



Treasury Committee

Oral evidence: Work of HMRC, HC 783

Wednesday 18 October 2023

Ordered by the House of Commons to be published on 18 October 2023.

[Watch the meeting](#)

Members present: Harriett Baldwin (Chair); Mr John Baron; Dame Angela Eagle; Drew Hendry; Danny Kruger; Dame Andrea Leadsom; and Siobhain McDonagh.

Questions 245 to 360

Witnesses

I: Jim Harra, First Permanent Secretary, HMRC; Angela MacDonald, Second Permanent Secretary, HMRC; and Dame Jayne-Anne Gadhia, Lead Non-Executive, HMRC.

Examination of witnesses

Witnesses: Jim Harra, Angela MacDonald and Dame Jayne-Anne Gadhia.

Q245 **Chair:** Good afternoon. Welcome to the Treasury Committee meeting on the work of HMRC. Can I start by inviting our witnesses to introduce themselves, starting with you, Jayne-Anne?

Dame Jayne-Anne Gadhia: I am Jayne-Anne Gadhia. Thank you very much for having me here. I am the lead non-executive director at HMRC.

Jim Harra: I am Jim Harra. I am the first permanent secretary at HMRC.

Angela MacDonald: I am Angela MacDonald. I am the second permanent secretary at HMRC.

Q246 **Chair:** Thank you very much. I need to warn witnesses that there will be a bit of coming and going of Committee members during this afternoon's session. We are also expecting a vote towards the end. If we have not finished, we will have to suspend and then return—just so that you are aware.

I want to start by asking you, Angela, about the suspension of the self-assessment hotline, which was announced in June and gave the public two days' notice that it was closing for a pilot. Can you tell me why there was only two days' notice to taxpayers?

Angela MacDonald: As you are aware, we decided that we were going to trial the seasonal model. We had put extensive work into preparation for the trial, but it took us some time to make the decision on the



HOUSE OF COMMONS

communication, and therefore, we were somewhat late in notifying our customers. This was a trial, as I think I have shared before, and one of the learns as we go through for future trials definitely will be about how we best engage our stakeholders more broadly and members of the public so that they know in advance of the kinds of things that we are trying to make move forward.

Q247 **Chair:** So it was not part of the plan to give the public only two days' notice.

Angela MacDonald: It definitely was not part of the plan.

Q248 **Chair:** What caused the delay in the communications strategy? Did it have to be signed off by Ministers? Was that the delay?

Angela MacDonald: We absolutely needed to have good-quality conversations with Ministers about making such a major intervention and, as I say, to consult various colleagues across the piece. By the time that we had managed to get our way through all the range of stakeholders internally who we needed to talk to, we ran out of the time that we would ideally have had to have to communicate further and more fully.

Q249 **Chair:** You just switched it off with two days' notice. Was the board aware of what was going to happen?

Dame Jayne-Anne Gadhia: We knew in April that we were planning to focus on digital during the summer. I think that it is important to look at it that way round. It was not just leaving customers without phone lines; it was making sure that people had full digital access. The board was aware that that was the plan, and of course that was challenged very heavily at both the board and the customer experience committee to make sure that that was right. We look forward to the results now coming back to the board from that plan, but we were not aware that the communication was delayed in the way that it was.

Q250 **Chair:** And when will the board be looking at the outcomes of the pilot?

Dame Jayne-Anne Gadhia: We had a board meeting yesterday that saw the initial outcomes. There is more analysis to do of the data, so at the next board meeting, we would expect to see that data analysis coming through.

Q251 **Chair:** Can I just ask, Jim, about the letter that you sent to the Committee this week about this subject? We have published it, and it says that, "Customer satisfaction for OSH"—online services helpdesk—"helpline was 24.7% compared to 29.4% year-to-date before the closure. It is likely that the reduction in OSH satisfaction was a temporary phenomenon during the time it took to increase capacity there." It just sounds like no one was really satisfied.

Jim Harra: This was a trial, and we did have to make some forecasts of how customers would behave. The whole point of carrying out the trial was to test those assumptions. The demand on the online services helpline



HOUSE OF COMMONS

exceeded our forecast, so initially in the trial we did not have sufficient advisers on that helpline to deal with that demand.

Q252 **Chair:** Was that part of the plan or was that inadvertent? What was going on there?

Jim Harra: It was certainly part of the plan that, when we switched off the self-assessment helpline, customers who were unable to self-serve digitally would be able to ring the online services helpdesk. Obviously, what we had to do was forecast what the demand on that would be, and without running the trial, that was effectively a guess.

The demand on the online services helpdesk was higher than we had forecast, and therefore, we needed to train up and deploy additional advisers. In the initial period of the trial, that meant poor service levels on that helpline, and therefore reduced customer satisfaction. However, as the trial went on, we added more resources to that helpline and customer satisfaction levels increased.

Q253 **Chair:** I am looking at these numbers from your own letter. You say that what happened during the trial is that there was a tripling of the number of people who were passed to your specialist extra support team. Is that a good thing or is that just because you did not have enough people on the online?

Jim Harra: If we had done nothing, we would have expected, based on the previous year, 864,000 calls to the self-assessment helpline. By switching that helpline off, we wanted to see where that demand goes to. Ideally, as much of it as possible would go online to our digital assistant, but we knew that some of it would spill over to the online services helpdesk and to our extra support team. We did see that, and now we have good data for planning for the future.

So yes, I think we did expect that when we switched off the helpline more customers would present to the extra support team, because they were not able to do things digitally or lacked the confidence to do things digitally.

Q254 **Chair:** This pilot does not seem to have worked, does it?

Jim Harra: On the contrary, what the interim evaluation shows is that there was some considerable success. The pilot succeeded in reducing the customer contact demand during that period. It succeeded in deflecting a significant proportion of that demand online to the digital assistant and webchat, where we were able to give good service and got good levels of customer satisfaction.

Q255 **Chair:** But 24%—

Jim Harra: Sorry; I am talking about users of the digital assistant and the webchat, which is the primary deflection route that we wanted, and it enabled us to reprioritise the deployment of resources on to other work. Those were our positives. We can tell that during the period of the trial, the number of self-assessment returns filed and the number of self-



HOUSE OF COMMONS

assessment payments made kept up with or was slightly higher than the previous year, so there is evidence that customers were able to do what they needed to do during the trial period.

It is only an interim evaluation. We have to wait until we have completed the SA filing peak before we can do the full evaluation, but we are encouraged by the fact that we succeeded in reducing contact demand without impacting on the filing and payment of self-assessment, and we are encouraged that a large number of customers were able successfully to use the digital assistant and webchat.

Q256 Chair: Angela, based on the pilot outcomes, are you currently planning to do a second pilot, or are you planning to make this a permanent feature of the way that HMRC deals with the public?

Angela MacDonald: We absolutely need to finish the evaluation, as Jim says, because it is not just about demand. It is also about eventual compliance, so we do need to fully finish.

Q257 Chair: You are not planning anything at the moment.

Angela MacDonald: We absolutely believe that a shift to the usage of digital services is, and has to be, a part of the HMRC operating model. The purposes of these trials are to allow us to work out how to be effective at that and how customers respond—as you say, where vulnerable customers require extra services. But it is absolutely our plan that we will continue to trial and continue to move such that customers will be offered digital services in preference to other services.

Q258 Chair: I did not quite hear a clear yes or no there. You are currently planning a further pilot?

Angela MacDonald: Yes, we are.

Q259 Chair: Jim, in your annual report you say, “I’m disappointed that we didn’t hit our key customer service standards this year”. Why not?

Jim Harra: If you look at our customer service contact, year on year it is increasing. In '22-'23—the year that the report covers—we got 38 million calls, which was 3 million more than the year before, and we got 16 million pieces of correspondence, which is about 1.4 million more than the year before, so we are seeing the contact demand go up. Our resources are going down.

Q260 Chair: Yes, it shows a 5% reduction in customer service staff in your annual report.

Jim Harra: Yes, that is correct. We are therefore not resourced to deliver our customer service standards through the traditional channels of phone and post, which is why our strategy is to reduce that contact demand and push as much of it as possible on to digital self-serve.

We estimate that we need to reduce our contact demand by about 30% by the end of next year, compared with the 2021-22 baseline, to be able to hit our service standards with the reduced resources that we have. As I



HOUSE OF COMMONS

said, actually the trend in contact demand is the opposite way, so we effectively have to swim against the current to remove that contact demand and then bring it down so that it is 30% lower.

The good news is that we have plenty of evidence that, within that contact demand, there is demand that is unnecessary or that can relatively easily be self-served online. We get about 3 million calls a year on, "What is my national insurance number? What is my pay-as-you-earn tax code? Can I change my online password?" Those are all services that you can do online. The SA helpline pilot was part of testing how we can push contact demand that is capable of being dealt with digitally on to digital, so that we can deploy our resources on helping those people who really need the extra support.

Q261 Chair: The reason I am really quite worried is that we are where we are now, which does not sound like a particularly good place, and this year the capital gains tax allowance is more than halving. Next year it will halve again. That means that some 4 million extra people will be filing on that front. With the reduction in the dividend allowance, I think that will also increase demand. It feels like a system that is about to fall over. We will ask a bit more about IT in the future during this session as well.

