

Treasury Committee

Oral evidence: [HMRC Annual Report and Accounts, HC 1061](#)

Monday 7 December 2020

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Hariett Baldwin; Anthony Browne; Felicity Buchan; Ms Angela Eagle; Siobhain McDonagh; Alison Thewliss.

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Witnesses

I: Jim Harra, First Permanent Secretary and CEO, HM Revenue and Customs; Penny Ciniewicz, Director General, Head of Customer Compliance, HM Revenue and Customs; Jonathan Russell CB, Interim CEO, Valuation Office Agency.



Examination of witnesses

Witnesses: Jim Harra, Penny Ciniewicz and Jonathan Russell.

Q1 **Chair:** Good afternoon and welcome to the Treasury Committee's evidence session on HMRC's annual report. I am very pleased to be joined by three witnesses this afternoon. I am just going to ask each of them very briefly to introduce themselves to the Committee and for the public record.

Jim Harra: My name is Jim Harra, and I am the First Permanent Secretary and chief executive of HMRC.

Penny Ciniewicz: Hi. I am Penny Ciniewicz. I am the director general for customer compliance at HMRC.

Jonathan Russell: Good afternoon. I am Jonathan Russell. I am the interim CEO of the Valuation Office Agency.

Q2 **Chair:** Welcome to all three of you. Thank you for appearing before us. If a question is not directed at you and you would like to make a contribution, please do not hesitate to put your hand up and I will attempt to bring you in at that point.

Perhaps I can start, Jim, with you. We had Lord Agnew appear before our Committee recently, and we looked into the issue of customs and particularly preparedness. He undertook to let us know about the list of each HMRC site dealing with lorries, its capacity and its state of readiness, although we have not heard back from him yet. He told the Committee that HMRC and the sites, particularly, were about 85% ready. Could you just give us an update on that? Are we now 100% ready across all of those sites, please?

Jim Harra: Yes. HMRC is responsible for providing a number of inland sites from 1 January, mainly to enable transit procedures to be used for customs. They will not be used for customs checks initially, because that will come in when full import controls are introduced from July.

Work is proceeding on those sites. We are confident that they will be ready to support transit from 1 January. It is probably another week or so before we move operational staff on to the site and start operational testing. In the meantime, there is still construction work underway. Some of those sites were prepared for a no-deal exit last year and therefore have minor works that needed to be done, but others are new.

Q3 **Chair:** Given that it is 7 December today and we have Christmas intervening, to be saying that we still have some construction work underway and people not yet on site sounds tight, does it not? Are you very confident that it will all be up and running?

Jim Harra: We are confident, because these sites, taken together, give us more than enough capacity to deal with the demand for transit from 1



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January. That is before you take account of other sites that ports and commercial providers will provide.

The heavy construction work, like drainage and things like that, is all done. It is really about installation of the sheds, signage and things like that that we are completing at the moment. We have the contingent labour lined up to go on to the sites, but it is too early for that. It is probably another week before we will start bringing those people in.

Q4 Chair: Of the various sites—I am thinking of Manston, Ebbsfleet, Ashford, North Weald, Sevington and Warrington—which one of those, if there was going to be one that was going to be more problematic, with more of risk that it will not be quite ready, where would you be looking?

Jim Harra: First of all, Manston is not a plan A site for us. We do not intend to use Manston unless Operation Brock is invoked. If Operation Brock is invoked, then traffic is directed to Manston, and we will have people there who are able to carry out transit procedures. Otherwise, we do not plan to use it.

In the case of Ashford, Ashford Sevington is a site that is being developed by the Department for Transport, which we intend to make use of for transit procedures, but we do have another site, Ashford Waterbrook, which we have available as a contingency site, which we will use in the event that we are unable to use Sevington on day one. Those would be the two sites; one is a contingency site in itself and we have a contingency provision for the other. Other sites like Ebbsfleet and North Weald were already developed for no deal, and I regard them as relatively low-risk.

Q5 Chair: Thank you for that reassurance. A couple of weeks ago, Jim, you said to the Public Accounts Committee that the Goods Vehicle Movement Service would be ready to go live on 8 December, which is tomorrow. Is that going to happen?

Jim Harra: Yes, I believe so. The work from HMRC to develop that system has gone well, and again we are confident that it will be functional. We have also been working with the ports and carriers that will have to use the service to make sure they will be ready. My view is that many will but some will not, and we are working through what the contingency arrangements will be for anyone who is not ready to use that system from day one.

In the case of GB-EU movements, that would involve them using a traditional transit procedure, which is not desirable. If they do not have the capability to use it on day one, that is what they would need to do.

Q6 Chair: When you were saying that they had the capability to use it, you were referring to a specific port, were you?

Jim Harra: Yes, there are 24 ports that we have focused on here. These are non-inventory ports taking traffic from the EU. 23 of them have told



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us that they intend to use GVMS; one has said that it does not need to use the system. Of the 23 that have said they intend to use GVMS, there are about eight where the level of confidence that they and their carriers will be ready to use it on day one is not where we want it to be.

We are continuing to work with them, first, to see whether we can get them over the line in terms of using GVMS and, secondly, if there was a period where they could not, to make sure they have alternative arrangements in place to handle transit.

Q7 Chair: Of the ports that are in that group of eight you have just referred to, which ports would be the most problematic, if they are not there, albeit you have contingency arrangements in place?

Jim Harra: I would not expect any of them to be problematic, in that we should be able to put alternative arrangements in place, but, as I say, we are still working through that at this time. We need to get that resolved pretty quickly, because we want to give hauliers information as soon as possible about what the procedures will be at the different ports they choose to use.

That is just an indication of the fact that, whilst systems can be ready, the external readiness to engage with them is the critical issue at this juncture.

Q8 Chair: Could I ask you to drop the Committee a short line relatively quickly on an appraisal of those eight and where you are with them? That would be helpful. I hate to press, because I know you are all incredibly busy, but something in the next day or so would be very helpful, just what you are able to provide in that timeframe.

Jim Harra: Yes.

Q9 Chair: Let me turn to ANPR cameras and the Smart Freight system. I am thinking here about trucks going towards Dover and whether they have the right paperwork sorted out, et cetera. Can you tell us a little bit about how that is shaping up at the moment?

Jim Harra: That is not something HMRC is responsible for. It is the Department for Transport and the Borders and Protocol Delivery Group that are responsible for that. That is to support the system of Kent access permits for lorries approaching Kent to make sure they are border-ready before they enter the county. They will be used to identify lorries in the county to check against that.

That is not so much that they will be ready to meet UK requirements but that they are ready to meet import requirements in Europe at the other side, because, if the other side gets gummed up, it could have consequences for traffic management in Kent. As I say, it is not a matter my Department is in the lead on.

Q10 Chair: What would your assessment be, albeit that you are looking at



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these things from a distance in some cases, of Smart Freight's readiness? Are hauliers ready to use it and familiar with it? Do the police, Border Force or whoever have the ability to use ANPR from day one or thereabouts to match the loads on the lorries to the numberplates and therefore to know which lorries to stop potentially? What is your general assessment of the coming together of those systems?

Jim Harra: I do not feel I am close enough to give the Committee evidence on that. It is one of a number of changes that hauliers have to be ready for. It is a contingency measure in that it was intended to protect traffic flows in Kent from goods trying to get into the EU if they are not ready. Hopefully it will not be required to make that difference, but it is a fallback if it is. I am not close enough to give evidence to the Committee about that state of readiness.

Q11 **Chair:** You must have a sense, given your responsibilities or HMRC's responsibilities around customs, as to whether the issues I have just raised are generally going to plan or whether there are, albeit from a slight distance, from your vantage point, problems emerging.

Jim Harra: HMRC is focusing mainly on movements of goods into the country, rather than movements of goods leaving the country, to which that system is obviously not relevant.

The key issue affecting us right across preparedness for 1 January is external readiness of traders, hauliers and carriers. That is just one aspect of it. There are a lot of changes they have to get to grips with at the same time. That is work that is ongoing to try to make sure as many as possible are as ready as possible.

Q12 **Chair:** I accept and understand your point about these being issues that relate to exports, but, at the same time, of course, the trucks have to get over there in order to unload and come back again with imports. It is part of a circuit, is it not?

Jim Harra: Yes. It is the case that, whereas the UK, in recognition of the challenges for traders and others to get ready, has decided to stage the introduction of import controls over six months, the EU has not said it is going to do that. Its position is that it is going to operate full import controls into the EU from day one. As you say, that poses a risk back to UK traffic again, which is why in turn the UK has put this measure of Kent access permits in place: to try to manage traffic going towards the Channel ports to make sure that is traffic that is ready to cross the Channel.

