our compliance colleagues. That is an increase year on year as we get back towards pre-pandemic levels. It is very much about applying our resource to the biggest impact to make sure we sustain one of the lowest tax gaps in the world.

Q277 **Rushanara Ali:** Who are the people you catch when you are doing that?

Philippa Madelin: There is a real range. We see behaviours in the tax system from error or failure to take reasonable care right through to deliberate fraud—indeed, we have to investigate criminally a small percentage of the population. Around 95% of the UK population pays the right amount of tax. Our efforts have to be spread across those behaviours in the most proportionate way.

As I mentioned earlier, we want to prevent non-compliance before it happens because that is the most effective way for us to bring in the right amount of money.

Q278 **Rushanara Ali:** That is not where you are with respect to the £9 billion and the £4.5 billion. That has already happened. We are all looking at some of the pressures that society is facing. We are looking to you to do what you can to recover that money because that would help with some of the other pressures we face in terms of supporting people who need support. You are on the frontline in recovering that.



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Jonathan Athow: Yes. There are a number of groups and ways we look at that. We have a separate unit for large businesses. Sometimes that is around litigation. Philippa's area looks at the wealthy and mid-size businesses. Those are areas where we focus. We also have a large number of small businesses and individuals.

Q279 **Rushanara Ali:** Just on that point about litigation, in that report court closures and reduced court capacity during the Covid crisis were partly blamed for what happened. I can understand that, but it is said that you are not expecting prosecutions to return to pre-pandemic levels despite the courts reopening. Is that because there is backlog and pressure or is there a way in which you can address that? That is going to affect your ability to process cases.

Jonathan Athow: It will also depend on how we deploy our powers. We do have criminal powers, but we also have penalties and those sorts of approaches. Our approach is to use the right power. Penalties can sometimes be a very substantial deterrent. Sometimes we will be using those. It may well be a mix of capacity and our overall strategy.

Q280 **Rushanara Ali:** Deterrence will not be useful for recovery, will it?

Jonathan Athow: No, but there are a number of things we are trying to do through our actions. First, we want to get the money back; secondly, we want to make certain we avoid people doing this in the future through deterrence.

Q281 **Rushanara Ali:** I am going to get on to the large tax reliefs. There are nine reliefs that cover more than £20 billion a year. Given that they are so large and presumably integral to their respective taxes, how do you scrutinise the effectiveness of such tax reliefs?

Jonathan Athow: I will probably pass to Jane to say a bit more, but some of those large reliefs are not particularly contested as an idea. I do not know whether the zero rating of food meets your £20 billion criterion, for example. Those are uncontested. We would not put a huge amount of effort into those. We put more effort into where we think we can get most benefit from that. Jane, did you want to say a little bit about that?

Jane Whittaker: Yes. I should just check that I am looking at a similar list to you. There are certainly four non-structural reliefs that cost more than £20 billion a year, which are the zero rating of food, NICs contributions to registered pension schemes, the income tax-related relief on pension schemes and private residence relief in CGT.

We have talked a little bit about the extent to which we have not formally evaluated the pensions tax relief so far, and Jonathan has mentioned food. Are you also looking at the structural reliefs on your list of nine?

Rushanara Ali: I will have to get the list.



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Jane Whittaker: I am sorry; don't worry. The next largest reliefs in my list are around the construction and sale of new dwellings, the temporarily reduced rate of VAT for hospitality and domestic fuel and power. Then we get on to research and development tax credits, which we have indeed done some evaluation work on. I did mention to you that we are also in the process of further evaluation work. That is about 10.

Q282 **Rushanara Ali:** What are your overall conclusions? Feel free to send us more information in writing about your reflections, but are there any headline points and insights that you want to share with us? Do these reliefs still justify the original reasons for their existence?

Jonathan Athow: I would say that a lot of those very big reliefs still do. They were done for uncontested policy reasons, as I said, but some of the issues we get are often around the smaller reliefs. Sometimes size is not a particularly useful indicator.

As you will know, pension tax relief and where that should start and stop is an area of ongoing policy development, where there have been changes. The Institute for Fiscal Studies, for example, has come forward with some proposals about how it would change some of those reliefs. That is an area where it is not necessarily that we do not have the evaluation; it is an area of active policy development.

