



HOUSE OF COMMONS

# Treasury Committee

## Oral evidence: The work of HMRC, HC 217

Wednesday 24 April 2024

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[Watch the meeting](#)

Members present: Dame Harriett Baldwin (Chair); Mr John Baron; Dr Thérèse Coffey; Dame Angela Eagle; Stephen Hammond; Drew Hendry; Danny Kruger.

Questions 361-484

### 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.

Q361 **Chair:** Welcome to this session on the work of His Majesty's Revenue and Customs. I will start by asking our witnesses to introduce themselves for the record.

**Dame Jayne-Anne Gadhia:** I am Dame Jayne-Anne Gadhia, and I am the lead non-executive director at HMRC.

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

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

**Chair:** Sorry about the delay; we had problems with our broadcast. A lot of people are very interested in what is going on at the moment with His Majesty's Revenue and Customs. My understanding—let me see if I have got this right—is that you have a strategic plan to move your communication with the law-abiding taxpayers of this land to a completely online platform, with some ability for particularly vulnerable groups to

interact with you by telephone. Have I understood your strategic plan correctly?

**Dame Jayne-Anne Gadhia:** It sounds slightly ahead of where we are at strategically. All companies have a digital strategy at the moment, so I think it is absolutely appropriate that HMRC has a digital strategy. Your point that our strategy is to have everybody dealing exclusively online is not correct. Certainly, our intention is to make sure that people who are vulnerable or not able to deal online can be served by talking to a human being. It is an interesting balance, and the question really is the speed at which we develop in that direction.

Q362 **Chair:** Jim, how would you describe your strategy?

**Jim Harra:** I describe our strategy as a digital first strategy rather than a complete digital strategy. We want customers who can use online services to try that as their first port of call, because we believe that our online services can handle the vast majority of transactions and queries, but obviously we want to make sure that people who either cannot use online services, or use them but find that they do not deal with their query, perhaps because it is complex, are able to speak to an HMRC adviser, whether that be on the phone or by web chat at the end of the online journey. We have been working to get customers to try online first where they can, but also to prioritise whom our advisers deal with so that they are dealing with that target group.

Q363 **Chair:** Angela, you trialled more of a digital only last summer, didn't you?

**Angela MacDonald:** Yes.

Q364 **Chair:** Was that part of a strategic plan to move towards digital first? I remember that the public really had no notice at the time. Was that trial last summer part of your strategic plan?

**Angela MacDonald:** Yes. One of the things you see in all organisations, and HMRC is no different, is that if you introduce some of these big changes with no testing and no approach to learn, you can end up having some unintended consequences. While we have made quite a lot of digital services available to customers, and although, as you know, by far the majority of interactions with the UK tax system do in fact happen digitally already, we had not really tried hard to see what would happen if we pushed customers and withdrew other services from them, so that we could find out what we needed and how we needed to support those vulnerable customers and adjust our services. The trial was absolutely a part of learning. Definitely, some things worked really well during that trial, and some things we learned from and improved as we went along; but actually, learning is part of what is really important as we drive this.

Q365 **Chair:** It sounds like there is a strategic plan towards a digital first HMRC and last summer's trial was part of that journey. May I assume that, even though you are a non-ministerial Department, that strategic journey was put in front of both the Financial Secretary and the Chancellor and had their complete buy-in? Am I correct, Jim?

**Jim Harra:** Yes, and the Financial Secretary is on record as saying that he is in support of the strategy. We are a non-ministerial Department and that means that, in particular, day-to-day operational decisions about taxpayers' cases are taken by HMRC officials and not by Ministers, but at strategic level we operate under the direction of Ministers, so our strategies, plans, resources, budgets and targets are all agreed with Ministers.

Q366 **Chair:** So Ministers own the strategic journey that you have just taken us through. So as a non-ministerial Department, was the decision you took to switch your helpline off on 19 March an operational decision, which was not shown to Ministers?

**Jim Harra:** No, that is not the case. HMRC thought it was a good idea to do this based on the results of the trials last year, but that was shared with Ministers.

Q367 **Chair:** They knew the date?

**Jim Harra:** Yes.

Q368 **Chair:** They knew you were planning to do that on 19 March. So who were these stakeholders who caused you to reverse the decision on 20 March?

**Jim Harra:** We got an immediate reaction from a range of stakeholders, including tax professional bodies, expressing concern that despite the trials last year and the evaluations of those, we were moving too fast. They did not have the assurance they needed that we would be able to provide services, for example, to customers who could not do things online. We concluded that the best thing to do was to stop the changes that we had announced.

Q369 **Chair:** Had you not run this by your external stakeholders before 19 March?