Q13 **Chair:** Could I ask you just to add to the note that I asked for your assessment or HMRC's assessment of Smart Freight and ANPR and the general state of readiness of that area, given its importance to the overall responsibilities that HMRC also have?

Jim Harra: I will not be able to give you an HMRC view of readiness, but I will ask colleagues in BPDG in the Cabinet Office.



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Q14 Chair: That would be very helpful; thank you. Can I turn quickly to Northern Ireland? The border operating model was promised to the House in July or at that point there was a promise there would be one; now there will not be one. What is your assessment as to why that has changed and where we are on Northern Ireland at the moment?

Jim Harra: Whilst we have clarity about some aspects of the procedures that will be required for Northern Ireland, discussions on others in the Joint Committee with the EU are still ongoing at this point. In one sense, that is a good thing, because they are all aimed at making those procedures as smooth as possible for trade. On the other hand, we would much have preferred to give people certainty before now.

The other issue is the fact that the tariffs that could potentially apply to those goods movements are linked to whatever a free trade agreement between the UK and EU would contain, and those negotiations also have not concluded, so we are not in a position to give people moving goods from Great Britain into Northern Ireland the complete certainty they would like.

However, we have set out the customs procedures from HMRC's perspective that will need to apply from day one to the extent that we can, and we have also put in place a Government-funded and free-to-use Trader Support Service to enable traders to comply with their obligations. That is a specific decision in recognition of the fact that many traders will not be ready to do that themselves on day one.

Q15 Chair: Say that we know sometime in the next week whether there is no deal or we have an FTA with the EU. How comfortable are you that you will be able to provide that level of certainty for those moving goods between GB and Northern Ireland and that the basic arrangements will work?

Jim Harra: For most of the customs arrangements, the procedures that businesses will need to follow, whether they are moving goods into Great Britain from the EU or moving goods into Northern Ireland from Great Britain, are the same whether there is a further agreement between the UK and the EU or not. Of course, the negotiations in the Joint Committee about how the Northern Ireland protocol works are separate from the negotiations for a free trade agreement between the UK and the EU. They are moving on different tracks.

We have put out as much guidance as we can to enable traders to get ready with the administrative processes that they will need to comply with when moving goods from Great Britain into Northern Ireland from a customs perspective, but obviously there is other information regarding tariff rates and rules of origin, et cetera, that we cannot clarify at this point.

Q16 Chair: I am getting pretty tight on time, but I have just one final question on the recruitment of customs agents. There has been a big



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drive on that, and the Government have provided financial support for businesses taking on agents. There are reports that this has driven the poaching of customs agents by one company from another, etc, with a kind of merry-go-round, and the overall effect of the Government's grant support here has been basically just to drive up the salaries of those individuals rather than to lead to additional recruitment. Is that a position you are familiar with? What would your assessment be of that, please?

Jim Harra: We do monitor that. It is clear that capacity in the intermediaries market has increased significantly. Ipsos MORI research that we commissioned that covered the period up to the end of September indicates that the capacity of the market will increase fourfold, and therefore it should be sufficient at least at the end of December to deal with the volumes that we expect them to handle, although we may need a further increase in the market for the introduction of full import controls at the end of June.

We are definitely seeing that expansion of the market's capacity. We do monitor the salaries that are being subsidised by the grants available to intermediaries. In the early phases we did not see that sort of increase in salaries that you talk about. More recently, we have begun to see that. We keep a close eye on it. There are steps we could take if we felt it was necessary to prevent the grant scheme from having that effect, but to date we have decided that the best thing to do is to let the market settle on the agents it needs, but we would step in—there are things we could do through the grants mechanism to cap that—if we felt we needed to.

Q17 **Felicity Buchan:** Good afternoon, everyone. My questions are on deadlines for tax returns. Let me start off with self-assessment tax returns. We are hearing from a lot of people, including tax agents, that it may be more difficult this year to meet the 31 January deadline. What approach are you going to take to that?

Jim Harra: First of all, we want to encourage as many people as possible to complete their returns by that date, even if they are struggling to pay their tax. The reason for that is that we cannot help people with their tax debt unless we know what it is. Getting the returns is pretty key to us being able to give people the support they need.

Having said that, we fully recognise that there will be people who are unable to meet that deadline because of the impact of Covid-19 on them or perhaps on the agent firm. We are not interested in penalising anybody for their inability to do something they cannot do. What we want to do is support people. We want to encourage the maximum number of returns to be submitted, but we stand ready not to penalise people who need more time.

Q18 **Felicity Buchan:** What are you going to do with the automatic £100 penalty? My understanding is that it just goes and there is no discretion about it.



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Jim Harra: It does not just go, in the sense that they are not just churned out; we do have to make a decision within the Department about whether and when to issue those. We have received representations in the last few weeks about what the likely rate of compliance will be, and we are in discussions with professional bodies to make sure that we understand all of that. We will probably keep it under review. We will certainly look at what the state of play is as we get closer to 31 January.

I want to send the message that the best way for HMRC to help you, if you are going to struggle to pay your tax bill, is to fill in your return, even if you have to use estimated figures in your return, so we have a good idea of what it is we have to deal with.

Q19 **Felicity Buchan:** I understand from tax agents that if an automatic penalty is issued, it is quite difficult to appeal that. They may end up, especially if they have a fixed-cost contract with their ultimate client, simply eating that £100. What would you say to that?

Jim Harra: I would not want anyone to do that. No one should be having to pay a penalty if they have a good reason why they were not able to comply. Our agents on the telephone are trained and able to forgo those penalties, so it should be a straightforward matter.

As part of the ongoing engagement that we have, we will pick up with agent bodies if they think that is too difficult. I do not want anyone eating up a fixed penalty. I want them to appeal them if they feel they are not due, not least because, in the continued absence of their return, further and more stringent penalties start to bite later on. I do not want to charge those to anyone who is not due to pay them.

Q20 **Felicity Buchan:** Let me ask you a practical question for members of the public who do not have tax agents. If they think they are not going to be able to make the 31 January deadline, should they call you up in advance and explain their circumstances and ask you to waive the £100?

Jim Harra: Yes, it is much better to contact us in advance to explain that you will not be able to comply. There is an ability for our agents to change the due date on our systems for when they expect the return, which would then in turn suppress the issue of the penalties. That is better than receiving a penalty notice and then worrying about whether we are going to insist that you pay that.

Q21 **Felicity Buchan:** Thank you; that is very clear. Let me move on to corporation tax. I understand that Companies House has extended its deadline for filing company accounts by three months. Will you do the same?

Jim Harra: Again, that is something we will keep under review. We have not at this point decided to have any blanket extension. It just follows the same process I have described for income tax self-assessment, which is that you can be charged a penalty if you are late with your corporation tax return, but no one has to pay a penalty if they have a good reason



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why their return is late. If a company is unable to compile its accounts or unable to compile its tax return, then it should get in touch with us and explain that in the same way.

Q22 Felicity Buchan: Yes, because you could argue that, if do not show flexibility, what is the point of Companies House showing flexibility? Small companies will not be able to benefit.

Jim Harra: Yes. However, it is important that they engage with us and we understand what is going on and that we consider whether we can get estimated figures from them. Again, if a company is going to struggle to pay its tax debts, the first thing we need to do is establish what the liability is, and then we can make arrangements for whether we need to defer the payment of that or spread the payment.

Q23 Felicity Buchan: I just have one final question. Come January, when you are reviewing this, could you treat self-assessment differently from corporation tax? Could you potentially give a blanket extension for one but not for the other?

Jim Harra: Yes, it is something we could feasibly do. The provisions that apply are equal in both taxes in terms of the fact that, if you have a reasonable excuse for your non-compliance, you cannot be penalised. I suppose it would be possible for us to apply a blanket approach in one and a case-by-case approach in the other. We have made no decisions about that.

Q24 Rushanara Ali: Good afternoon. I wanted to follow up on some questions on Brexit, and then I have a question about the administration of the CJRS. On the question of Brexit, what is the estimated cost to businesses from whatever the new customs arrangements will be from 1 January? There is a report back in July in the *FT* that suggests that British companies trading with Europe will have to absorb a post-Brexit bureaucracy burden and fill in an extra 215 million customs declarations at a cost of about £7 billion a year, according to Government officials. That is in the context of us even getting a deal, given the delay and the last-minute approach to negotiations. Starting with Jim, could you say something about that and those assertions?

Jim Harra: That is a figure I recognise. My Department published figures towards the end of 2019, in which we set out what we expected the administrative burden of completing additional customs declarations to be. We have not published any further update to that, but that figure still stands. From recollection, that was about £7.5 billion for the costs on the UK side of completing our declarations.