Jim Harra: I think the increase in contact demand that I mentioned is a manifestation of the underlying growth in the number of taxpayers we have to serve and the number of those taxpayers who are interacting with the more complex ends of the tax system. They are therefore more likely to need to interact with HMRC.

You are right that the challenge is tougher and tougher, because the increasing number of taxpayers in the system means increasing contact. We do not have increasing resources to deal with that contact, and therefore all of it that is capable of being removed from the system or being dealt with digitally through a self-service solution is what our strategy really needs to drive— otherwise, I cannot hit my service standards.

Q262 Chair: Okay. Just finally from me, to Dame Jayne-Anne, was the board told about this decision that there would be only two days' notice? I appreciate that you knew it was coming, but the bit about the two days' notice seems to have taken everyone by surprise. Was that the board as well?

Dame Jayne-Anne Gadhia: No. The board was not aware that it was only two days' notice.

Q263 Chair: Okay.

Jim Harra: If I could just add, Chair, while it was not a deliberate part of the design to bring this in suddenly, it probably does actually help with the authenticity of the trial. While it was not part of the design, because we had been working on implementing the trial for some time, it was important that it be introduced as quickly as possible.



HOUSE OF COMMONS

We really did want to lift the trial again in early September so that if it was not successful and there was a lot of pent-up demand, there would be time to deal with that before the paper-filing deadline at the end of October. It was important that it started no later than it did so that it could finish in September.

Q264 **Chair:** Dame Jayne-Anne, will you, on the board, make sure that such important decisions on timing are not made again without your scrutiny?

Dame Jayne-Anne Gadhia: Yes. I think this was unusual. To give you a little insight on the way in which the board looks at customer service, as well as our main board, we also have a performance committee every month. Four times a year, we have a customer experience committee meeting. All those committees and board meetings focus on the challenges with customer service in HMRC. The board would agree that not everyone is getting the best possible service given the resource constraints that the executive are dealing with. As a consequence, it is constantly under scrutiny.

The challenges that come from the board at every meeting are very much listened to by the executive and we see progress as a consequence. Because part of the board's role is to look at the strategy of HMRC, we definitely support the need to move from a phone and paper-based customer service to a digital-based service.

Part of the reason that I think I and others are on the board is because of our private sector experience. There is no doubt that in the private sector, people would be moving, and have moved, more quickly from phone and paper into digital. Strategically, therefore, the challenge that we are putting to the executive is: how do we move in that direction, which customers want, in a way that gets us to the right place at the right time, but without dropping service standards with the more legacy ways of doing things?

This is a constant review by the board. It is a conversation. We have, as I say, three different sessions. We have it all of the time. The particular point that you are making, Madam Chair, is to do with a particular point of execution rather than the overall scrutiny of the process.

Chair: All right. Thank you. Dame Angela is next.

Dame Angela Eagle: I want to ask about the border and border security, Chair. I don't know whether you want to bring me in later because of a clash. You might wish to bring in Dame Andrea.

Chair: I know that you may await exciting news in the Chamber later, so I wanted to bring you in early for that reason.

Dame Angela Eagle: That aside, rather than us do the same thing, I thought it would be polite if I took something—

Chair: That's fine, but ask those questions now.



Q265 **Dame Angela Eagle:** Okay. Sorry to engage us in a little bit of internal organisation. I want to ask about borders and the target operating model. UK Ministers have confirmed a fifth delay in the implementation of the post-Brexit electronic borders for export, particularly on food and fresh products. Can you tell us a bit about what the dangers of the delay are, given that, at the moment, we do not seem to be checking this stuff at all? Our exports are checked by the EU, but the imports aren't.

Jim Harra: I cannot give you evidence on sanitary and phytosanitary checks because that is a matter for DEFRA rather than HMRC, but I can talk about the customs controls that we administer. Since January 2021, we have had full implementation of import controls from a customs perspective, with one exception, and that is imports from Ireland into the UK. The Government have announced that we will be implementing the second phase of the staged import controls. That will give us, from January 2024, complete import controls from a customer's point of view.

On the extra thing that has been announced, which will come into force from—

Q266 **Dame Angela Eagle:** Can I just stop you on that? Is it not a phased implementation that will not be finished until October of that year?

Jim Harra: Yes, we will be implementing—

Q267 **Dame Angela Eagle:** You are implementing it bit by bit.

Jim Harra: Yes, as far as customs import controls are concerned, the last bit that needs to be implemented is in imports from Ireland to the UK. Everything else has been done. We start that in January, but you are right: from 31 October '24 we will have that, plus we will have the safety and security declarations for EU imports, which was delayed following the exit from the EU. From an HMRC point of view, that will complete the part of the border controls that we are responsible for.

Q268 **Dame Angela Eagle:** What have the delays meant for your work at the border? Clearly, it has been put off five times. It is being done in bits.

Jim Harra: I think the conclusion was that, although we clearly want the full control system in place, it had to be implemented carefully. We were in quite strange times when the transition period ended, because we were in the disruption of covid; we have also had the cost of living crisis.

There is a balancing act to be done in how you phase the introduction of that so that you don't cause undue disruption to businesses that are already having to cope with quite a bit of disruption for other reasons. That is why we deferred the implementation of the safety and security declarations while some work was done on the design of those.

We also deferred the implementation of import controls from Ireland, which has implications for the UK internal market, because some Northern Ireland goods move through Ireland and we needed to make sure that we could give an effective solution for those. From our point of view, that was a low-risk delay. Clearly, some risks were accepted as part of it, but we



did not think that they were significant and we are content that we are now able to complete our full control model.

Q269 Dame Angela Eagle: Have the delays and disruption led to increased smuggling?

Jim Harra: We believe not. We believe that the risks were very low. While there are no formal controls, we have been able to use intelligence to assess whether anything is going on that would cause us concern. We could have advised Ministers if we saw any indication of that, and we didn't. It is a judgment call: there is no doubt that risks would have been lower had we had full controls in place, but it would have caused disruption to businesses at a time when they were having to cope with lots of other things.

Q270 Dame Angela Eagle: Right. And we have the ageing CHIEF customs system. The new customs declaration service, which was meant to launch in January 2019, is not going to be fully launched until next month—this year. Why has that taken so long?

Jim Harra: Back in 2015 it was decided to replace the ageing CHIEF system with a new customs declaration system, and we were given funding in the spending review 2015 to build that. At the time of that spending review, Brexit was not in prospect, so the implementation of the programme, including the timing of when traders need to transfer to it, has been affected by that, because they have had other things that they needed to do to cope with Brexit.

But we have gone ahead and implemented the customs declaration service. All imports are now on it—I think 99-point-something per cent of import declarations are now made on CDS. We are in the process now of putting exports on to CDS and asking declarants to make their export declarations on CDS rather than CHIEF in the future. We expect to complete that by the end of March 2024. So the system is there—

Q271 Dame Angela Eagle: And then CHIEF will be turned off. Are you content with that? You're not having any nightmares about having to turn CHIEF off?

Jim Harra: We do need to decommission CHIEF. It costs about £30 million a year to keep CHIEF running, so the sooner we can complete the migration and do that, the more money we can save. While CHIEF is very old, it is a stable and reliable system, but it is not capable of being changed, for example to give effect to the target operating model or the single trade window, so we do need to move to CDS for those.

We are also reliant on CDS for the Windsor framework. So it is important that we complete that transition, but we are almost there. For non-inventory-controlled ports, we expect to see the migration of export declarations starting next month. It will probably be March '24 before we can complete that for the inventory-controlled ports. This is still well ahead of the end date for the contract for CHIEF, so it still gives us time to decommission that system.



Q272 Dame Angela Eagle: Without going into great detail, how do you ensure that the information you are being given on these systems is actually accurate? How do you do enforcement?

Jim Harra: We have a risk assessment system and we have the ability to intervene. We can ask for more documentation if we want, so we can do desk-based checks well away from the border. We can ask our Border Force colleagues to intervene at the port and open containers and search them if we need to, or we can arrange for the goods to be transported to one of our inland pre-clearance sites, and we can open them and examine them there; but the physical examination of goods is reserved for a small number of really high-risk consignments. Mostly, our risk assessment would trigger a need to check documentation.

Q273 Dame Angela Eagle: You are happy that that is robust?

Jim Harra: It manages the risks. Obviously, we have fiscal risks in terms of import duties, in particular import VAT, which HMRC is keenly interested in, but of course there are also other risks—for example, goods that we do not want to come into the country because they are prohibited. There is the issue of intellectual property breaches as well. No system is perfect, but we have documentation on every consignment and we take a risk-based approach. In addition, we have intelligence that tells us who the high-risk traders are. We have a list of high-risk traders whose goods are subject to a much higher level of intervention than other traders.

Q274 Dame Angela Eagle: You announced in June the appointment of Deloitte as a technical delivery partner for your new single trade window system. Why have you brought in a private sector partner in that way, rather than carried on developing these systems yourself?

Jim Harra: The single trade window is a new system designed to enable trade to give all the information it needs to give to Government just once, rather than give it separately to separate systems. It should reduce the burden on traders, make it easier to import and export and help to implement the target operating model.

From our point of view, having an external delivery partner, which is not unusual for IT delivery, helps us with our capacity because we can take on that work in addition to everything else that we are having to implement, rather than it competing for internal capacity.