**Jim Harra:** Yes. We had spoken to stakeholders, in particular tax professional groups. We knew that they would have preferred us not to proceed with it. Frankly, they would prefer us not to make these significant changes at all, but to be resourced to do things in the way that we have always done them. We knew that they were not going to welcome the changes, but we believed that we had done the work to demonstrate that we could safely implement them.

Q370 **Chair:** Who were the new stakeholders you suddenly heard from after your announcement on 19 March?

**Jim Harra:** It was a range of stakeholders, including parliamentarians and the professional groups. We had already engaged with this Committee, for example, having written to you with the interim evaluation of the summer pilot the previous year. We felt that we were engaging with our stakeholders and explaining and giving evidence for why we could safely do this.

Q371 **Chair:** Okay. So the parliamentarians you heard from were not the Treasury Select Committee. The new stakeholders you suddenly heard from who made you reverse your decision were not the Treasury Select Committee. Who were these parliamentarians who suddenly popped up and got you to reverse your decision?

**Jim Harra:** I am not saying there were new stakeholders who came out of the woodwork. Parliamentarians are our stakeholders, because it is your constituents whom we serve. In addition, the tax professional bodies—

Q372 **Chair:** On the new stakeholders, who did you hear from in that 24-hour period that made you reverse your decision?

**Jim Harra:** I am not sure that we have said that there were new stakeholders. There was a strength of feeling from stakeholders that we had not been expecting. I believe we will be able to demonstrate to stakeholders that we have taken account of the matters they expressed concerns about, but we need to work through them, because we recognise—

Q373 **Chair:** So your strategy is still to do this.

**Jim Harra:** Certainly, our strategy is still a digital first strategy, but we are not proceeding with the three changes that we announced on 19 March because of the strength of concerns expressed by stakeholders. What we have said we will do is engage with stakeholders further on how we can safely implement our digital first strategy. That may mean doing it more slowly than we originally planned.

Q374 **Chair:** I do not think the concerned stakeholders are going to feel very differently, in terms of their concerns, at any time on this journey.

**Jim Harra:** A lesson for us is that although we did an extensive evaluation of the two trials, we published that only on 19 March, so people externally had not had the opportunity to absorb that in the same way as we and Ministers had. We need to go through all the concerns that stakeholders have, all the evidence for whether those concerns are justified, and our plans for how we will address them. In the meantime, we will undoubtedly

be implementing our strategy more slowly than we said we would on 19 March.

Q375 **Chair:** Dame Jayne-Anne, what role did the board play in this screeching U-turn? How much of this concern from stakeholders came from the board? Who did you hear from between 19 March and 20 March who was new to you?

**Dame Jayne-Anne Gadhia:** From a board perspective, we reviewed the tests that Angela has talked about and found those results to be strong. We knew and were very supportive of the fact that the strategy would be developed for this year, for all sorts of reasons. It actually provides the vast majority of taxpayers with a better service through digital capability. We were not aware that 19 March was the absolute date for that to go live, but we knew it would be around then, and we heard as a board about the change of heart after that had happened.

Q376 **Chair:** So you did not cause the change of heart.

**Dame Jayne-Anne Gadhia:** We did not, no.

Q377 **Chair:** Who did you hear about the change of heart from?

**Dame Jayne-Anne Gadhia:** From Jim.

Q378 **Chair:** Okay, and he communicated it to you by saying what?

**Dame Jayne-Anne Gadhia:** I think what happened was that the notice of the change of heart was in the newspapers, and Jim and I spoke after that. We talked about the fact that this was something that we were now calling to a halt to review further, because of the amount of comment that had been made. But no, the board did not hear directly from different stakeholders.

Q379 **Chair:** Forgive me, Jim, but I am just trying to get to the bottom of who this concerned set of stakeholders were that you had not heard from in the run-up to 19 March but that you suddenly heard from and caused you to make this screeching U-turn.

**Jim Harra:** I do not believe that there were significant groups of stakeholders that we had not heard from previously or that were new. What we heard was a strength of feeling and of concern from our stakeholders which was greater than we had expected and which we felt we needed to acknowledge and look into. That is why we decided that we should not proceed with the changes until we had done that.

Q380 **Chair:** And it was not the board, as we just heard.

**Dame Jayne-Anne Gadhia:** No.

Q381 **Chair:** Was it the Chancellor?

**Jim Harra:** Ministers certainly conveyed their concerns.

Q382 **Chair:** Was it the Prime Minister?

**Jim Harra:** Well, Ministers—I spoke to my departmental Minister—certainly expressed their concern about the strength of the reaction and about the fact that the reaction was not just a political reaction, but a genuine concern about how this was all going to work. We quickly agreed that the right thing to do was not to proceed with it and to listen to the concerns to make sure that we had addressed them or, if we had not, to take them on board and replan. That is why we decided not to proceed.

Q383 **Chair:** But you are proceeding with the strategic journey that you have outlined.