That is largely unaffected by the outcome of negotiations with the EU about the free trade agreement, because, whether or not there is a free trade agreement, customs declarations will have to be made when we leave the customs union. Therefore, those costs, by and large, would apply in either scenario.



Q25 Rushanara Ali: That is a £7 billion additional cost, and you stand by the point about the 215 million additional declarations, alongside many of the points you have discussed with the Chair already about the pressures.

Jim Harra: In 2017, there were 54 million customs declarations made in the UK. After the end of the transition period, we would expect that to go up to 265 million. That will not apply straightaway, because import controls are being staged in over six months, but that is the rate at which we would expect to see them from July.

Q26 Rushanara Ali: You mentioned earlier to the Chair that the external readiness of traders and hauliers in relation to imports has not been factored into some of the points you have made. How much disruption should we expect coming from the other side even though the UK has given itself another six months?

Jim Harra: Our approach here is to support businesses to get ready. The Government have already taken two major contingency steps in recognition of the lack of readiness. One is the staged introduction of import controls over six months and the other is the free Trader Support Service in respect of goods movements from Great Britain into Northern Ireland. Those should significantly ameliorate the impact of a lack of readiness, particularly on goods moving into GB from the EU on day one.

The EU has not announced any similar provisions. They have said that full import controls will apply. It remains to be seen how they will actually administer that on day one, but I would expect them to have the same kind of readiness issues with their importers that we have on our side. That is why the Government have taken extra steps in the UK to protect Kent from the impact on traffic in Kent. That might flow from disruption on the European side of the border.

Q27 Rushanara Ali: On that, are you satisfied that those extra efforts will be sufficient to avoid causing huge amounts of disruption and chaos at the beginning of the year?

Jim Harra: We keep monitoring it. We will have to be very observant and flexible in the moment. The latest information is that readiness has improved beyond the reasonable worst case that the Government announced several months ago, and therefore the disruption should be less than that reasonable worst case.

There could be localised effects; there could be effects on particular routes; there could be effects on particular sectors. We will have to continue supporting businesses through 1 January and beyond to manage this. The Government have been clear that they wish to prioritise flow. They will be ready to take decisions in the moment as they need to in order to manage that.

Q28 Rushanara Ali: Turning to weekend reports about the Covid vaccine, we are in the middle of a pandemic and there was a report suggesting that the British military would potentially have to fly Covid vaccines into the



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UK to avoid delays at ports following the end of the transition period.

Have you been in any discussions with the Department of Health, MoD and others about planning for any disruption in terms of being able to bring vaccines in via Belgium without having to enlist the British military to fly those vaccines in?

Jim Harra: I have been involved in cross-Whitehall discussions on how we make sure priority-one goods can flow into the country and not be affected by any disruption. I certainly have not been party to any talks about using the military in relation to vaccine movements. The Government do have plans in place to make sure that, if there is short-term disruption, key goods will be able to move. That is a responsibility primarily of the Department for Transport.

Q29 **Rushanara Ali:** So we should not be surprised on day one, if there is a no-deal scenario, that the military could be enlisted to bring in vaccines from Belgium or elsewhere. They could use the military if there is major disruption, as that article suggests.

Jim Harra: I have no direct knowledge of that. Certainly the discussions I have been involved in have not gone into that.

Q30 **Rushanara Ali:** I have one final question, which is in relation to your last appearance before the Committee. As you know, since then the Committee published a report on the impact of coronavirus on the economy. At that time, the Committee identified 1 million people who were excluded from any support from the Government's schemes. Others have suggested it is up to 3 million, and there has been a widespread cross-party push from parliamentarians asking for more support, including from this Committee, to help those who were excluded.

At the time you made a legitimate point, which was about the fact that it is quite complex to try to administer programmes for the self-employed and others who fall into that category, and yet before the Public Accounts Committee, in the session you spoke at recently, you pointed to the fact that £3.5 billion of furlough money has been paid out in error. That was one of the reasons you gave to our Committee for why it is quite difficult to administer support to those groups. Could you say a bit about how that money has been recovered where errors have been made? Those who have not had support have raised this point with many of us: if HMRC is prepared to make a £3.5 billion error in terms of administration, is that a price worth paying, while others are continuing to suffer and have had no support for months. What can be done to correct those errors so that those who do need help actually get it?

Jim Harra: If it is okay, in a moment I am going to ask Penny Ciniewicz to come in to describe what we are doing to tackle error and fraud. I have two points to make. First of all, the error and fraud you are talking about there is not administrative error by HMRC; it is error or fraud by people making claims. When we were planning for the schemes, we had to make planning assumptions about what the level of error and fraud



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would be. In the case of the coronavirus job retention scheme, the furlough scheme, we made a planning assumption that it could be 5% to 10%.

Obviously, we have no history of these schemes on which to make that judgment, but we know the general tax gap is 4.7%. We see 4.9% error and fraud in tax credits, for example, so it is not unusual to have a level of error and fraud towards the lower end of that range in schemes. However, it is simply a planning assumption.

We have a range of protections in place. The first protection, which goes to the excluded groups, is that people who can make claims are people who have a history with us. The employers have to have a pay-as-you-earn history with us and the employees in respect of whom they make claims have to have a pay-as-you-earn history with us. There are then risk assessments and checks that we can do prior to payment where we have any concerns about a claim, and then we have the ability, post payment, to make recovery. We have already recovered a significant amount and also taken criminal investigation action.

Q31 **Rushanara Ali:** How much have you recovered?

Jim Harra: If you do not mind, I will ask Penny Ciniewicz, because she is responsible for compliance in HMRC; that is Penny's area.

Penny Ciniewicz: As Jim explained, there are a number of different forms of compliance that we are looking at. Obviously, there is the risk of criminal attack and there is then a risk of opportunistic fraud, where people perhaps make claims to which they are not entitled. There is then also the possibility of error and genuine mistakes being made by people in the heat of the moment.

We know very much from experience that the funds that would be lost to criminal attack are very hard to retrieve, so we prioritised designing in controls to prevent those criminal attacks in the first instance. That is where, as Jim said, one of the important controls was knowing that applicants had a footprint with us already. That provides quite a helpful strong control in that context.

We also put in checks to see whether it looks as though there might be suspicious factors involved before the claims went out. We have two legs of work following that. One is to give people the opportunity to self-correct, as we have been doing over the last few months. They have 90 days from the date of the claim to correct their claim if they have made a mistake. We also have compliance investigation processes.

Overall, we rejected around 15,500 claims from both SEISS and CJRS with a value of around £60 million, but we risked close to 140,000 of those where we made further checks as part of that process. In the case of CJRS, we rejected claims worth £12 million as part of our risking process. Our feeling is that this enabled us to block most suspect



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payments and indeed prevent a lot of the criminal attack that would otherwise have happened.

Based on the work to date—we obviously recognise that, as we do our further post-payment compliance work, there might be more suspect claims that come to light—we believe that the levels of criminal attack are very low, somewhere in the region of 0% to 0.6% in the case of the CJRS.

Having risked that many claims, 11.9 million, and put all of that effort into trying to make sure we do not let suspect claims out of the door, we have then done more. Before Royal Assent, we contacted high-risk claimants. We called around 5,000 claimants to nudge them to check their claims, and we also obviously have a fraud investigation hotline, where we have taken the reports from that fraud investigation hotline and we have used the data and information we already have to highlight risky claims. Around 5,700 investigations are open at the moment. Around 2,000 of those relate to investigations resulting from reports to the fraud hotline. We are continuing to work those investigations, and we will work more as and when we feel that we have reasons to make inquiries into suspicious claims.

Throughout that period, however, people have also been repaying. In the context of error overall, so far we have had £504 million made in terms of voluntary disclosures and corrections, including people who were entitled to the grant but decided to pay it back.

Q32 **Mr Baker:** I would like to turn to the Valuation Office Agency. You might remember that a previous incarnation of the Committee had a report on the agency, and all three of you today have relevant expertise, although I might focus the questions on Jonathan. Having taken the trouble to produce a report, we were somewhat disappointed that the Valuation Office Agency rejected all of our conclusions. Jim, if I may start with you, we have said thank you before for all the great work that HMRC does, and I would include the VOA, but would you agree with me that your response did not look very constructive?

Jim Harra: First of all, we welcome the Committee's recommendations. Jonathan can describe some of the actions that we have taken that are, in effect, implementing those recommendations. I am sorry if the response did not come across in that vein, because I certainly think there was value in those, which we have definitely taken on board. Perhaps there is a lesson to be learned in terms of how we draft our response. If you are okay with it, I will ask Jonathan to describe this.