Q275 Dame Andrea Leadsom: Good afternoon. I would like to talk to you about the tax gap. In June, you published the data for the 2021-22 tax gap, showing that the difference between the amount of tax that should be collected and that which was actually collected increased by £5 billion compared with last year. May I ask you for a general comment on that, please, Dame Jayne-Anne?

Dame Jayne-Anne Gadhia: As a board, we look at the high-level key performance indicators. For us, the fact that HMRC is currently keeping the tax gap at around 5%, despite that meaning an absolutely larger amount, feels like performance is being maintained year on year.



HOUSE OF COMMONS

Q276 **Dame Andrea Leadsom:** But it is £5 billion more than last year.

Dame Jayne-Anne Gadhia: But it is still, I think, a 4.8% tax gap for last year and the year before. As a board, we felt that that level performance based on a very significant workload was something we could challenge but support.

Q277 **Dame Andrea Leadsom:** Yes, thank you. Mr Harra, is it something you are comfortable with? Obviously, the target of Government every year is to see that tax gap reduced and not increased. While appreciating a larger amount is potentially on a larger tax base, nevertheless, do you aspire to get it back down and how do you aspire to do so?

Jim Harra: We want the lowest possible tax gap. We have reduced the tax gap over the years, from 7.5% in 2005-06 to 4.8%. That is our record low and we have sustained that for two years, up to 2021-22, which is the last year it has been measured. That is historically low, although you are right that because the underlying tax base has increased, the absolute value of the tax gap has gone up.

However, in percentage terms, we have maintained it. Where we identify ways in which we can meaningfully reduce it further, we certainly advise Ministers, and in successive fiscal events you will see that we are given additional resources, whether for additional staff or investment in technology to help us to tackle the tax gap. That is a key reason why we have been able to reduce it over that timeframe.

While the tax gap in recent years has been relatively stable—4.8% for two years and pretty much the same for a few years before that—the make-up of the tax gap within that number actually changes significantly over time. It is important, as well as looking at the headline number, to look at the underlying behaviours and things that are happening within the tax gap to make sure that we are targeting it effectively.

Q278 **Dame Andrea Leadsom:** Absolutely. I will come on to that now. First, what percentage or what amount of that tax gap is due to covid fraud?

Jim Harra: The error and fraud in the covid support schemes that we administered is not tax, so that is measured separately and we have reported in our annual report and accounts.

Q279 **Dame Andrea Leadsom:** So that does not count as part of the tax gap even though it is taxes that are potentially due on funds received and so on?

Jim Harra: If there was tax lost, then yes, it is part of the tax gap, but if there was error and fraud in the grants that were paid out under those schemes, that is separate from the tax gap and we have reported that separately.

Q280 **Dame Andrea Leadsom:** Can you tell us what that number is now?

Jim Harra: Our final estimate for the error and fraud in the three schemes that we were responsible for was £5 billion and, I think, 5.1% overall. That is before the work we do to recover as much of that as we possibly can.



HOUSE OF COMMONS

Up to the end of the September, we had recovered about £1.16 billion, and we continue to work on that. But as I say, it is not included in the tax gap figure.

Q281 **Dame Andrea Leadsom:** But it is your intention to recover that £5 billion of covid fraud.

Jim Harra: We are going to recover as much of it as we possibly can. I think there will be diminishing returns over time, but we are continuing to work cases, and there will no doubt be further cases that we open. Up until the end of September, we had a specific taskforce that worked just on covid error and fraud, but since the end of September we have mainstreamed the resources of that taskforce, and we now target and investigate error and fraud in those schemes alongside managing the tax gap, and we try to deploy our resources to where we will get the best financial return.

Q282 **Dame Andrea Leadsom:** Do you consider that you have enough support from Ministers for recovering the covid fraud specifically?

Jim Harra: Ministers first of all made sure we had the powers to go after that; they also gave us £100 million to fund the taxpayer protection taskforce, which funded about 1,200 full-time equivalent staff for the duration of that taskforce. That was key to us being able to recover the £1.16 billion that we did. Otherwise, there would have been an opportunity cost for us from that, because we would have had to have deployed staff away from managing the tax gap and towards managing covid error and fraud, whereas it was actually additional.

Q283 **Dame Andrea Leadsom:** When does the taskforce come to an end?

Jim Harra: The taskforce came to an end at the end of September, so now we look for and recover covid error and fraud as part of our general work with businesses alongside managing the tax gap.

Q284 **Dame Andrea Leadsom:** Is that the right strategy, or should you actually be continuing with the taskforce until you have recouped more of that £5 billion?

Jim Harra: If you look at the rates of return that we were getting from the taskforce towards the end, it was lower than we can get from deploying that resource more toward risk.¹ The financial rate of return is higher now that we have that resource on the tax system and are looking for covid error and fraud alongside managing tax risk. In terms of financial return on skilled compliance resource, that is the best way to do it.

Q285 **Dame Andrea Leadsom:** Understood, but you will equally appreciate that for members of the public, their outrage at people defrauding the taxpayer for their own ends during the covid pandemic is very high—potentially higher than in general taxation. I believe that members of the public would want to see HMRC focusing on catching the people who perpetrated deliberate fraud against the taxpayer during that period.

¹ The witness later confirmed that this refers to "tax risks".



HOUSE OF COMMONS

Jim Harra: I absolutely agree, and I understand that. In this work, we have prioritised tackling the fraud. Not all of that £5 billion is fraud. In fact, in the final analysis we published, quite a significant proportion of that is, we believe, error, because these were new schemes that businesses had to get to grips with, and they were often quite pressured because of the circumstances. I would not want people to be under the misapprehension that that is all fraud, but there are certainly some indicators of fraud within that gap, and we have prioritised the more serious non-compliance and are tackling it.

Q286 Dame Andrea Leadsom: Right, thank you. Returning to the tax gap in the traditional sense, the tax gap data shows that taxpayers making errors in their tax returns, or failing to take reasonable care in their taxes, has led to an increase in the tax gap of £1.2 billion. Whose fault is that? Is it a failure on the part of HMRC to give clear instructions to taxpayers on how to complete their tax returns, or is the error deliberate? How has that come about?

Jim Harra: The error is not deliberate. When analysing the tax gap, we look at different types of behaviour. We categorise error and failure to take reasonable care separately from deliberate evasion. It is genuine error, through to taxpayers not taking as much care to comply as they should do. It is largely small businesses in that part of the tax gap.

As I said, whilst the headline figure for the tax gap stays stable, over time we see the proportions within it that are attributable to different behaviours changing. Over time, we have seen the proportion of the tax gap that is attributable to small businesses and to error and failure to take reasonable care growing. That is difficult to tackle. What we want to do is encourage people to take sufficient care and to get it right, and put systems in place that prevent people from making mistakes.

A key part of our strategy for that is Making Tax Digital, which we introduced for VAT in 2019. That has already significantly reduced the error gap in VAT. Between 2019 and I think 2027-28, we expect it to have recovered about £3 billion in additional tax revenues; that has been certified by the Office for Budget Responsibility.

We are now in the process of extending Making Tax Digital to self-assessment income tax for the self-employed. That requires self-employed taxpayers to use digital record-keeping software or apps, which will reduce the opportunities for them to make mistakes or just not keep adequate records at all; and the software to speak to our systems when uploading the data, which again reduces the opportunities for errors to creep in through transposition and computational error. We can see from what we have already done that that will make significant reductions.

Q287 Dame Andrea Leadsom: Thank you for that really helpful explanation. Elsewhere, we are looking at the support given to small businesses. You can imagine that if you are a newly qualified electrician, plumber or florist, this is an area that could be gobbledygook. What support on self-assessment are you giving to those small, often micro, businesses so that



HOUSE OF COMMONS

they understand what on earth it all means?

I appreciate that you have explainers, but are you giving enough support to small businesses to enable them to find the software that they need, to access it easily and to get the training on it, so that they can complete their self-assessment accurately?

Jim Harra: At a strategic level, one of the aims of Making Tax Digital is to build tax compliance into the way you run your business. It is not something that you need to do on top of your business; it is just day to day, as you keep your records. You hopefully get added value for your business as you keep the records, and that will manage your tax compliance for you.

We certainly give support to small businesses to find such software. We do not recommend particular software packages, but on gov.uk we publish a lot of information about what Making Tax Digital software packages are available out there, what their features are, and which are suitable for which sectors. We try to help small businesses to make the right selection. The market is highly intermediated—a lot of the small businesses have tax agents, and we work closely with tax agents to help them to help their clients to make the right selection and to use the software effectively.

Chair: Before I bring you in, Danny, I should explain that the bell for a Division will likely go during your question, but fire away.

Danny Kruger: Unless you just want to break now, Chair?

Chair: No, because I know you have to go later, so crack on.

Danny Kruger: Okay, thanks. My first question is about the higher-income child benefit charge. We had Kathryn Cearns of the Office of Tax Simplification inquiry in the other day, and we asked her about that. She made the very valid point that the complexity of the system is now such that people often get into a mess with the charge. They can choose either to renounce their eligibility altogether, which has some knock-on effect on national insurance which might be unfortunate, or to do a self-assessment form.

Do you recognise the complexity? Are you able to quantify how difficult it is for the taxpayer? Can we do anything to relieve it, short of scrapping the charge altogether, which is what I think we ought to do?

Jim Harra: I recognise that it is HMRC's job to help people to manage through that complexity and to make things as simple for them as possible. If the child benefit claim—*[Interruption.]*

Chair: I will suspend the Committee for as short a time as physically possible.