Q283 **Rushanara Ali:** Just turning to businesses, your forecast for 2022-23 capital allowances, which allow businesses to set the cost of depreciation of plant and machinery against taxable profits, means that the UK will forgo £24.8 billion of revenue every year. Is this part of a global corporate tax race? How much do you look at other jurisdictions to see how they are using tax reliefs?

Jonathan Athow: Certainly, there is a healthy interchange of ideas internationally. What we are talking about with those additional reliefs is that where businesses have invested, under the current and previous rules, they are allowed to write off some of that investment over time. Again, this is an area of policy debate and development. Some of the changes announced in the spring Budget will make that more generous.

There is an ongoing conversation internationally about where the overall level of tax should be and then what reliefs should you allow. Do you go for a slightly higher rate but allow more reliefs for investment or do you go for a lower rate and have lower reliefs? That is the context in which those conversations happen.

Q284 **Rushanara Ali:** Do you have a view on the closure of the Office of Tax Simplification?

Jonathan Athow: That was a decision for Ministers, not for me.

Q285 **Chair:** I am just going to ask a couple of questions that are slightly related to the ones Rushanara was asking. I have been very impressed with the level of granularity and detail that you have been giving us in



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your evidence. In looking at the cost of tax reliefs, I wondered whether you could also say which ones you think are the top tax reliefs for helping the growth of the economy. That is the flip side, is it not? I wondered whether your Department does any analysis on that. I would like Jane to answer this, given that she does all the data and analysis.

Jane Whittaker: We have certainly been looking in detail, as you know, at the cost of these reliefs. That is mainly driven by levels of interest from the PAC and the work programme we have committed to.

We do not make a formal assessment of the impact on growth of every one of these reliefs, but we do feed into analysis when policy colleagues and then Ministers are considering potential policy changes. We will also work with colleagues in the Treasury to look at growth impacts of reliefs. Jonathan may want to add to that.

Q286 **Chair:** If you do not look at growth, do you look at the potential for job creation? What positive things would you look at in terms of what a relief might do?

Jane Whittaker: When we are looking at policy development and new policies, there is a thorough assessment of the impact of those policy options. My team's first responsibility is to look at the impact on revenues. That is where we tend to concentrate.

Q287 **Chair:** Is there another team that looks at positive things like job creation or growth?

Jane Whittaker: Most of the wider macro impacts will be looked at within the Treasury. I do not know whether Jonathan wants to add to that.

Jonathan Athrow: I was just going to say that sometimes we will look at the impact of a measure on the thing it is trying to influence. We will look at what R&D is doing to R&D investment. We do not then convert that into GDP, jobs or those sorts of things.

While we would look at economics, the danger is that we do not have a common currency to put them into. In terms of the overall forecasting, the OBR would then make the judgment about what a measure does. For example, in the spring Budget, the OBR made an assessment about how various measures, some tax measures and some spending measures, were affecting labour supply. We would look to the OBR to make those decisions.

Q288 **Andrea Leadsom:** Good afternoon. I just wanted to ask you a couple of questions about compliance and systems. The Office of Tax Simplification said that screening for fraud and indeed for the appropriateness of reliefs puts a great burden on HMRC's IT systems. Could you comment on that? Are you able to automate or do you have to manually check R&D tax reliefs, for example?



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Jonathan Athow: I will set out a bit of the context and then pass to Philippa. Again, it will depend on how people are claiming those reliefs. Sometimes you just put the relief on part of your tax return, in which case it will be dealt with as part of the screening for your tax return. In other cases, you have to apply for a particular relief, and that application will also be the start of the process. You have to realise that there are different ways in which people apply for them.

When somebody does apply for a tax relief, we will have some risking up front. When something comes in, there will be some checks that are automated. Those might say, "We are not going to process that," or, "That requires extra checking." Then it will be passed through to caseworkers to work through those particular thing.

The IT can do some of the filtering, but then it is passed on to others to do further investigation. Philippa, you can probably describe it more articulately than I can.

Philippa Madelin: I will happily talk a bit more about that. As Jonathan says, a lot of the reliefs might be on self-assessment tax returns. That will be part of our overall risk assessment process, as Jonathan outlined, which is done by our systems. That looks at whether, for example, the profit or loss of a company looks unusual for other companies of that size. Part of why it might look unusual might be because they have overclaimed a relief, so we would look at that company through that sort of methodology.