Jonathan Russell: Thank you for the question. To reiterate what Jim has said there, it certainly was not our intention to give the appearance that we rejected the report or the recommendations in it. If it did come across that way, I genuinely apologise for that.



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I just want to say a bit about the number of recommendations. There were 15 recommendations, many of which called for a broader look at the rates system, of which the VOA is a part. We are a part of the business rates architecture; we have a very specific role. Our role is to provide independent and impartial valuations.

In the report, there were seven recommendations directly involving the operational work of the VOA. We did look at those, and we recognised and welcomed a lot of them. Picking up on a couple of them, for example, there was one about making changes to the CCA legislation and the operation of that. We looked at the recommendations and we have actually done that. We have made somewhere in the region of 60 digital changes to the software to CCA. One of the key ones is that it now allows customers with multiple properties and property linking to enter our website and submit their own data so they can make property claims more quickly and easily, so we did listen on that one.

You also made a point there about the 2010 rating list and the outstanding appeals. We worked through that as well. We are working through that as a matter of priority. We did act and have acted on those ones where we were able to act. Again, as Jim said, we just need to make that clearer.

There were some, however, that we could not act on because we do not have policy responsibility; we just do the valuations. Although we could not take that forward, we have been involved in conversations with MHCLG and HM Treasury, and they have been carrying out a fundamental review of business rates. Indeed, only last week we were going through the call for evidence and results from that call for evidence, looking at it and actually factoring into that call for evidence your recommendations as well. MHCLG are reporting in the spring on the outcomes of that fundamental review, and I am sure your recommendations will be taken into account in those recommendations and the publication of those in the spring.

Again, we did take them seriously. We are working through them. We should have made clearer in the report in terms of those ones we were doing and those ones we could not do either because of legislative requirements or because we were not in a place to make those changes.

Q33 Mr Baker: Thank you both very much. I appreciate what you have said and the manner in which you have said it. That is very helpful. I wonder whether you might comment on resources. As somebody who has a high street that is occasionally criticised for being run down and who talks to local businesses, I know the real importance of the Valuation Office Agency to firms, particularly when they feel that their shop on the high street is not fairly valued compared to a neighbour. To boil it down to the bottom line, you have hardworking staff. Are they overstretched? Do you have the right resources? Overall, are you being funded to provide the service we can all be proud of?



Jonathan Russell: As you say, we do have hardworking staff. I am honoured to be in the position of CEO of the agency. I am incredibly proud of the staff and all the work they are doing. Particularly since Covid came in, they have been working exceptionally hard.

In terms of the resourcing, yes, I am adequately and appropriately resourced to carry out the task and the functions I have in front of me. That is both for Covid-19 and the requirement to do a revaluation in 2023. As you know, we were expecting to do one in 2021. That was changed; the antecedent valuation date is now in April next year and the list will be published in 2023.

I certainly feel confident that I have the resources I require to deliver on that. Obviously, we are in a very changing situation, and things can change very quickly. I am in constant conversation with MHCLG and HMT around what is happening. If that does change in terms of my confidence to be able to deliver, we will certainly have conversations about what we might need to do to address that fact. At the moment, I am very confident indeed. Indeed, the Chancellor announced in November some additional funding for business systems transformation so that we can update our technology, and also additional funding for the revaluation.

Q34 **Mr Baker:** That is very helpful. In the past, we asked you to write to us with some analysis on your resources, but I do not think that happened. You have been so helpful today that it has put a different complexion on my notes, which has thrown me somewhat. Might you be able to write to us and set out a bit more detail about your resourcing and its adequacy to the task, please?

Jonathan Russell: Absolutely, yes. Again, it was a recommendation we noticed in the report, but there has been an awful lot going on with the pandemic and the CSR. We have done the work; we have been in conversation with MHCLG and MHT about it. We can certainly write to you and provide an analysis of our staffing and what we are doing to make sure we have a pipeline of surveyors, for example. We can certainly do that, yes.

Q35 **Mr Baker:** I have been able to cut my questions somewhat shorter, given what you have said, so thank you very much. I do just have a final question. The business rates review is going on. Are you able to give us any kind of indication of what sort of impact you expect on the Valuation Office Agency, Mr Russell?

Jonathan Russell: It is far too early to say. In terms of the analysis, they are just going through the analysis at the moment. We need to look at it in the round. It depends on what they think we need to do to the architecture of business rates. They need to think about that in terms of the VOA, the ratepayer and the billing authority. They need to look at it in the round.



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It is too early to say what is going to be coming out of that, but we will certainly be involved. Whatever does come out of it, they need to make sure the policy can actually be delivered in an operational way, so I am sure we will be involved when they get to the stage of making recommendations.

Mr Baker: Finally, as somebody who helped procure this decision to leave the EU, can I say thank you very much in advance to all of your staff, Mr Harra? I feel confident that the next few weeks and months are going to be a very busy time for your staff, as they have been in the past. Thank you very much indeed for all that you do and all that they are doing.

Jim Harra: Thank you. I will pass that on to them.

Q36 **Harriett Baldwin:** I will start with Jim. We are going to go back to the same topic we covered earlier with Rushanara's questions about the furlough payments. I understand that HMRC are going to publish the names of all of the companies that have taken part in the coronavirus job retention scheme. Is that correct?

Jim Harra: The intention is not to do that retrospectively; the intention is that for the next phase of CJRS we will publish who has received it. We are also looking at whether we can tell employees through their online personal tax account that a claim has been made in respect of them. Employers who have been making claims have been made aware that the fact they have made a claim could be made public. We are still working through the detail of how we are going to do that and what information we are going to publish. That is a balancing act between public transparency and maintaining people's privacy as well.

The idea to give more information to employees was due to our experience during the first scheme. A significant number of employees contacted us unsure whether their employer was claiming in respect of them or not and querying what they were receiving. It is probably a relatively small measure, but it is an extra measure of protection for us in terms of compliance if we are able to explain to employees what has been claimed in respect of them.

Q37 **Harriett Baldwin:** I did not quite understand what you were saying when you said it did not apply retrospectively. From what date will it apply?

Jim Harra: I am not sure. I think it is this current round of CJRS claims that apply from 1 November.

Q38 **Harriett Baldwin:** When should we expect to see this information in the public domain, then?

Jim Harra: I will double-check that and I will contact you if I am wrong, but I think that is correct. We do not yet have a date for when we are going to be able to publish that. We are still considering what information should be published. Final decisions on that have not been taken yet.



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Q39 **Harriett Baldwin:** Did this come via ministerial direction? How comfortable with the whole idea are you, Jim?

Jim Harra: I am comfortable. From my point of view, it is not particularly relevant to administering this scheme, but I do understand that this is public money. Therefore, people may feel they have a right to know who is receiving the money.

There have also been significant concerns raised about whether there is abuse of the scheme going on, which I suspect are sometimes overstated but are in some ways driven by the lack of knowledge. It is not a problem for us. It is in the direction. As I say, we are making it clear to employers that it will be the case. What we are doing quite carefully is going through and understanding the balance between the need for public transparency and the need to protect the commercial and indeed personal data of employers.

Q40 **Harriett Baldwin:** Penny, how did you feel about this request?

Penny Ciniewicz: I agree with Jim. As you have heard me describe, we have a lot of controls already in place around the schemes and a lot of work to follow up in the context of the earlier iterations of the schemes. Clearly, we also had reports to the hotline that told us that people were not clear all the time about whether or not their employer was claiming for them. Clearly, this is designed to help employees understand the position in relation to their employer and the claims they are making.

Q41 **Harriett Baldwin:** What sort of recommendation will you be making to Ministers as to how the information ought to be publicised?

Jim Harra: I will pick that up. First of all, it is primarily a matter for Treasury colleagues, although some of my colleagues on the policy side are looking at that as well. From an administrative point of view and from Penny's point of view in terms of managing compliance risks, this is something that will have a modest effect. It is more driven by a policy need for greater transparency around the scheme, given the amounts of money that are being spent through it. Therefore, the Treasury will probably take the lead on that.

We are advising, first of all, on the types of information that we hold and the way in which you can present it that will both assuage the sense that people want to know more and also protect the commercial needs of businesses in relation to their payrolls.

Q42 **Harriett Baldwin:** Penny, I understand there is an exemption if you can cite that you are at risk of violence or intimidation. How would you see that being evaluated from a compliance point of view?

Penny Ciniewicz: It is a little bit early to say how we would evaluate that. The controls around this are still being designed, as Jim has indicated, but obviously we will want to do what we can to assure people that is being used responsibly. The threshold for that in terms of people's



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own declarations will be relatively high, because I suspect people will want to feel that they are complying with the spirit of that recommendation.