Sitting suspended for a Division in the House.

On resuming—



On resuming—

Chair: The Committee will now resume, without—we hope—any further interruption.

Q288 **Danny Kruger:** Before we were interrupted, I was asking you about the high income child benefit charge and the impact on taxpayers of the complexity of processing that.

Jim Harra: We recognise that that is a complex thing for taxpayers to deal with, although we believe that the vast majority of people comply with the obligation. However, it does mean that where the income of the claimant of the child benefit or their partner exceeds £50,000, there is a tax charge that comes in that gradually removes their child benefit up to £60,000, at which point there is a full withdrawal.

There is an option for people whose income is over £60,000, which simplifies things, to opt not to receive the child benefit and then they do not have to pay the high income child benefit charge. In those circumstances, we nevertheless encourage people to claim the child benefit, even though they can opt out of payment, because by claiming it, first of all, you make sure you get your national insurance credit, which can be relevant for your state pension, and you also ensure that your child is on our register and they will be allocated their national insurance—

Danny Kruger: So, it is an even more complicated number.

Jim Harra: There is quite a lot riding on it. We communicate every year with about 70,000 people to remind them to check whether they are liable for the high income child benefit charge and, if so, to take the right action. In the last financial year, we contacted 28,000 customers who we felt may have filed an inaccurate tax return to prompt them to check it and amend it if they have got it wrong.

Then, earlier this year, the Financial Secretary to the Treasury announced that we will introduce a simplified procedure, where we will use pay-as-you-earn tax codes to recover high income child benefit charge, wherever possible, which will remove the need for some customers to fill in a self-assessment return.

Q289 **Danny Kruger:** That is helpful; I am glad steps are being taken. I do not know whether you can answer this question, but I would be interested if you can. Is it possible for you to estimate the resource that HMRC puts towards managing the child benefit charge?

Jim Harra: I do not have a figure. I will check whether we can come up with a figure and, if so, I will obviously write and let the Committee know.

Q290 **Danny Kruger:** It would be very interesting to know what a burden it is for your officials, given the burden it is for taxpayers and all the perverse incentives it introduces, particularly for single-earner households, and whether it should just be scrapped altogether.

Jim Harra: I will check. There is no doubt that the figure will be significantly lower than the revenues collected from the high income child benefit charge.

Q291 **Danny Kruger:** I would hope so. Thank you.

Moving on to another topic, which is the loan charge. Actually, before we get into that, there is tax debt generally. The tax debt has grown from £14 billion before the pandemic to £43.9 billion now. Can you quickly account for that, please? Rather than going through it in too much detail, what is the overall reason for that? How do you propose to collect this debt?

Jim Harra: It is a very significant change in tax administration. Before the pandemic, the tax debt balance was between £15 billion and £20 billion—usually nearer to £15 billion. During the pandemic, it rose as high as £72 billion in August 2020, which was as a result of policy decisions that were taken to give people the ability to defer paying their tax.

After that, it has reduced, but is now running in the mid-40s billion pounds, which is obviously significantly higher than it was in the past. And that is not really a hangover of the covid debt, because we have largely worked through that. That is really new debt and I think it reflects the indebtedness particularly of small businesses at this time; they are the main cause for the growth in the debt balance.

Our aim is to help people. It is not so much that we want the debt out of the people; we want the people out of debt. We want to help small businesses recover from their indebtedness and continue in business and be profitable, so we are working through that debt.

We have a new tax debt strategy that segments the customers. In the past, it was a one-size-fits-all process. If you were a debtor, you went through a process with HMRC and everyone went through the same one. Now, we segment our customers based on whatever data we hold that tells us their propensity and their ability to pay, and we give them a different treatment depending on how we segment them. We have been using data from debt reference agencies, for example, to help us segment our customers and do that.

Q292 **Danny Kruger:** Thank you. It is interesting to hear that you feel the covid debt has been recovered for the large part, but this is new debt taken on because of the cost of living crisis, energy bills and so on.

Jim Harra: Whether it has been recovered is a different matter, but we have worked through it. It is not sitting in a pile, but there is significant new debt being generated all the time.

Q293 **Danny Kruger:** All right. Looking at some old debt, which is the loan charge, can you tell me, because I am unclear from HMRC's public statements and from freedom of information requests and internal correspondence, whether you are pursuing the promoters of the schemes used by people who are subject to the loan charge?



HOUSE OF COMMONS

Jim Harra: Absolutely. Our counter avoidance strategy is two-pronged: we want to tackle both demand and supply. In recent years, increasingly, our focus has been on trying to throttle the supply from promoters. We have been given a series of powers in successive Finance Bills to enable us to do that. Most recently, in 2021-22 we were given new powers that enable us to act much more quickly against promoters than we were previously able to.

Q294 **Danny Kruger:** Sorry to interrupt. That is about promoters of current schemes—of new schemes. Are you pursuing people who promoted the schemes that were taken up by people whom you are now pursuing for the loan charge?

Jim Harra: We can only apply the powers we have to the people they apply to. If someone was promoting tax avoidance schemes 20 years ago, but is no longer promoting them, we cannot use any of the more recent powers we have been given against those people. If we find that promoters have committed fraud, for example, and sometimes they do, then we will take action.

I believe that in recent years we have successfully prosecuted and convicted about 20 promoters of tax avoidance schemes, which will cover the full range of marketed schemes. But nowadays, about 90% of all marketed avoidance is in employment taxes such as disguised remuneration.

Q295 **Danny Kruger:** I understand. To be clear then, you have not, and are not, pursuing any of the promoters of the schemes that were used by people whom you are pursuing for using them. So the users of the schemes are still being pursued for their debt, but you are not pursuing the people who profited from those schemes—who promoted them and built a business around advising people who took them out in all good faith. You are not pursuing any of those businesses?

Jim Harra: For the tax debt, we pursue either the individual or their employer, and the majority of the tax that we have collected has come from employers. For promoters in the past, we would have taken action against them if they had, for example, made fraud by misrepresentation. Our current approach is to tackle promoters using an ability to issue stop notices to them, which legally requires them to stop promoting their schemes with a fine of up to £1 million.

Q296 **Danny Kruger:** But only for the schemes that they are actually promoting. You cannot stop those people offering other fraudulent schemes the following week. You cannot take action against the promoters, only against the schemes.

Jim Harra: A stop notice relates to a scheme, so if we find a promoter promoting a scheme in respect of which we believe we have the right to issue a stop notice, we will do that, but it is in respect of that scheme. If that promoter then turned around the next week and started offering a different scheme, we would have to issue a different stop notice.



HOUSE OF COMMONS

Q297 Danny Kruger: My last question is to try to nail down this issue of retrospectively pursuing the people who promoted schemes to people who are now being retrospectively pursued by you for a tax debt. Are there further powers that you could be given that would enable you to go after those historic promoters, or do we have to just chalk that up to experience and let them off?

Jim Harra: I think we are really focused now on tackling the current promotion of market avoidance and preventing people from getting into it, so all of the powers that we really focus on on promoters are about the current promoters.

Q298 Drew Hendry: Apologies: I had to step out the room just now and was not on the Committee the last time you gave evidence, Jim. You told the Committee that HMRC had settled 20,200 loan charges for £3.4 billion. Can you tell the Committee how many loan charge cases you have settled in 2022-23?

Jim Harra: I cannot give you that figure off hand. I know that between the Budget 2016 when the loan charge was announced and 31 March 2023, we had settled about 21,900 cases of either individuals or employers, and the total tax brought into charge as a result of that was about £3.9 billion.

Q299 Drew Hendry: Could you supply that information to the Committee?

Jim Harra: I will look at whether I can separate how much of that was in 2022-23.

Drew Hendry: Okay, but we can make a rough guess from the figures you gave earlier.

Jim Harra: Yes, because those are the figures up to the end of that year.

Q300 Drew Hendry: How many outstanding cases are there where the loan charge might be applicable?

Jim Harra: We think there are about 40,000 individuals and about 5,000 employers who have either failed to return the loan charge at all or have returned a figure that is not the correct figure. That is the remaining population of people who we have to work through.

Q301 Drew Hendry: Given the challenging situations that just seem to be getting worse day by day for people just now, what kind of support are you giving to those paying the loan charge?

Jim Harra: First of all, there is the general support that we offer. We recognise that when presented with a large tax bill, not everyone can afford to pay that, so we have time to pay arrangements that people can agree with us, and there is no limit on the length of time that those time to pay arrangements can last. They are tailored to the needs of the individual person. Beyond that, on the more specialist assistance that we can offer, we have trained all our colleagues to identify any signs of customers who need extra support because they are distressed, in stress or suffering from the ill effects of being in a dispute with HMRC.



HOUSE OF COMMONS

Q302 **Drew Hendry:** Can those people who are affected be proactive about seeking support from you? Are there any other new deals that are available to help people cope with this?

Jim Harra: In terms of the way we settle the disputes, we have a published 2020 settlement offer that is available to everyone who has not yet resolved their dispute with us. That is standard for everyone. There is no sort of special deal that a taxpayer can reach; they have to settle their liability for tax in the standard way, but in terms of how we deal with them and support them, as I say, we have trained our staff to identify those who need extra support.