**Jim Harra:** We are continuing to invest heavily in our digital services. We are continuing to encourage customers to use them as their first port of call if they possibly can. What we are not doing is proceeding with the three changes to our helpline services that we announced on 19 March, so those helplines will remain open in the usual way.

Q384 **Drew Hendry:** Good afternoon. Jim Harra, just to continue with this, you have told us that you concede that you were moving too fast and that you are now not proceeding with these changes, yet previously you told us, “we need a higher proportion of customers to self-serve online using our highly rated online services if we are to deliver our service standards for those customers who need to phone or write to us with the resources available to us.” Now that you have halted these proposed changes, what does that mean for current ongoing service delivery?

**Jim Harra:** Perhaps I can first describe the sort of strategic pressure that we are under, which led to the choices we made. We have a situation where our customer base is growing through a combination of factors, the underlying contact demand from that customer base is growing, and we have diminishing resources to deal with it. Over the spending review 2021 period—from 1 April 2022 to the end of the current financial year—we expect to have to reduce the size of our customer service group by about 5,000 staff.

Q385 **Drew Hendry:** Where will the effects of not implementing the changes, as announced on 19 March, be felt? Where are the pressure points?

**Jim Harra:** The key pressure point is in our helpline service, where we are giving a service to customers well below the standard that we want to give them, whether that be the wait times or the proportion of calls that succeed in getting answered by an adviser. Today, a lower proportion of those calls is being answered than would have been the case had we been able to implement these changes, because customers who we would have

deflected to the online services are going through to those helplines. Given that we are not proceeding with those changes, we now have to replan what we can do to push our service levels up as high as we can.

**Q386 Drew Hendry:** So you didn't have a back-up plan scoped out for the U-turn that you made on 19 March. Is that correct?

**Jim Harra:** Frankly, there really is only one alternative plan, and that is to deploy more helpline resources. We currently do not have the funding to do that, but we are of course in discussions with Ministers, following the decision not to go ahead with these changes, about what we will do.

**Q387 Drew Hendry:** On those discussions with Ministers that you talked about, with stakeholders, did you make the point that you would now require additional resources?

**Jim Harra:** Yes. We have been discussing with Ministers our plans to produce the best level of service that we can now that we are not proceeding with the changes announced on 19 March. Those discussions are very constructive, but they are—

**Q388 Drew Hendry:** What is the actual response, though? You have said that they have been constructive, but what does that mean? Are you getting additional resources? Have there been promises made? What is happening?

**Jim Harra:** I believe that the response will have to be that we deploy additional resources on our helplines. The question is whether that involves reprioritising what the department does—so reprioritising from something else—or whether we can get additional funding for that additional resource. That is what we are in discussion with Ministers about.

**Q389 Drew Hendry:** And have you been given any indication that you will get that additional funding?

**Jim Harra:** The discussions with Ministers have been very positive and constructive, and they completely understand the situation that we are in. However, those are ongoing; as things stand, I do not have any—

**Q390 Drew Hendry:** So no promises have been made and no commitments have been made, so at the moment you are still having to cope with this situation. Is that correct?

**Jim Harra:** I am proceeding—making preparations—on the assumption that I will be able to deploy additional resources, whether that comes from additional funding or from reprioritising, because there is a lead-in time for recruiting, training and deploying additional helpline advisers, so I need to be getting on with that. In the interim, service performance continues to be under considerable pressure.

Q391 **Drew Hendry:** Okay. And if you get that additional resource, where might the extra resources be most effective to improve customer service in the near future?

**Jim Harra:** In the short term, the main pressure is on our helplines. We have made significant improvements in our performance on our customer correspondence—dealing with repayment claims and letters and everything—over the course of 2023-24, and in the previous year as well. We are therefore bumping along just slightly below our service standard, but we do not have significant backlogs in that work. The main pressure is on wait times and adviser attempts handled on the helplines.

Q392 **Drew Hendry:** If you do not get the resources, what is the effect?

**Jim Harra:** I believe that I will have to plan to deploy additional resources. If I do not get additional funding, then I will have to look at whether I need to reprioritise something else.

Q393 **Drew Hendry:** Okay. On that subject of reprioritising, it has been reported that, “Ministers have not been sufficiently assured that there are relevant safeguards in place in the transition to digital, and want to see far greater focus on improving HMRC performance before any such decisions are taken” on additional support. Have Ministers had that discussion with you?

**Jim Harra:** Yes. I think the decision on 20 March reflects the fact that, having heard stakeholders’ reaction, Ministers want more reassurance that we can successfully implement the digital first strategy whilst making sure that those customers who do need to deal with HMRC have the ability to do so.

Q394 **Drew Hendry:** So you are in a Catch-22 situation. How is it possible for you to move forward if you have to give those safeguards before you can get additional resources?