Q43 Harriett Baldwin: How would you feel about extending this further to, for example, the self-employment income support scheme as well?

Jim Harra: There are no plans to do that. First of all, I would say, in relation to the exemption, that reflects the fact that within employers you have a huge range of organisations from big household names through to quite modestly sized but perfectly publicly open businesses down to domestic employers. We have to devise this in a way that protects the rights of people who are very much in different circumstances.

The proposal only relates to the job retention scheme—the furlough scheme. It does not relate to self-employed people or indeed to the names of employees.

Q44 Harriett Baldwin: Might you be able to give the nation a sense of the overall Covid support gap at the end of this to help inform some of the NAO work?

Jim Harra: If you are talking there about the people who are unable to get help under these two schemes, there has been a recent National Audit Office report that identified the different groups of people who may be ineligible for different reasons and attempted to quantify that from a number of different sources. That is something that we keep under review.

Q45 Harriett Baldwin: Generally, taxpayers should not feel that this opens a floodgate in terms of taxpayer confidentiality. Are you quite comfortable that this is a principle that underlines all of your work? It takes a great deal of effective ministerial direction to disclose this kind of information. Is that a fair summary?

Jim Harra: Yes. First of all, in relation to taxpayers' affairs, that is enshrined in primary legislation. There is no question of me being directed by Ministers or anyone else to disclose confidential taxpayer information. That would involve primary legislative change and there are occasions when such legislation has come before Parliament, because there is a greater acceptance today than perhaps in the past of the need for us to exchange information with other parts of Government or with international counterparts to help us manage, for example, compliance risks.

The fundamental principle that taxpayers' information is confidential to HMRC and cannot be disclosed to Ministers or other Government Departments remains. Unless there is a statutory gateway for me to do that, I do not do it.

Q46 Harriett Baldwin: As a result of these schemes, have you seen a change in behaviour from taxpayers? Are more people wanting to be registered



with HMRC?

Jim Harra: I am not aware of that. Obviously, people who got their returns in on time were in this scheme, whereas some people who were late with their returns found themselves excluded. It may well be that people see the value of better compliance in the future. A debate that is increasing is around the types of data that we can hold.

In relation to excluded self-employed people in particular, I could have helped more people safely if I had had more up-to-date information about the self-employed. In the case of employees, we invested five or six years ago in a system called Real Time Information. We get information basically every time an employer runs a payroll, so we have very up-to-date data. For the self-employed, we are often getting data 18 months after the end of the tax year. It is not current, and that limited what we could do. There is an increasing debate about whether, if we had more data about people, we could be more flexible and help people when they need to be helped. One lesson from Covid-19 is that we traditionally see the tax system as a system that takes money off you, but it can be harnessed to give money to people when that is necessary. It was necessary in these unprecedented circumstances, but potentially in the future our national resilience and the data that we hold needs to take account of that.

Q47 **Siobhain McDonagh:** I was just looking at the question of how effective HMRC is at ensuring minimum wage compliance, particularly in the context of the story about garment workers in Leicester being paid £3.50 an hour. To Jim Harra, you will be aware of the recent controversy over large numbers of low-paid garment workers in Leicester. The *Financial Times* has been reporting on these issues since 2018. Is it fair to say that HMRC was slow to find out about this?

Jim Harra: No, I do not believe so. I will let Penny give you more detail in a moment, but we have long been aware of the issues in the textile industry and in Leicester. They are quite deeply ingrained issues; they are not easy to tackle. There is no magic bullet that can resolve them quickly, but we have long been active. We are involved in a cross-Government task force to try to make a difference there. With your permission, I will ask Penny to give you more details on that.

Penny Ciniewicz: We have been involved in a cross-agency task force set up in 2015, actually, involving the Home Office, the Gangmasters and Labour Abuse Authority and the police. More recently, in the summer we have also been collaborating with partners beyond that group, including Leicestershire Police, Leicester City Council, the DWP and others in response to concerns that were particularly arising in the context of Covid.

We have a fairly broad focus on issues in the textile industry overall. We work not just across minimum wage issues but also across tax issues, in order that we can use all the powers at our disposal to make sure we are



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tackling any forms of abuse in the industry, working with the other partners. Currently, we have over 110 live investigations into the textile industry—over 80 national minimum wage investigations and 30 tax investigations—very many of which relate to Leicester.

It is, as Jim says, a particularly tricky area to police, because we tend to find that we get very few reports. On the whole, in our national minimum wage teams, around 40% of the work we do comes through self-reporting, which involves workers contacting us to report that they believe they are being underpaid. Interestingly, I would say, out of 2,000 complaints we have had so far this year, only nine of those have been from textile workers. That is a very small number indeed for an industry where there are so many concerns being expressed.

We are working with local authorities and others to try to reach into the communities as well as to enforce compliance. We have recently written to 2,500 textile employers, including those in Leicester, signposting guidance and support, but we are also producing multilingual leaflets, around 5,000 of which have been distributed so far in Leicester. We feel we have to take a multi-pronged approach to trying to tackle this problem, and it is something we take very seriously indeed.

Q48 Siobhain McDonagh: When the *Financial Times* ran its story on the illegal levels of pay within Leicester's garment industry in 2018, what action did you take?

Penny Ciniewicz: I am sorry; I cannot respond to that particular article, but we have been working on these issues, as I indicated, in a joined-up way across the agencies in a task force since 2015. It is a challenging set of issues to get to grips with, but we certainly think that we get results, and we use all our powers to do that.

In relation to tax we have certainly seen some good results in that area. In 2019-20, we completed 25 separate investigations into the VAT affairs of the textile trade in Leicester.

Q49 Siobhain McDonagh: I am sorry to interrupt, but it not the number of them; it is the effectiveness of them. Why are illegal low wages taking place again in 2020?

Penny Ciniewicz: As I have indicated, it is a particularly tough nut to crack in an area where people are reluctant to report abuse. Therefore, gathering evidence of abuse in terms of the wage element of the running of those organisations is quite tricky. Therefore, we are working, as I say, with a range of partners right across that community, including the Gangmasters and Labour Abuse Authority and the Employment Standards Agency Inspectorate. We are collaborating together to see how we can surface more of those concerns and address them.

Q50 Siobhain McDonagh: Surely the most important thing is how effective that is. It is great to work together, but if it is not effective that is not the purpose, is it? How many people work on national minimum wage



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compliance in the UK?

Penny Ciniewicz: We have around 450 people in national minimum wage compliance.

Q51 **Siobhain McDonagh:** Why was the risk-based approach able to miss these garment workers in Leicester?

Penny Ciniewicz: I do not think the risk-based approach has missed them. As I have indicated, a lot of those investigations, including those live investigations, come from our risk-based approach rather than from workers reporting. Around 60% of the work we do across HMRC is risk-based. It is higher in relation to the textile industry, because we get so few reports. Normally we would expect more reports from workers themselves, which we would then be able to follow up.

Q52 **Siobhain McDonagh:** Leicester is not the site of one of your new regional offices. Is it realistic to try to run a compliance operation like this without people in local offices?

Penny Ciniewicz: We certainly think so. We have a regional centre in Nottingham, and our staff are used to deploying regionally across a wide range of issues. That does not get in the way at all from our point of view.

Q53 **Siobhain McDonagh:** You provide estimates of the tax gap. What is your estimate of the number of employees being paid less than the national minimum wage?

Penny Ciniewicz: I am not aware that an estimate of that kind is produced. The tax gap is a particular set of exercises in relation to the tax due that should be paid, and I am not aware that there is an exercise of that kind conducted. BEIS hold the policy responsibility for national minimum wage, and, if there was such an exercise, they would be the ones to conduct it.

Q54 **Siobhain McDonagh:** You have no guide as to the numbers.

Penny Ciniewicz: I do not have any numbers to share with you today. I am sorry.

Q55 **Siobhain McDonagh:** You do not know whether they are going up or down.

Penny Ciniewicz: I am sorry. BEIS would have to answer that particular question. I am afraid it is not work we would undertake as part of our enforcement activity.

Q56 **Siobhain McDonagh:** Given all the other things you have going on at the moment, can you realistically focus on this as a priority?

Penny Ciniewicz: We certainly do, yes. Those staff are very focused on their work. They do this, and they do not take it any less seriously because of all the other things that we have underway. We continue to do



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that work and we continue to focus on it very heavily. As I have indicated, we have instigated a fresh approach in the summer, working with all of those partners and across our tax responsibilities, to bring all of our powers and our capacity to bear to try to solve those problems.

Q57 Anthony Browne: My questions are about Making Tax Digital. I first became personally aware of this in my previous role. I was VAT-registered and I kept getting messages urging me to get software to be able to file my tax returns.