Often the caseworker is able to supply that support, but where they think specialist support is required, there is a team of people to whom they can refer the taxpayer, who will, if that taxpayer is vulnerable, take responsibility to make sure that those vulnerabilities are addressed in the way that we deal with them. But it does not alter the tax bill, ultimately, that the person has to pay.

Q303 **Drew Hendry:** Do you have an estimate of the number of people who have been in serious distress over the issue?

Jim Harra: I do not have figures for the number of people that we currently have identified as needing extra support, but I suspect that I should be able to get you that.

Q304 **Drew Hendry:** And you should be able to supply those as well. Finally on this subject, because I want to turn back to IT again, on the promotion of disguised remuneration, if you are aware of schemes still being in use, what steps are you taking to stop the use of such schemes? Are you planning to go after agencies that you believe avoid tax?

Jim Harra: On the positive side, we have seen a significant reduction in the tax gap from marketed avoidance. It was about £1.5 billion in 2005-6, and we think it was about £0.5 billion in 2021-22. We have had a significant effect on reducing that. Nevertheless, there still is a hard core of promoters selling schemes. Those are targeted mainly at trying to avoid employment taxes, so they are effectively targeted at agency workers and gig workers. Those might be in IT, management consultancy, nursing or healthcare. Our focus is on tackling those promoters and getting them out of tax avoidance, and really throttling that supply.

We also have changed the way that we deal with the people who enter into the schemes. In the past, we would have opened an investigation into very large numbers and then worked a lead case. Everyone else really would have sat on the shelf until we managed to win those lead cases.

Now, we undertake that, where we find that someone has entered a tax avoidance scheme, we will contact them within two months and help them to get out of the scheme if they are willing to do so, so we are much more proactive in our communications with customers. If they do not get out of the tax avoidance scheme and we have to open an investigation with them, we now guarantee that if we are not actively working their



HOUSE OF COMMONS

investigation—because they are behind a lead case—we will nevertheless contact them at least once a year to update them on the position.

Q305 Drew Hendry: I look forward to seeing the information that you will provide in future. We might come back to that. I want to turn to the modernisation of your IT estate. It is rated as “risk to delivery” in your 2022-23 annual report. What is the cause of that risk?

Jim Harra: We have a huge transformation portfolio to deliver. Actually, we had a long board meeting yesterday where we looked at the risk that we are carrying. On the positive side, with the investment that we got in the spending review 2021, we have got really strong business cases for the change that we want to implement and the benefits that we can get from that, either in terms of greater cost efficiency for the Department or additional tax revenues from the tax gap. However, some of those changes are really hard to deliver.

While we have successfully delivered a lot—for example, MTD for VAT and other things—there has nevertheless been some slippage in the delivery of key programmes, and that creates a sort of budgetary pressure, next year in particular, that we have to work through. We are constantly having to prioritise that portfolio so that we are delivering the highest-value change within the budget that we have.

Q306 Drew Hendry: What is the impact on taxpayers if this continues to fail to be modernised?

Jim Harra: At a high level, there are two key modernisations that we must make. I mentioned earlier that we must succeed in digitalising contact demand and enabling customers to self-serve. If we do not do that, and if we do not take out 30% of our contact demand by the end of next year, compared with 2021-22, we will not be able to deliver a better service to customers.

The other big flagship programme on the tax side is making tax digital, which is about reducing that error gap that we may talk about.

Q307 Drew Hendry: I am interested in your thoughts on making tax digital, because the delivery of that system has been delayed, what, four times? There is an eight-year delay in its timetable, I think, in terms of implementation. So there seems to be a lot going wrong there. I think it is due to be launched in stages from April 2026. Is that correct? Why is the delivery going so badly with that?

Jim Harra: We have successfully delivered the first phase of making tax digital, which was for VAT. That has been in since 2019, and I think about 25 million VAT returns have been processed through that. And, as I say, there is good evidence that that is reducing the error gap, and the Office for Budget Responsibility forecasts that between its implementation in 2019 and 2027-28, we will recover £3 billion of additional tax revenues.

But for the second phase, which is self-assessment for the self-employed, we have not been able to implement that as quickly as we wanted. It is



HOUSE OF COMMONS

now due for implementation starting in 2026 for the first cohort coming onboard, which is later than we want.

Q308 **Drew Hendry:** Do you know what the start-to-finish costs will be of that?

Jim Harra: I do not have that figure with me, but yes, obviously we do—

Drew Hendry: But you can supply it?

Jim Harra *indicated assent.*

Q309 **Drew Hendry:** Thank you. Turning to you, Dame Jayne-Anne, given the delays to making tax digital for income tax self-assessment, does the board have confidence in HMRC's ability to deliver future IT systems?

Dame Jayne-Anne Gadhia: Recently—I think it was in March this year²—as a board we implemented a new transformation committee so that we can focus specifically on this programme delivery. We meet once a month and we look through all of the programmes, including making tax digital and income tax assessment.³

For me, there are three phases—three things—that we need to think about. You started off with one, Mr Hendry, which was the actual legacy systems that need to be upgraded. We have an excellent team that is focused on that. We talk to them as a board very frequently to ensure that is moving as it should. One of the things that can get missed is that most of those programmes, of course, engage with customers and businesses, so businesses also need to change their software in order to ensure that this tax can be developed. That can be quite complex.

Q310 **Drew Hendry:** Absolutely. That complexity is a key thing. How does the board interrogate HMRC's plans on IT provision, especially given how prone they are to delays, as we have heard today? Does the board have the expertise for that?

Dame Jayne-Anne Gadhia: Yes. We have on the board a number of people with expertise in that area, such as David Cooper, who came from a significant IT background, and Jennifer Tippin, who has run transformation at NatWest. I also have some experience myself, as do others.

One of the things that we have been able to do through the transformation committee is to break down those programmes into detailed key performance indicators. We looked yesterday, for example, at all the different programmes to see where they were against their planned delivery. As you would imagine, as with all programmes, some are green—on track—and some are not on track. The board is then able to dig into the ones that are not on track to see where we are going.

² The witness later confirmed that this Transformation Committee was established in May 2023.

³ The witness later confirmed that she was referring to "income tax service transformation".



HOUSE OF COMMONS

I was interested that Dame Angela raised the comment about CHIEF, because I think that is a good example of what you are talking about. It is an older system that needs to move forward.

Q311 **Drew Hendry:** Quickly and finally, is the IT system for the economic crime levy on track?

Dame Jayne-Anne Gadhia: I am not aware of that.

Angela MacDonald: The first phase has already gone live, which allows you to do the registration—all that is already out there. The second phase, which is more about making changes to your processes, is on time and will happen before April 2024.

Siobhain McDonagh: I am sorry if I cover anything that people have already said, because I was not here at the beginning. My question is about the “answering the phone” problem.

Chair: I covered that in my questions at the beginning. Do you want to ask about staffing and personnel? It is a very related issue.

Q312 **Siobhain McDonagh:** We talked about whether you have experts in computer stuff. Do you have experts in customer service and answering the phone? I am getting a steady trickle of people coming to see me about problems that they have with HMRC answering the phone, and whether the people answering the phone have the knowledge to answer the query. The people seeing me have stretched a broad width, from those who are not very tech and finance savvy to those who really are.

I wanted to address some of the people who have recently come to see me. There was a lady who was trying to sort her late mother’s estate out. She paid the taxes on the sale of her mother’s home. The property came back at a slightly higher value, so she wanted to pay the balance of what she owed, only to be told that she would have to set up a trust or she could go to the back of the website to find out the answer, but she couldn’t have a paper form to work out how much she owed. She paid in June; in August she had not even received an acknowledgment of payment, and the phone wasn’t going to be answered until the end of September. Do you think that is any sort of way to carry on?

Jim Harra: First, I will just deal with that, and then I will possibly pass to Angela for more general comments. Obviously, I apologise for the experience that your constituent had. What our data shows is, while we are definitely struggling to answer the calls—and answer them as quickly as customers have a right to expect—when people do get through, we get very high levels of satisfaction with our advisers, who score very highly for being helpful and knowledgeable. That was clearly not the experience of your constituent and, as I said, I am sorry about that.

When you talked about the phone not being available, that was presumably the self-assessment helpline pilot that we ran in the summer. That helpline was closed between June and September while customers were encouraged to go online to see if they could find the answer to their query themselves using our digital assistant. As part of that pilot, if a



HOUSE OF COMMONS

customer was not able to resolve their query themselves, they were given the option, if they were looking online during office opening hours, of going through to webchat. Our advisers were there to deal with their query through webchat. I want to stress that there is no way during that pilot that we left customers high and dry with no way of getting in contact with us.

Q313 Siobhain McDonagh: The general theme of my constituents is that the phone does not get answered; if it does get answered, it is not by people who are highly knowledgeable about their particular issue. This particular lady would tell you that she was not very tech savvy. She needed help and she was asking questions. She paid money twice, only not to be told for months that you—HMRC, not you personally—had actually got it.

In another case, a gentleman who was in minimum wage employment and technically self-employed could not fill in his self-assessment form. He did not have the necessary skills to do so, so his mum did it for him. She was continuously being fined and told that she owed various amounts of money, but again could not get hold of anybody who could give a reasonable explanation to the letters that she received on behalf of her son.

Jim Harra: I am happy to look into any of these cases, both to address—

Q314 Siobhain McDonagh: But there is a theme going on here, isn't there?