For others, there might be a specific claim—we have talked about the VCT schemes, for example. That is quite an unusual approach. We have an advanced assurance regime where they come to HMRC ahead of getting the investment from investors to check that they can claim the relief. We give them a level of advanced assurance, which then encourages the investment, and then we do some checking after the investment has happened.

Those are really quite extreme examples from one end of the spectrum to the other. In the middle, we have a specific risk approach to certain reliefs, R&D being one example. With those claims, we have something called a threat risk assessment for all claims. That is to spot potential criminal attacks on the system. That looks out for the hallmarks of fraud. That is based on our previous experience from last April, when we spotted a criminal attack on the system and we had to pause payments. That then goes through to a more generic risk assessment process to look for other indicators of whether that claim is inaccurate. Then you will go through to an expert resource to take up manual interventions using a risk-based approach.

There are layers and tiers, but our first approach will always be systemic. We do as much automatically as possible and then apply our expert resource to the highest risks we see.



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Q289 **Andrea Leadsom:** What would you say, then, to the Office of Tax Simplification's claim that the number of R&D tax relief claims places a huge challenge on your compliance systems? Would you agree with that or would you deny that was the case? To what extent is manual checking extremely demanding of your compliance systems?

Jonathan Athow: As I said before you arrived, we do see R&D as one of the more difficult reliefs to administer. To that degree, we agree with the Office of Tax Simplification. The criteria by which you qualify for it are more open. What qualifies as research and development is more open than other reliefs. There is also no third-party data we can go to. We cannot look up your R&D status in the way we can for other reliefs.

It is a burden on us. There are also 80,000 claims in the small and medium-sized scheme. That is a lot of claims for us to process.

Philippa Madelin: I am happy to add to that. The scale is one of the challenges. Not only are there 80,000 claims in the SME claims scheme, but 60,000 of those are for under £50,000. You can get a sense of the nature of those claims as well.

That means operational resource is only ever going to be one part of that solution. That is why the Government announced a package of measures in the autumn Budget 2021 that included getting better information from customers up front as part of their claim, which enables our systems to do better risk assessments. For the first time, we will have R&D information on a more standardised format, enabling us to better target the risk-based approach I mentioned earlier.

We have also asked companies claiming for the first time to tell us in advance of submitting a claim. That is called pre-claim notification. That will also be really important for the reason I mentioned earlier: to try to stop the errors in advance. We see a really high proportion of errors from companies that are claiming for the first time.

A lot of the measures that have started in April will really help us take a more systemic approach, have better data to risk and target our action more appropriately.

Q290 **Andrea Leadsom:** Of the 80,000 claims, how many have to be manually checked?

Philippa Madelin: We automatically check all of them up front, and then through that risk-based process we will look at a percentage for a variety of—

Q291 **Andrea Leadsom:** What is the percentage? How many of the 80,000 are manually checked?

Philippa Madelin: We do lots of different things. We do one-to-one interventions on a percentage. We do not disclose the exact percentage of compliant interventions for good reason. Sometimes releasing that



data can be detrimental to our overall compliance effort. However, we do risk all claims. All claims are risked.

Jonathan Athow: The other approach we can use, as well as looking at them individually, is to write to a group of taxpayers. If we see a number of claims that we think meet a particular set of criteria, we can write to those companies en masse, saying, "We think there is a problem with your claim". That is an action we have taken in the past. Again, the way in which you do that will depend on the nature of the risk you see.

Q292 **Andrea Leadsom:** I just have one final question on film tax reliefs. In some sense, there is competition around different national systems for attracting film production to different areas. Do you have a view on whether our film tax relief, which has made the UK very successful in film production, has somehow created a race to the bottom amongst competitive nations looking to attract film production to their shores? Is what we are offering in the UK remains competitive and justifiable?

Jonathan Athow: I am not an absolute expert on international comparisons in this area, but we are trying to make certain we are competitive. It is the same in many other areas. Again, earlier we talked about the patent box, which is about trying to make certain that intellectual property remains in the UK. It is the same thing with research and development.

There is a set of issues where we are trying to make certain the UK is globally competitive. That is something Ministers will be considering on a regular basis. They will be thinking about where they want us to be in that ranking and whether they can find the money to do that.