First of all, before I delve in, this is really a question for Jim, but others are welcome to join in. For the uninitiated, given that people can do their self-assessments and VAT returns online anyway, what is the objective of Making Tax Digital? What can you not already do?

Jim Harra: Before Making Tax Digital, what we had is a set of digital services that enable people to transact with HMRC, i.e. make a filing to us digitally. What Making Tax Digital does, however, is to take that way back into the business accounting records of the business and say, "You need to keep your records digitally in a software that speaks to HMRC's systems and enables you to upload your filing into HMRC's systems".

This is a direction of travel right across the world by tax authorities. It is making much deeper use of digital technologies than simply an online filing service for returns. That filing service for returns has given us lots of value in terms of reducing our administrative costs but not necessarily any significant value in terms of increasing the accuracy of filings. A key aim of MTD is to increase the accuracy of filings and, in particular, to reduce the error gap amongst taxpayers, particularly small businesses. This kind of approach is more cost-efficient for the tax authority and less intrusive for small businesses than the traditional approach of Penny's people investigating small businesses and poring over their books and correcting things after the event.

We started Making Tax Digital with VAT and with businesses that have a turnover over the VAT threshold. We currently have 1.4 million businesses registered for MTD and over 7 million VAT returns have been made through it. The next steps are to bring in the rest of the VAT population, so the businesses that are registered but are below that turnover threshold, and then income-tax self-assessment for businesses and for landlords.

Q58 Anthony Browne: You said what you are doing there; you have not said what actually has not happened. Making Tax Digital was launched in 2015 in the Budget. Reading from that, it said, "By the end of the next Parliament over 50 million individuals and small businesses will be able to see and manage their tax affairs online". We are clearly well beyond the end of the next Parliament; it is 2020. Clearly, you have not made anywhere near the progress that was claimed back in 2015. Why is this?

Jim Harra: First of all, in relation to taxpayers being able to see their tax affairs online, we have a personal tax account, which has 22 million



users, and a business tax account as well. We have made very considerable progress there. In relation to MTD, which is that end-to-end digital service with business records and filing, you are right: we have made slower progress than we initially wanted to make in 2015. That is in part in response to representations from small-business bodies and the tax profession that we needed to take longer over doing this.

Q59 Anthony Browne: You are saying it was deliberately slowed down to help small businesses.

Jim Harra: Yes. The Government made decisions. In particular, we changed the rollout profile in response to representations that we received. It was not our original plan to start with VAT, but it was decided that this was a safer way to roll this out because you were starting with higher-turnover businesses in relation to a transaction tax and then moving on to income tax. That was the case.

In terms of the pace of implementation, my view is that some other countries are making more headway than the UK. They are moving faster on this agenda, so we do need to keep up the pace because it is the right direction of travel. It will bring results for HMRC in terms of managing the tax gap, but it will also bring results for businesses in terms of improving their productivity and making it easier for them to comply with their obligations.

As I mentioned earlier, the current self-assessment system, which is probably 25 years old, does not give us very current data. That really restricts our flexibility and ability to respond to situations such as Covid-19, where we were reliant on 2018-19 tax returns to operate the self-employment income support scheme. We could have helped many more people with much more current data if we had those quarterly reports from MTD that we will have in the future.

Q60 Anthony Browne: Have small businesses or indeed individuals who are VAT-registered had trouble complying with this?

Jim Harra: The results from the VAT phase, which is the first phase, suggest that it has been very successful. About 1.4 million people have joined, including about a third of the non-mandated population, about 30% of the non-mandated population, which stands us in good stead for the next phase when we make that mandatory for them.

We also stimulated the market to produce a very large number of software products of varying prices and sophistication, including many free products, which made that easier for small businesses. We have generated a very healthy software market as a result.

Q61 Anthony Browne: What are the lessons for HMRC as an institution about Making Tax Digital? What are the lessons you have learned? If you were going back to 2015 again, what would you do differently?



Jim Harra: There is one big benefit of hindsight. We very much looked at this initially from the point of view of managing the tax gap. The small-business community also looked at it from that point of view as well, so therefore they saw perhaps not much value for them in it. That is probably one of the reasons it has moved slower than I would have liked.

One lesson from Covid-19 is that the tax authority, if we have good data, can be responsive in a whole range of ways, including supporting businesses and not just taking money from them. Therefore, investing in a resilient and flexible tax system with good data really is in everyone's best interests.

Q62 **Anthony Browne:** In the next phase, you are going to include a large number of non-VAT-registered businesses and landlords. Not all of them are going to be that digitally literate. I was involved with this previously. I trained in maths; I did computer science as part of my maths degree, and I used to write and sell computer programs as a teenager. Even I was slightly banging my head against the wall and thinking, "Why should I get involved with all this software and learn new systems to comply?"

What are you doing to make sure those people, those small businesses and those landlords who are not particularly digitally literate can fulfil their obligations here? What do they do if they simply do not like using new software?

Jim Harra: The next phase is to bring on those lower-turnover VAT-registered businesses. At that point, we will have 2 million businesses using MTD. They will be using it for VAT, but it means they have the software packages that keep the business records, on which we can build a functionality for income tax. That reduces the population that need to be brought on in the next phase, which is income tax, businesses and landlords with income over £10,000.

We intend that there will be a wide range of products that they can use. We want those to be as intuitive as possible for people to use and we want those to give them benefits in terms of running their own business as well as their tax compliance. I expect that we will continue to take a market-led approach to that. We saw with VAT that we were able to stimulate the software market, including a significant number of new entrants into that market, to supply businesses. I would expect that to continue.

Q63 **Anthony Browne:** You are essentially saying there that the market will provide easy-to-use products, but there will be those people who do not like using computers. A lot of them will be in businesses that do not have any need to use computers at all. What do you say to them? You are going to have to require them to get new software.

Jim Harra: There are two things here. First of all, we are not going to require anyone to use software who cannot use it, but we are going to expect people who can use it to do so. I know for some people who do not keep their records in that way now that involves more change than



people who do. I believe that businesses will see benefits from that for themselves as well as HMRC seeing benefits from it. It is the direction of travel across the world, and I am pretty sure that in a few years' time we will wonder what all the fuss was about.

Q64 Alison Thewliss: I have some questions around the requirement for qualified tax agents. I understand you have been doing a call for evidence on the raising of standards for tax advice, and the response was published on 12 November. Could I ask why there have not been many calls for a legal requirement that tax agents are professionally qualified? The Government have shied away from this and they are instead proposing a professional indemnity insurance requirement.

Jim Harra: HMRC's aim in relation to the tax agent industry is to make sure that they add value to tax administration, in particular by helping their clients to comply with their obligations and receive their entitlements, but also to protect the tax system and taxpayers from bad actors in that industry.

Around the edges of it, for example around the promotion of tax avoidance, there are clearly unscrupulous players who are tempting people into doing things that are ultimately going to cause them a lot of grief and a lot of trouble. There are also some high-volume agents who, in my opinion, are exploiting their clients in that they are doing things for them for a fee that are actually very straightforward and easy to do for yourself. If people choose that, that is fine, but I want to make sure that they do not feel they have to do it because the tax system is too complicated. In the middle we have the vast majority of agents, who are doing a perfectly good job for their clients and not doing any harm in the tax system, although ideally I would like them to be always adding more value.

In terms of the case for regulating the tax agent market, in most countries there is a requirement for tax agents to have a qualification in order to operate, and that is not the case in the UK. In most countries, they are regulated to some extent or other, whereas here, although about 70% of tax agents are regulated by a professional body, around 30% are not. What we want to do is gather evidence about the extent to which that is actually a problem. It is not abundantly clear that there is evidence that the unqualified agents are significantly less professional in terms of the service they provide than those who have a qualification, so the Government probably want to move fairly carefully.

However, the proposition is that the requirement to get professional indemnity insurance will in some ways be self-policing and self-regulating, because agents in particular at that end of promoting avoidance who are taking big risks will find it difficult to get insurance for the type of activity they engage in.

Q65 Alison Thewliss: I am struggling to follow why, if other countries have done this and made it a requirement to have a professional qualification,



we would not want to do the same.

Jim Harra: What you obviously need to look for is evidence that, as a result, they have a very significantly better tax advisory industry than the UK before you start adding burdens. As a tax administrator I want to see professional standards in the industry, and HMRC has published the standards that we expect all tax advisers, qualified or not, to abide by. We will act where we see any in our system that are falling short of those.

There is an issue in this country that, for those 30% who are not members of a professional body, there is no one other than HMRC to try to enforce those standards. Clearly, we do not have regulatory powers in relation to the industry. Bringing in professional indemnity insurance really brings the insurance industry into policing those standards as well.