Jim Harra: Yes, in those cases. But the general response that we get is that while it is undoubtedly true that customers have to wait too long to get their call answered—and, in some cases, have to ring back because they cannot get it answered at the time that they want—when they get through to our advisers they generally get a good service. While you have those two examples, I do not think that—

Q315 Siobhain McDonagh: Just to stop you there, it is quite unusual to get somebody coming to your advice surgery who works in the City in a bank—but, I got one. This particular gentleman was very tech savvy. He invested in the enterprise investment scheme and was attempting to get his tax relief funds back. He works in the City, and he came to my advice surgery in south-west London on a Friday afternoon. He could not get the phone answered and he could not get an answer from anybody. He could not get the tax relief that he was owed, and in his job he could not spend all his time on the phone attempting to get HMRC to answer.

Angela MacDonald: I agree with Jim that what you describe about those customer experiences is really not good to hear. It comes to the point that we made a little earlier to the Chair: the reality is that we do not have enough supply of colleagues to be able to meet all the demand on the telephones.

What we have is a large number of customers who have much simpler queries than the ones you describe and who could get their services delivered online. We have very capable digital services where we get very high satisfaction.



HOUSE OF COMMONS

In order to be able to provide the kind of good-quality phone service that the customers you describe want, we need those customers who can go online to do so, so that the colleagues we do have are able to offer a good service on the phones to those people who have more complex experiences and find themselves feeling like they are in a circular position in a particular instance. I am not trying to make any kind of excuse, but that is an explanation.

Q316 **Siobhain McDonagh:** And I would have accepted that answer if I had not seen the third person. They have absolutely no problem accessing stuff online and are very au fait with all things financial, but they still could not get a reasonable response.

Angela MacDonald: If you think about the broad array of services and circumstances that we offer, we have some really great digital offerings in some places. We are always continuing to develop those, so I am not trying to paint a picture that we have the digital answer to every circumstance. There are definitely issues where, no matter how tech-savvy you are, you really do need to speak to a person to sort it out. You need somebody to go into the systems, work out where you are and sort out your situation.

But by far the majority of our customers' needs are not complex and can be done online. What we need to be able to do is to encourage all those people. Most of them are tech-savvy, but we need to support those who aren't and the phones can be available for exactly that. For me it is not about, "Just because you are tech-savvy you should be able to go online." It is about the nature of your query. Can it reasonably be done through an online service or do you really need to speak to a person? Where you need to speak to a person we need to focus the resources on when only a person will do.

Q317 **Siobhain McDonagh:** How are you going to get to the position where that actually happens?

Angela MacDonald: It comes back to the question of the trial. If we look at not only our experience but also international experience, no matter how competent the digital services are that you offer, customers often have a preference.

On tax, lots of people prefer to speak to somebody on the phone, no matter what the query is. If I look at my international comparators, they have exactly the same experience. So the only way in some instances that we are going to be able to force a change of habit is by learning and doing things like the trial that we did over the summer. What has been very interesting in the trial—

Q318 **Siobhain McDonagh:** Not answering the phone.

Angela MacDonald: We were very clear with customers that that was going to be what we were doing, and we pointed those customers to digital services. We offered them the digital assistant, specific information about where they could go online to get their query answered, and we



HOUSE OF COMMONS

offered them webchat services. As Jim pointed out earlier, those customers were very successfully able to move and get the service that they needed.

What has been interesting since the trial ended is that that tide has moved back and customers have gone back to the phone. So there is an interesting difference between what the customers would prefer and what they actually can do if we give them a restricted opportunity. In order to be able to move this, we need competent digital services. That is incredibly important. You cannot push people on to digital if the digital is not good enough. But we will also need to take action to encourage customers where in some instances only a digital service will be available.

Siobhain McDonagh: Good luck with that!

Q319 **Chair:** Thank you very much. I am interested in a couple of other things in terms of colleague engagement. You are ranked pretty low in the civil service generally: 84th out of 106 in staff engagement. Does that worry you?

Jim Harra: First of all, you are right. Historically HMRC has had one of the lowest staff engagement scores in Government. We tend to benchmark ourselves not across the whole of the civil service but across broadly equivalent organisations like the Home Office, the Department for Work and Pensions and the MOJ, who have large numbers of operational staff. I am pleased that in recent years we have seen a significant increase in our employee engagement. We are now up with those Departments and ahead of some of them. But it needs to be higher. It is not good enough.

Q320 **Chair:** Is the board worried about this?

Dame Jayne-Anne Gadhia: As I said earlier, we have a people committee that focuses on this very regularly. Yes, of course we are concerned about employee engagement. One of the areas that I have always looked at—as well as engagement surveys—to understand this is levels of sickness in the department, or levels of sickness in organisations that I have run. Last year that was a particular problem, but we have seen a very significant improvement this year. I think that levels of engagement are starting to get to a place where they should be.

Q321 **Chair:** How many people are working from home these days? What percentage?

Dame Jayne-Anne Gadhia: Jim, would you like to answer that?

Jim Harra: First of all we are an office-based organisation, so we expect almost all our staff to come into the office. We do not offer full home-working contracts, except in very restricted circumstances, but we have a hybrid working policy, which means that most colleagues can, if they wish, choose to work at home for two or three days a week and work in the office for two or three days a week. The vast majority of colleagues take up that option, so the vast majority of them are working from home for part of the week—two or three days being our policy.



HOUSE OF COMMONS

Q322 **Chair:** How have you noticed that affecting engagement and productivity? What impact is it having?

Jim Harra: To take productivity first, we have focused in particular on the performance of staff who are on the helpline or in our correspondence teams, working on customer service. We can monitor their performance whether they are at home or in the office, and they have access to the same systems whether they are at home or in the office.

We find that, for a proficient member of staff, their productivity is pretty much the same—they answer the same number of calls to the same standard when they are home or in the office, and they answer the same amount of post. For calls in particular, we have looked at that and had our analysts look at that in great detail. On those two areas, the productivity of proficient staff is the same.

However, we know that, when you have new recruits or when you move colleagues on to a new piece of work, they learn faster when they are together in the office than they do at home. One of the key reasons why we want people to come into the office is to learn together. We do not particularly want to require people to come into the office, to sit and stare at a screen, and to do work that they could just as easily have done back at home. But collaborating, learning, and mentoring colleagues who are new to the department or new to their work are key things that we want people to do in the office. We are constantly looking at this, because it is quite a new thing.

Q323 **Chair:** You are now offering people a 1% pay rise if they give up their right to flexible working. Is that correct?

Jim Harra: We want to carry out a trial, and we have asked for 100 volunteers for what we call an annualised hours trial. At the moment, there are a certain number of hours that our staff have to work over the course of a year, but broadly speaking they have flexibility about when they do that, so they come in every week regularly and do their work. But our demand does not fall evenly over the year—we get higher demand in the winter and lower demand in the summer—so we want to trial asking people to do longer hours in the winter and shorter hours in the summer.

Q324 **Chair:** In return for a 1% increase.

Jim Harra: Yes. Although they will work the same number of hours that they always did, we will be asking them to give up some of the ability to work flexibly, and we are offering a 1% pay rise to colleagues who are willing to join the trial.

Q325 **Chair:** When will we know the results of that?

Jim Harra: We are not even expecting to start the trial until March next year, I think. All we have done at this stage is speak to trade unions and colleagues about the fact that we want to run it, and we have asked for volunteers, but it has not begun yet.

Q326 **Chair:** How high are your vacancy rates this year compared to last year?



HOUSE OF COMMONS

Jim Harra: Again, focusing on the customer services area, we would expect to see attrition of about 15% per year. That is a combination of colleagues leaving the organisation because they retire or resign and colleagues who get promoted and move to other parts of the department. That is the kind of churn that we are seeing.

We do not fill all those vacancies, because we are reducing in size over time; that is what our budget requires us to do. At the moment, we do not have that much difficulty in filling our vacancies. We are finding that we can recruit the right standard of recruits and retain people pretty well, so that attrition or wastage level is pretty reasonable.

Chair: Thank you. I am going to bring John in now.

Q327 **Mr Baron:** If you don't mind, I will move on to the vexed issue of tax simplification. Very briefly, do you agree with the premise that tax complexity, particularly if it is unnecessary, is a hindrance to growth?

Jim Harra: Yes—if businesses have to spend too much time grappling with tax, time they would rather spend running their business. Tax is undoubtedly complex, more complex than we want it to be. As an administrator, I have two roles: to try to help customers through that complexity as much as possible, to take it away from them and to make it easy for them to do what they need to do, but also to advise Government on where they could simplify the tax system.

Q328 **Mr Baron:** I am particularly pleased you mentioned the second, because I wanted clarification on the record that you do see that as a role. That you are not just administering tax changes introduced by the Government, but you are there to be proactive in suggesting ways we could simplify the tax system.

Jim Harra: Yes; indeed, for both Treasury officials and HMRC officials who advise on tax policy the Chancellor has specifically mandated that that is part of their role and that they must look for opportunities to simplify the tax system wherever possible.

Q329 **Mr Baron:** While accepting that length does not necessarily equate to complexity, although it is a pretty good guide, all three of you will be fully aware that in recent decades the tax code itself has, broadly, doubled every 15 years. It was something like 5,000 pages in 1995, had doubled to 10,000 by 2010, and it is now 20,000 pages. Does that worry you at all?