Q293 **Andrea Leadsom:** Perfectly understandably, you say you are not an international expert. How do you make sure we are not being too generous, for example, or indeed that we are not participating in a race to the bottom in terms of fair reliefs for film production?

Jonathan Athow: There are two things. First, we spend a lot of our time looking at international comparisons. Most tax authorities face the same sort of challenges both in administration and policy. We will look at those operations. For example, on research and development we have been looking at what the Australian Government do around that to see whether there are any lessons we can learn. We will do that.

The OECD will publish comparisons. We will look at those and see how we compare. We can sometimes do very detailed comparisons of our systems against those of others. In terms of the overall tax system and the risk of the race to the bottom, the OECD work on pillar one and, in particular, pillar two is trying to avoid that by providing a minimum tax rate for the largest multinational corporations.

That also comes into play sometimes for some of the companies we are talking about here. The pillar two proposal, the 15% minimum tax rate,



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will underpin many of the tax systems and tax arrangements we are talking about today.

Q294 **Andrea Leadsom:** We had some evidence from TaxWatch UK suggesting that some companies get creative sector tax reliefs in the UK but then move the profits abroad and end up paying little or no tax here at all. Is that something that concerns you?

Jonathan Athow: This is a much wider issue than simply those reliefs. It is a question of something called transfer pricing. You can use the pricing between different parts of the same company to transfer profits, effectively. That is something that our large business team has extensive guidance and experts on.

Our overall approach is that we try to use an arm's-length principle, which is to ask, "What would two unconnected companies pay in that same area?" It is an area of challenge because often there are no external markets for some of the intellectual property we are talking about so you cannot benchmark a particular valuation. It is a challenging area, but there is a long established set of issues we have to deal with in transfer pricing. Intellectual property is just one element of that risk.

Q295 **Chair:** If none of my other colleagues has any further questions, I have a couple of last questions for Philippa. First of all, I saw on your CV you led HMRC's operational response to the loan charge. I just wondered whether you would be concerned to hear that MPs still get approached by constituents who are struggling with what they see as being a retrospective imposition of tax that they thought the rules allowed them not to pay at the time. What are your views on that?

Philippa Madelin: The loan charge was independently reviewed by Sir Amyas Morse. He found that it was still legal to apply in the way that we have. We have a very clear compliance approach that we publish.

We have shown that, where customers need support, we would really encourage people to come forward and speak to us. In particular, we have an enhanced support service for those customers who are potentially more vulnerable and do not understand the situation or want to talk to us about getting more support. Where customers are facing large tax bills, we have time-to-pay arrangements to tailor that to how much people can afford.

Q296 **Chair:** We should expect to continue to hear from our constituents for some time to come on that.

Philippa Madelin: We are continuing to close those settlements as quickly as possible, in line with the tax law. By March 2022, we had closed and settled the cases of over 20,000 people to whom the loan charge applied.

Jonathan Athow: I believe 60,000 is the total number.



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Q297 **Chair:** I have one last question, Philippa, which occurred to me when you were talking about having to scour all these tax returns for unusual transactions. Do you use artificial intelligence to go through all of the tax returns?

Philippa Madelin: Our risk and intelligence service, where our data analysts work—I will not pretend to be an expert in our analytical functions—uses a number of analytical techniques, some of which will have a form of AI attached to them. “AI” can have some connotations that perhaps make it sound grander than it is in practice. This is largely around automation and analytical techniques. I certainly would not want to comment on that expert approach. We can write to you about some of those, but a lot of that is about the way in which we do our analytics and compliance, and we tend not to publish that in detail.

Chair: It would be great if you could send us a short letter to follow up on today’s session. You have given us admirably thoroughly researched evidence this afternoon, and I am glad to have finally heard a definitive answer to the question of how many tax reliefs we have, for example.

It would be really helpful if you could follow up with a letter that explains the use of artificial intelligence. It is probably quite a useful tool in scouring a lot of tax returns that are using the same relief. If you could limit your response to how you are looking at tax reliefs using artificial intelligence, that would be really helpful.

Rushanara Ali: You also very kindly agreed to write to feed back on my questions about the tax gap and so on.

Jonathan Athow: Yes, we are happy to do that.

Chair: Yes, that is in addition to the other commitments you have made throughout the session, on which we will follow up with you. Thank you very much for that excellent evidence.