Q66 **Alison Thewliss:** Is it not the case that professional indemnity insurance policies are likely to have exclusions within them? Those types of exclusions will be specifically for the kinds of things you are looking at such as advice on tax avoidance. Does this not just create another loophole for people to get around, if that is what they are looking to do?

Jim Harra: We will have to look at how we can make that work. The proposition is that you will not be able to give advice for which you do not have cover under professional indemnity insurance. It would be an offence to do that. If that means that there are areas like the promotion of tax avoidance that become economically impossible for advisers to engage in, that is fine by HMRC.

Is this the end of the story? I suspect not. We have been negotiating the relationship between the tax system and tax advisers for some time, but this review was particularly driven by a requirement to look at the abusive end of the tax-adviser market, particularly in relation to avoidance. It came out of a recommendation from Sir Amyas Morse's report, and therefore the call for evidence and the outcome of that reflects in a sense the source of that recommendation, which is about how to prevent tax advisers from tempting people into avoidance schemes that are just going to land them in a lot of trouble.

Q67 **Alison Thewliss:** Presumably you made recommendations to Government on the results of your consultation. Is what they have come back with what you recommended?

Jim Harra: Yes. When we reviewed the evidence from the call for evidence, one of the key things in there was that a requirement for tax advisers to have PII would assist in achieving the objectives that we set. As officials, we were content that this was the area we needed to focus on.

Q68 **Alison Thewliss:** How do you intend to regulate this?



Jim Harra: Decisions still have to be made. What we have done following the call for evidence is to come up with a proposal on which we are now consulting. There is a key question about whether it is HMRC that needs to regulate this. In one sense we are well placed because we are the body that has an interest in making sure these people do not operate; on the other hand, I would recognise that you can see some hazards with having the tax authority policing the tax advisory profession, because they need to be able to do their job and not feel constrained by the tax administration from not acting in their clients' best interests.

So long as it is purely about whether you do or do not have the insurance you need to have, it is probably fairly safe. All the decisions on that still have to be made.

Q69 **Alison Thewliss:** I am just trying to establish how exactly you would make sure they had the adequate insurance they would need and that their insurance was not riddled with the types of loopholes that might allow them to continue as they are just now.

Jim Harra: That would not achieve our objective. In Penny's area, in tackling avoidance, we are increasingly using non-tax means of driving these people out of the market. For example, we have recently agreed a joint enforcement notice with the Advertising Standards Authority to prevent online advertising of tax avoidance schemes that do not work. We would very much want to harness this to tackle what is a very small number of hardcore advisers who are operating in this market. If we could catch them operating without PII, that would be an extra thing we would be able to use against them.

Q70 **Alison Thewliss:** Is that not then just pushing this over to the insurance industry to deal with?

Jim Harra: No. The insurance industry will set standards about which policies it will and will not write. If there is an area of tax advice that is so risky that the insurance industry is not willing to write a policy to protect from it, it will not be able to operate lawfully. That will hopefully achieve our objective, and we would be there to catch any adviser who was nevertheless giving uninsured advice.

Q71 **Alison Thewliss:** Does the insurance industry have the specific type of knowledge that they would require to do that? It is a very specific area it is getting into here.

Jim Harra: There is a very developed industry for giving professional indemnity insurance to tax advisers. Currently, the industry is very clear about the kinds of risks it is not willing to write insurance for. For example, at the moment no insurance company will write insurance for the types of avoidance schemes that are being promoted by those hardcore promoters, and yet they are able nevertheless to go ahead and sell that advice because there is no requirement for them to have insurance. Therefore, their clients are unprotected.



Q72 **Alison Thewliss:** It seems like a particularly complicated way of going about things. Would it not just have been simpler to require all tax agents to be professionally qualified and then regulate them in the same way the FCA regulates financial advisers?

Jim Harra: It is an alternative approach. It would not be simple to introduce state regulation for the tax advisory industry, but it is an alternative approach. Perhaps one day we will go there, but in terms of tackling the abuse that this review was aimed at, following Sir Amyas Morse's report, wholesale regulation of the entire advisory industry, we felt, was not necessary to achieve that objective.

Q73 **Alison Thewliss:** Have you spoken to the FCA about their experience of this?

Jim Harra: I am not sure whether my colleagues who run this review have or not. I suspect they probably have. I know I have a meeting shortly with the new head of the FCA on this and a range of other issues. I am afraid I do not know what type of engagement we had during the review.

Q74 **Alison Thewliss:** Lastly, how will you know this has been successful?

Jim Harra: In terms of how we have tackled the market of tax avoidance, first of all, several years ago we effectively drove the banks, the big accountancy firms and the big solicitors out of this industry. More recently, in the last six years, we have been using more draconian powers to drive the more boutique end of the market out. What we are left with is a hardcore of about 20 or 30 really, frankly, unscrupulous promoters. What I want to see is them out of the market.

Q75 **Alison Thewliss:** Is there further that the law could do to crack down on these unscrupulous promoters?

Jim Harra: I will perhaps let Penny come in and describe everything we are doing. This is only one measure. I mentioned that we have recently agreed a joint enforcement notice with the Advertising Standards Authority to prevent unscrupulous advertising. We have a two-pronged approach for this remaining hardcore. One is to crack down on them from the supply side and make it increasingly difficult for them to operate; the other is to work on reducing the demand for their services, making the people who they target aware of the risks of what is being marketed to them and encouraging them to steer clear of it. Penny can give you more information about the strategy that we are following, however.

Alison Thewliss: I am just about out of time for these questions, so if it is a very long answer it would be useful to have that in writing. If it is a short answer, I might get away with it.

Penny Ciniewicz: We are doing a great deal. I will summarise it briefly. If you want to know more, by all means let us know. We are using all the legal powers that we have been given over the last few years. In the strategy that we set out in the spring, we have also explained how we are



going to use a range of new powers, including those that were out on consultation in the summer, to reinforce the powers we already have.

We also look at all the powers within HMRC's disposal, including criminal investigations and prosecutions. We also work with insolvency practitioners. We work to disqualify directors of companies where they are behaving inappropriately; we leverage things that are within our gift such as the use of securities; and, as Jim has explained, we do our level best to encourage people not to get into avoidance in the first place. We have recently started a new campaign to help educate people about the signs of avoidance and to encourage them to stop, to challenge and to protect themselves and the tax system by not getting involved in avoidance.

Q76 Ms Eagle: I am going to be asking some questions about customer performance and staffing issues. I wanted to take you up a little bit on this approach to Brexit. How bad do you expect it to get at the border, Mr Harra, in January?

Jim Harra: We are determined to make sure there is not disruption at the border. At the moment, our approach to that is really to give as much support as we possibly can to businesses to get ready. We are contacting them to make sure they are aware of the need to do so and the resources that are available to help them. At the moment, our approach is, "Support, support, support". What we do not want to do is have a penal approach to a lack of readiness, because we know it is a struggle for people to get ready. What they need is a supportive approach.

From 1 January, we will be monitoring very closely what is happening on the ground. There is a central Government command being created for that, which is gathering in data from a whole range of sources so we can make rapid decisions. We will be wanting to use that six-month period when we do not have full import controls to make sure traffic moves as smoothly as it possibly can, but at the same time we are intervening to get people ready for what will be a second critical date on 1 July when full import controls are in place.

Q77 Ms Eagle: What is the estimated supply-chain cost to the UK if there is a no-deal Brexit?

Jim Harra: I am responsible for customs administration. There are extra costs to businesses from completing customs declarations, which we covered earlier in the hearing. We published information about that in 2019, when we said that on the UK side it is about £7.5 billion for the cost of completing customs declarations.

Q78 Ms Eagle: That is just going one way, so it is plausible, as the International Freight Association said, that it is double that, if you take into account the costs on the other side. That is £15 billion.

Jim Harra: That is correct. That is information that has been in the public domain for quite some time. That is not really affected materially



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by whether or not there is a free trade agreement, because it is simply the cost of operating customs.

Q79 **Ms Eagle:** Whether things go well or badly in the next few days, that cost is going to be there.

Jim Harra: By and large, yes.

Q80 **Ms Eagle:** The British Ports Authority has said that customs checks in the event of no deal will be impossible on fresh food and plant imports. Is this correct? What will happen if there is no deal? How will you be dealing with fresh food and plant imports?

Jim Harra: That is not really my Department's responsibility. That is Defra's responsibility. Again, the Government's decision to stage import controls includes the controls on goods of plant and animal origin, where between now and July we will move towards full import controls.