Jim Harra: You are right that I don't think it is a good measure of complexity, although it is a measure; and for tax practitioners, the size of the tax code makes their lives more challenging. From my point of view, however, most taxpayers do not engage with the legislation; they engage with my guidance on my systems, and I have to make those as easy to use as possible.

Q330 **Mr Baron:** Do you accept that 100,000 separate webpages of guidance—some will be straying into very complex areas, I grant you—may be a little too many?



HOUSE OF COMMONS

Jim Harra: It is an indicator of the level of complexity in the tax system. First of all, the tax system has to deal with lots of complexity in life and in the economy, and no taxpayer has to engage with all of the tax code; the vast majority of people deal with only part.

Q331 **Mr Baron:** Can I bring the ladies in? Do you not think that HMRC should be more proactive? We have been seeing this inexorable extension of the tax code by the number of pages. I am speaking to small businesses in my constituency who find tax increasingly complex. I will come in a moment to the 700 pain points that the Financial Secretary has identified in relation to small businesses. Do you think you are being proactive enough? By asking the question, I suppose I am suggesting that you are not, so tell me why I am being unfair, ladies.

Angela MacDonald: We are extremely proactive. There is a range of things going on here, though. Look at the agenda to digitise: ideally, you do not digitise a service without simplifying it where possible, so you try to simplify first.

We regularly do quite a lot of simplification of things that are administrative, which are about process and not about the tax code. When I talk to our customers, as I do, I hear that sometimes what gets in the way is not the tax code or the law; it is the way the process is designed, with multiple steps and hand-offs and incomprehensible forms, or it is the difficulty of using guidance that is not written in language they can understand or is not really applicable to their circumstances.

Q332 **Mr Baron:** Can you give me some concrete examples of where the tax system has been simplified that benefits most people?

Angela MacDonald: The work we are doing right now—

Q333 **Mr Baron:** No, not work you are doing. Your role, if you don't mind me saying, has been to be proactive. I am asking why the tax code has got longer and longer and longer, nearly doubling in terms of the number of pages, with all the usual caveats in that respect. Give me some examples from recent years where the tax system has been simplified that benefit most people.

Jim Harra: From a policy point of view, there have in recent years been a number of measures on reliefs for investment, where there has been 100% relief for most small businesses when they invest in capital as opposed to a writing-down allowance every year, which can be complex for them to administer. The Chancellor is on the record saying that he wants to extend that. We have introduced cash reporting for small businesses.

Q334 **Mr Baron:** Let's put small businesses to one side for a second. I am talking about most people who relate to HMRC—ordinary taxpayers in paid employment. Where is the tax simplification there, even for those who are at the high end of the scale, when it comes to pay scales?

Jim Harra: I believe that for the vast majority of people in employment, the tax system is simple because we collect the correct amount of tax



HOUSE OF COMMONS

from their salary via their employer. We notify them of what we are doing, so they get a copy of their tax code. At the end of the year, 85% of those employees have paid the correct amount of tax.

For those who have not, we automatically run the reconciliation exercise and either repay them the amount they have overpaid or adjust their code for the following year. For the vast majority of employees, pay as you earn, if you wanted to look into the intricacies of it, is a very complex system, but from the employees' perspective, it takes care of their tax affairs.

Q335 Mr Baron: So basically the extension in length and the added complexities come about when dealing with business.

Jim Harra: If you look at the really complex parts of the tax code and the really long parts of the legislation, they are often at the end where people are represented. They are big business or very wealthy people—people with international tax affairs, for example—where there is just probably no getting away from the need for the tax system to be complex.

Q336 Mr Baron: May I bring in Dame Jayne-Anne? What extra resources has HMRC put into actually saying, "Our second remit is to promote and be proactive when it comes to this issue"? I might have missed it, but I have not seen it. Is there sufficient drive on this issue from your point of view, or is it just that it has become so complex and there are continued tax changes from all Governments that it is more one of administration rather than trying to simplify it? Where is the extra resource to try to deal with this issue? One cannot deny 100,000 website pages of guidance and 20,000 pages of tax code. We do not rank well when looking internationally at our tax system.

Dame Jayne-Anne Gadhia: Thank you, Mr Baron. If I may, I will take a little diversion to be clear on the role of the board. As a board, our role is to scrutinise, challenge and advise the executive. Interestingly, as I listen to you all asking your questions, they are not that different to the questions the board asks, if I am honest.

Q337 Mr Baron: Absolutely. You have asked these questions, have you, of HMRC?

Dame Jayne-Anne Gadhia: Yes. We have a particular member of the board, Paul Morton, who spent his career in tax at Shell, and I would say that at every board, Paul always challenges about simplification of tax. Very clearly, however, in terms of the agenda of the board, it is very much skewed to "Are we servicing customers well? Are we administering the system properly? Are we delivering programmes well?" I would say that this is something that the board is aware of but we are not involved in tax policy.

Q338 Mr Baron: But you are saying from a board perspective that you are applying the pressure you think is warranted on this issue. You are certainly asking the questions.



HOUSE OF COMMONS

Dame Jayne-Anne Gadhia: Certainly, Paul in particular always asks that question at either a board or performance committee each month, but it is not a major part of our agenda.

Q339 **Mr Baron:** Okay, thank you. The Financial Secretary in her letter to the Committee on tax simplification said that HMRC had identified over 700 pain points for small business. Why did these come into existence? What are the biggest pain points as far as you are concerned?

Jim Harra: In contrast with employees, small businesses have to self-assess their liability to income tax. Also, if they are within VAT—there are about 2 million registered for VAT—they have to administer that as well. That has traditionally been something they have had to do in addition to running their business, so they have had to take time out or take extra time to deal with those or pay someone to manage it for them.

Our strategy is to build tax compliance into the way they run their business, so that it is not an additional thing they have to do; it will happen automatically as they run their business. Making tax digital is the key example of that. If you keep good records using this software, it will produce your VAT filing or it will produce your self-assessment filing in future and you will not have to separately work on that. I think that is the key driver.

Q340 **Mr Baron:** Why did it take the Financial Secretary to identify these pain points? With great respect, you still have not really answered why they came into existence in the first place, and I am still not clear what you are going to do about them. So can you answer the first one? Why were they allowed to come into existence, and why did you not identify them yourself?

Jim Harra: As I said, we proactively identify and I am pretty confident that the 700 pain points that the FST refers to are pain points that we have drawn to her attention. As part of our regular policymaking, we advise Ministers on where there is complexity in the system and what the opportunities are for reducing it. The legislation tries to deal with lots of exceptions and really focuses on fairness. It means that there are lots of exceptions and tailoring in the system. Some of the simplicity that you could introduce to make things simple would also create rough edges and losers, which we would not want.

Q341 **Mr Baron:** I think it is generally accepted—you may disagree—that when we compare with other systems in other countries, ours is one of the more complex. What are you going to do, when it comes to small business, about those 700 pain points now? What is the next step to putting this wrong right?

Chair: Especially now that the Office of Tax Simplification is not there any more.

Mr Baron: Absolutely.



Jim Harra: As I mentioned, the Chancellor has specifically mandated all policy officials in HMRC and the Treasury to focus on simplification, so our policy advice will always cover the opportunities to simplify. It will also cover, where there are policy options for Ministers, the levels of complexity, but that will always have to be weighed up against the other objectives that Ministers are trying to achieve. Earlier, when Mr Kruger was here, we talked about the high income child benefit charge. There is no doubt that it adds complexity to the tax system—the tax system would be simpler without it—but it achieves a policy objective for the Government.

Q342 **Mr Baron:** I accept that, and I am aware of the interaction between Ministers, HMRC and civil servants. I know this is a complex issue, and I am not blaming anybody here; I am genuinely trying to get to the bottom of this. We have a Financial Secretary identifying 700 pain points for small businesses alone, and I declare an interest in the register on this issue. I am not getting an answer back from you as to what you are actually going to do about that. They have been identified, so what is the next step in correcting the wrong of those 700 pain points?

Jim Harra: There are three key things we are doing. First of all, it has been announced that we are doing a thorough review of guidance to improve it and increase its ability to help taxpayers deal with their affairs.

On the scale of the guidance, while the guidance is all there on the website, we encourage our customers to use one of our digital assistants, which is a conversational chatbot where you ask the digital assistant the question that you want answered and it will give you the answer, so you do not have to search through and read the guidance yourself. By the end of the recent pilot for the SA helpline, that digital assistant was answering about 48% of the queries we were receiving. So improving guidance is one.

The second, as I have mentioned, is making the task of tax compliance more in tune with the way you run your business. You keep your records using the software, which will keep you tax compliant.

The third is in our policy advice for Ministers about where they have choices. It is mandated that policy officials will set out the opportunities for simplification.

Q343 **Mr Baron:** Finally, do you have anything to add, ladies?

Angela MacDonald: No.

Dame Jayne-Anne Gadhia: I would just add that literally yesterday a new member of the board joined, and they have a particular focus on small business.

Chair: I think there may be a few last questions before we let you off.

Q344 **Dame Andrea Leadsom:** I have a couple of questions for you, Dame Jayne-Anne, about the board's approach to some of the issues that have



HOUSE OF COMMONS

been raised in this conversation. The first one is with regards to the loan charge. We are all aware of the concern of many of the people who still have loan charge issues outstanding that that is driving people to take their own lives and to severe mental health problems, severe stress and so on. Could you comment on what level of awareness and what level of concern the board has about this particular issue?

Dame Jayne-Anne Gadhia: Before my time—I have been with HMRC for nearly three years—that was a particular item on the agenda. This is now something that is much more run by the executive, as it is a contained piece of work now. It is something that is reported to the performance committee, but not something that comes to the board agenda with much regularity—in fact, I cannot remember it coming on the board agenda in my time.

Q345 **Dame Andrea Leadsom:** You will be aware that it remains a very high-profile issue, and all of us have constituents affected by it. They regularly come to see us to urge us to do more. There have been a number of different investigations into it, always coming to the same conclusion: that the debt is owed, and that's that. Is the board content with that approach?

Dame Jayne-Anne Gadhia: From a board perspective, to clarify what I said to Mr Baron, it is very clear that we do not get involved with policy and we do not touch policy in any aspect.

Q346 **Dame Andrea Leadsom:** The second question, completely changing the subject, is about tax simplification. As you know, the Office of Tax Simplification is not continued. My question is about the attitude of the board to complexity in the tax system, now that it falls to the HMRC executive to try to reduce tax complexity, particularly with regard to this issue of family taxation and the child benefit issue. Is the board taking an interest in complex tax issues that affect people fundamentally with their family arrangements?

Dame Jayne-Anne Gadhia: First of all, I can give you really good news on that. We had a board meeting yesterday. We focused on child benefit. We had a presentation from the man responsible for delivering that operationally. He was able to tell us how that system has moved in such an improved way from the complexities of the past to a more digital and more supported way where customers are reducing the number of touch points they have with HMRC and where digital capability has clarified the process they have to go through.

The team of staff delivering on this part of the business feel that they can give better service because the process and the system has been simplified so much. For us at board level, you are absolutely right to talk about tax simplification, but we are focusing on delivering tax policy in the clearest and simplest way. We do not have influence and would not get involved with the actual policy itself.

Q347 **Dame Andrea Leadsom:** So the board was happy with the progress made in terms of the operation of that child benefit?



Dame Jayne-Anne Gadhia: It was an excellent demonstration of what can be done when delivery is really focused on in terms of simplification. The board asked that, as future programmes are rolled out around PAYE, that same approach is taken. We look forward to hearing more from the executive around that.

Q348 **Chair:** I have a couple of final questions for Angela about research and development tax reliefs because everyone wants to encourage research and development and yet this is an area where, initially, HMRC estimated in its annual report that error and fraud in research and development tax relief schemes for 2021 was much higher than your previous estimates. It has gone from an estimate of £336 million of fraud and error from the R&D tax relief scheme to £1.13 billion. What lessons have you learned and fed into policy on that development?

Angela MacDonald: Forgive me, Chair; I think Mr Harra will be much more capable of answering that than me.

Jim Harra: I will pick it up in two aspects, the first of which is quantifying the amount of error and fraud. We had clearly underestimated that in the past because we did not have the best method of measuring it.

In the past, what we did was we took a measure from the compliance cases that we worked, but because they had been selected on a risk basis we made an assumption about the level of non-compliance in the remainder of the population, which is a reasonable approach; but when we did a random inquiry programme we found that that assumption was clearly wrong and the level of error and fraud across the population was much higher than we had thought—unacceptably high. Nearly 50% of claims contain errors.

Q349 **Chair:** Was that in the design? Was it in the guidance? Was it in the implementation? Where was the problem?

Jim Harra: First, this is a very generous tax relief. It is intended to be generous, and it has become more generous over the years because it is intended to incentivise R&D. That then makes it a honeypot, I am afraid, for people for whom it is not intended, and an industry has grown up around tax advisers helping people to make claims that are not compliant. It is partly, I think, the attractiveness of the scheme that attracts those people. We have to balance two things. We absolutely have to make it as easy as possible for people who are entitled to that relief to get it—because it is a very important economic incentive—while protecting the public purse from those who want to abuse it.

I feel that we have taken good action in recent years. For example, in relation to the year that we have measured, 2020-21, when we have come up with an illustrative figure for '22-23, we believe that we have reduced the small business error and fraud in R&D by about five percentage points, through the additional operational effort that we have made. The Government has also introduced a series of policy measures, which we believe will also take that error and fraud down. But it remains unacceptably high and we have to really stay on top of it.



HOUSE OF COMMONS

We also have to work with tax agents on how they can add more value to this process. With about 90% of R&D claims, there is a tax agent behind them. Despite that, half of them are wrong, so we are also working with the tax agent professional bodies on how their members can add more value to ensuring that their clients' claims are correct.

Q350 Chair: We will say "To be continued" on that one. Right—fractional shares. A new issue brought to my attention this week is that HMRC is making it difficult for fractional shares to be held inside an ISA. Can you tell me where you see things on that, please, Jim?

Jim Harra: It has been our long-standing position that fractional shares do not qualify to be in an ISA. You can debate whether, from a policy point of view, that is the right position, but we believe that that is—

Q351 Chair: It is in legislation—

Jim Harra: We believe that that is the effect of the legislation. The legislation requires that there be shares in an ISA, and we do not believe that fractional shares are shares. We have been clear about that for a long, long time. But what we have found is that a number of ISA managers have nevertheless—they disagree with us and they have gone ahead and put fractional shares into ISAs. We have got to rectify that, and that is what we are doing.

Q352 Chair: Why have you got to rectify that? Wouldn't it be better just to change the law so that it is something that you can do?

Jim Harra: It is for others to decide whether the law should be changed. I know that some people are campaigning because they think, from a policy point of view, that should be the case. But that is currently not the case. And I am sure there are arguments the other way. My job is to make sure that ISA managers comply with the regulations as they currently stand.

Q353 Chair: Okay. Have you raised this with the Chancellor? Have you made any recommendations—he has an autumn statement coming up—that this is something he should be looking at?

Jim Harra: This is routinely the kind of issue that I would definitely make Ministers aware of. We are taking compliance action against a group of people with whom we normally have a very co-operative relationship. They have strong views about what the policy should be, of course, and they will be doing their own lobbying as well, I'm sure. But that is distinct from the issue that if the law says they do not qualify, that is what ISA managers should comply with.

Q354 Chair: Okay—interesting. I have a final question, because it has been so interesting to hear about the role that non-execs play in terms of oversight and how much the same questions seem to come up as come up from your friendly Treasury Select Committee. Do the board minutes get published online anywhere?



HOUSE OF COMMONS

Dame Jayne-Anne Gadhia: They do not get published online, although they are subject to freedom of information and therefore are available. Is that right, Jim?

Q355 **Chair:** Is there any reason why they should not just be routinely published online?

Jim Harra: We are looking at that. We do actually have a scheme of publication on gov.uk that says that we will publish summary minutes, but we have discovered that we have not been complying with our own scheme of publication.

Q356 **Chair:** Can I encourage you to rectify that before you come in front of us again?

Jim Harra: I very much apologise that we have somehow let that fall into abeyance. That is something we are actively looking at.

Q357 **Drew Hendry:** I have a quick question. The issue of fiscal drag has come up this week. Do you have any conversations with the Chancellor about the impacts of that?

Jim Harra: A combination of earnings growth, growth in investment returns and policy decisions means that there are more and more taxpayers each year—the Office for Budget Responsibility has certified that—and that is a key driver of the increase in contact demand that we are experiencing and that we are not resourced to deal with, although of course we have our plans to try to reduce it.

Yes, very much every time that policy advice is given to Ministers, it includes advice on the operational impacts of the options and on the impacts on customers. One of the advantages of HMRC—the tax authority being in a policy partnership with the Treasury—is that we give that joined-up advice.

Q358 **Drew Hendry:** Very quickly on this issue, that takes more money out of household incomes as people are struggling with bills and things like that. What is the urgency and the back and forth of getting that sorted out, in particular for people who might be struggling as costs go up and have difficulty paying bills? Or are you happy to take the extra gains?

Jim Harra: My role as a tax administrator is to make sure that people who are liable to tax have that tax collected from them; the policy decisions are decisions for Ministers and Parliament.

There is no doubt, however, that if we look at what has happened in the past few years and at what is projected over the next few years, more and more people will be joining the tax system, and more and more taxpayers will be interacting with the more complex ends of the tax system, and that tends to drive contact with HMRC. That is why I have got to get those whose queries are capable of being self-served to do that, so that I can focus my resources on those people who will need the help.

Q359 **Chair:** And you are asking for a bigger budget.



HOUSE OF COMMONS

Jim Harra: We always make sure that Treasury is aware of any ups and downs in the administrative costs. To be fair, Treasury sometimes makes policy decisions that make my life easier—not often, but occasionally—so we are very transparent about the operational and budgetary impacts of policy decisions. We are also under pressure to absorb them, and to find ways to become more efficient and to deliver within the budgets that we have got.

Q360 **Dame Andrea Leadsom:** Further to that, are you consulted ahead of fiscal statements on the implications for resourcing of a particular policy announcement?

Jim Harra: HMRC is part of the policy partnership with the Treasury, so we are not just on the receiving end of policy decisions; we are involved in advising Ministers and, in particular, we would advise on the impacts on our capability and capacity of the policies being considered, as well as the on the impact on customers, because we have insight into that as well.

Chair: Thank you all for your time this afternoon. That brings to an end our scrutiny of your work for the time being, but it will be continued.