Q81 **Ms Eagle:** In your annual report, you pointed out the importance of customer experience, especially also in helping compliance. The more satisfied customers are with the service they get from you, the more likely they are to get their tax right in the first place and comply. Your call response times are down in 2019-20 compared to what they were in 2018-19. This deterioration began before the pandemic started and it has continued throughout 2020. When will you be able to get your call times back up and meet your own targets?

Jim Harra: Unfortunately, we are certainly not giving the experience on our helplines that we would like to give in terms of how quickly we can answer calls. In fact, our experience during last year, 2019-20, was that we had a pretty bad first half of the year for a variety of reasons, mainly because of undershooting our recruitment towards the end of the previous year, but in the second half of the year we delivered very close to our service standards right up to the middle of March when the pandemic struck.

What we have experienced since then is that we have had to redeploy some of our people, particularly at critical dates, to support those Covid-19 schemes. That has meant that throughout this year we have not been able to answer calls as quickly, for example, as we would like.

That has improved since the summer for two key reasons. First of all, we have improved our ability to schedule our adviser resources, and we have been able to introduce technology that sends calls out to people at home. Secondly, we have been able to reduce the amount of resource that we have deployed on those Covid-19 support schemes as we got those big humps of claims into the furlough scheme and the self-employed scheme.

Nevertheless, we have had to impose upon the patience of our customers for much of this year. Given what remains for us to do on Covid-19 and Brexit, I am sure we will continue to impose on that for the remainder of



this year. We are very grateful for the fact that a lot of our customers are very patient.

Q82 Ms Eagle: Why, then, are you making staff redundant, if there is this issue that you might sort out in customer service? In the annual report, you say that in 2019-20 708 staff left; in table 15, you say there were 1,334 exits from HMRC. First of all, what is the discrepancy about? Secondly, why are you making staff redundant when there is this pressure on customer service?

Jim Harra: First of all, there is a general point: we are constantly recruiting people and we are constantly losing people. In fact, retirement is a much bigger source of exits from the organisation than redundancies are. Redundancies arise because we are modernising where we have our offices.

Q83 Ms Eagle: That is moving to the 13 regional centres.

Jim Harra: Correct, yes. At the start of this exercise, we had about 170 small local offices, which reflected the way we did business in the past. We want to move to 13 regional centres and about seven specialist sites in the future. When we close one of those offices, we do not want to make anyone redundant, but we are obliged to offer redundancy to staff if we cannot reallocate them to an office that is within a reasonable travelling time from their home.

Q84 Ms Eagle: Can I stop you there? You have all been working from home a lot in the pandemic. Is that still the case?

Jim Harra: Yes, that is still the case. However, it is still the case that we have people who are contractually tied to an office. If I close their office and do not give them another office within reasonable daily travelling of where they live, they are entitled to be offered redundancy. However, we have been working hard to discourage colleagues from taking up the offer of redundancy precisely for the reason you give, which is that we can offer flexible ways of working, which we hope will retain people.

In the offices we are closing in the remainder of this year, we have been working hard with colleagues who have that voluntary redundancy offer to encourage them to stay with us. Ultimately, they have the right to take the offer if that is what they want to do.

That does not really directly relate to the resources that are available for advice, in the sense that what drives the number of staff I can have is my budget. If people leave in one place, I can recruit and train in another if I need to, but ultimately I am capped by how much I can afford to spend overall on payroll. I want to keep redundancies to an absolute minimum and I want to encourage the maximum number of people to stay with us. Making full use of the flexible working we have learned during the Covid-19 pandemic, we can definitely manage.

Q85 Ms Eagle: That is all good. Why at the end of July this year did you



announce plans to temporarily privatise up to 1,000 jobs?

Jim Harra: I do not believe we have privatised existing jobs. What we are doing is supplementing our workforce with contingent labour to take on some additional work we have been given, particularly in relation to Covid-19 and Brexit. For example, we are about to open those inland sites that the Chair mentioned at the start of the hearing. Those are a particular type of job involving basically being outdoors on site and moving traffic around in a lot of locations that are not really natural HMRC locations. We will use contingent labour for that.

Q86 **Ms Eagle:** Is that the whole 1,000 jobs? Are they all going to be policing customs car parks in Kent?

Jim Harra: There are actually about 1,000 jobs on those sites. We will be using contingent labour for other areas as well, but this is really a temporary top-up to our workforce. It is a way of getting resources in quickly for a limited period, for which we have been given temporary funding to do temporary work.

Q87 **Ms Eagle:** What are the other areas? We all remember the Concentrix debacle and the terrible effect it had on many people who were waiting for their child benefit. This will not involve making decisions like that, will it?

Jim Harra: No. First of all, we are not talking here about entering into a contract with a company to do work. What we are talking about is bringing in additional resources who will work under our direction. There is one significant exception to that, which I will go on to in a moment. A lesson from Concentrix is that we should take extreme care before we ever ask a private contractor to take on work that relates to compliance activities.

The one exception I mention is the temporary Trader Support Service for Northern Ireland to enable traders to comply with the Northern Ireland protocol. That is a support service. It will provide education and guidance for the traders, but it will also provide them with a service that puts the declaration on to HMRC's systems for them. We have contracted with Fujitsu to deliver that service. That is a managed service on behalf of HMRC. It is like a publicly funded customs intermediary. It is specifically in relation to the Northern Ireland protocol.

Q88 **Ms Eagle:** You did not think that taking people on directly would be a better way of doing that. Why the outsourcing?

Jim Harra: In that case, we felt that what we wanted to buy was an end-to-end service for customers. It is also just one step removed from HMRC. What you are doing here is acting on behalf of the customer to file a declaration with HMRC. A Fujitsu-led consortium was able to step one step away from HMRC. Given that it needed to be set up very rapidly and it is a temporary service, we decided to buy an end-to-end service, which is giving the customers support.



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Q89 **Ms Eagle:** How long will it last, Mr Harra?

Jim Harra: It is a two-year contract.

Q90 **Ms Eagle:** After that, the appropriate people will be expected to manage their own interaction with the border down the Irish Sea.

Jim Harra: Yes. We do not yet have our plans for how we exit from that in two years' time, but it would be our aim that there is a market-led solution. That is all to be decided in the future. In the meantime, this is very much being contracted as a temporary two-year service.

Q91 **Ms Eagle:** Can you tell us how many agency staff you are taking on at the moment?

Jim Harra: I think it is 1,500.

Q92 **Ms Eagle:** Why are you taking on agency staff again rather than recruiting extra staff directly into the organisation?

Jim Harra: It is for the reasons I stated. This is temporary funding that we have been given to do a temporary job. It is a fairly rapid way of increasing our workforce. I reiterate that this is resource we bring into the organisation to direct ourselves; it is not us privatising any part of this service. It enables us to relieve quite quickly some resourcing pressures that have had an impact, for example, in Penny's area on our compliance work. We have been redeploying staff from Penny's area to provide services to the Covid-19 schemes. I would much prefer that those staff were back managing compliance.

Q93 **Ms Eagle:** The Public Accounts Committee very recently published a report saying that the Government had failed to prepare properly for no deal and that Ministers were taking limited responsibility for Brexit readiness. That report also said that there was huge expenditure on consultants and little investment in the civil service despite the £4.4 billion cost of EU exit preparations. Does any of this applies to you, given the conversations we have just had? Could you perhaps have spent some of that money on increasing the capacity of the civil service moving forwards rather than spending it on consultants and temporary staff?

Jim Harra: Frankly, I do not recognise any of it in relation to HMRC. First of all, in terms of preparation, we were explicitly instructed by Ministers in January to plan for the end of the transition period on the basis that there was no further agreement with the EU. That has been the planning assumption we have used throughout.

In terms of Ministers not taking responsibility, my life would be easier if they did not, but I assure you I have very frequent engagement with Ministers who are keenly interested in driving the maximum readiness for 31 December and also understanding what measures they need to take if that readiness is not there.



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The vast majority of the funding I have been given has been spent in HMRC on HMRC staff and on our systems. We use contingent labour and contractors to supplement our resources, particularly in specialist areas like the development of digital systems. We make very limited use of consultants in HMRC.

Chair: That brings us to the end of this session. Could I just thank our three witnesses very much indeed for appearing before us? Thank you for the answers you have provided to our wide-ranging questions, but also, as other members of the Committee have expressed, thank you for all you are doing in these extremely difficult times.

Jim, when you appeared before us on a previous occasion you said that HMRC had ended up doing things you did not believe they were capable of doing. That was in relation to Covid and the support that has been put out by way of furlough and the other measures you have been involved with. Of course, you now have the ongoing challenge in the build-up to the end of the year and day one, as we exit the transition period, so we wish you well with that. Thank you once again to all three witnesses, including the VOA, for appearing before us today.