**Jim Harra:** We will be engaging with stakeholders to understand more about their concerns and to see if we can demonstrate to them that we have addressed those. But, inevitably, in the short term we are going to be implementing this strategy on a slower track and will be more reliant on marketing our services and persuading and informing our customers, to encourage them to try online first. We have done extensive research with customers to understand what is involved in doing that, so we will still be able to make progress, but not at the rate that we would need, based on current resources and current forecast demand.

Q395 **Drew Hendry:** One final question: based on what you have just said and the fact that there is this remaining uncertainty over performance and



getting the resources, are you worried that things will get worse in the near future?

**Jim Harra:** Certainly, in the short term, I think we are in for a very difficult first quarter. I would hope that, going into the second quarter, we will be able to make improvements with additional resources, as well as continuing to push our digital first strategy at every opportunity. But if the solution in the short term is to deploy more resources, it will take time to recruit them, train them and deploy them effectively.

**Drew Hendry:** That is very concerning for everyone. Thank you.

Q396 **Dame Angela Eagle:** So, essentially, because of this screeching U-turn, you are expecting customer service levels to go down in the short term.

**Jim Harra:** If we had been able to proceed, I think there is little doubt, as the evidence from last year's trials indicates, that we would have been able to help more vulnerable and digitally excluded customers, because their route through to an adviser would not have been blocked by other callers, whose calls could have been effectively dealt with online.

If I can just give you one example, we receive 11 million to 12 million calls a year on our pay-as-you-earn helpline. About 5% of those are from people who are progress-chasing on a repayment claim. If they wait and get through to an adviser, the adviser goes on to a tool that tells them when that person will get a response. That tool is online, and the person can go and check that themselves. Our plan announced on 19 March had been not to take those calls, but to direct all those callers to the online tool. Having not proceeded with that, a significant number of those people will now still be ringing the helpline and taking up adviser time that could have been used to help a vulnerable customer or a customer who really needed to speak to someone. So that will be the short-term impact.

Q397 **Dame Angela Eagle:** So you have essentially been knocked off what your plans were by the adverse reaction to your announcements about the 19th, and now you are scrabbling round to see what you can rescue from the mess that has been created.

**Jim Harra:** We have not been knocked off our strategy, but we have certainly been knocked off the implementation course for it. We had been intending to push the pace as hard as we could, because we know that the gap between our demand and our available resources is growing. We now have to replan, but there will be a short-term impact, as I have described.

Q398 **Dame Angela Eagle:** You were saying earlier, essentially, that your customer base is growing but you have had to accept cuts in resources, presumably as part of the settlement that the Treasury came to about HMRC in the last spending review, as well as the ongoing spending

reviews. Your customer base is growing for a few reasons. Is one of them the freezing of tax thresholds?

**Jim Harra:** There are a combination of reasons. Policy decisions like thresholds bring more people into the tax system, and that combines with inflation and wage growth, also bringing people over thresholds. That is a key reason.

Q399 **Dame Angela Eagle:** Is it the most important reason?

**Jim Harra:** It is certainly a significant one for the growth of the customer base. Also, a growing number of our customers are moving into more complex ends of the tax system where they are more likely to want to contact us. In some cases, they will need to do so, and we need to free up our resources so that we can deal with those people.

Q400 **Dame Angela Eagle:** So thresholds is one. What about child benefit charges? Essentially, one can earn one's way out of being entitled to child benefit when earning so much. That brings people into a complex situation as well, doesn't it? That is speeded up, because inflation is pushing people's wages up faster.

**Jim Harra:** The Chancellor's recent announcement about increasing the thresholds when that comes in helps us, because it reduces the number of people who will be within the charge. To the extent that those people have to deal with HMRC, they are being removed. So there are swings and roundabouts, but overall there is growth, but not in that situation.

Q401 **Dame Angela Eagle:** So the tax thresholds is a big one. What are the next biggest ones?

**Jim Harra:** The main causes of pressure on our resources: first, I mentioned growth in customer demand through inflation and wage growth; and then increases in interest rates push more people who have investment income into tax as well. Those are reasons for customer base growth.

In addition, the cost-savings pressure on the Department has grown as well. When we settled the spending review in 2021, it assumed that we would have to make £500 million a year annual savings by the end of the spending review period, but some of the pressures on our costs—like inflation—have pushed that target up to about £770 million. So whilst we were on track to deliver the original £500 million, there is at the moment a gap in delivering the £770 million, which is reflected in the customer service we can offer.

Q402 **Dame Angela Eagle:** And there is no spending review where you can make arguments about these kinds of pressures until after the election.

**Jim Harra:** There is a main estimates and a supplementary estimates process every year. We are, as I said, in discussions with Ministers following the change announced on 20 March about how we replan to give a better customer service this year without making the kinds of changes that we announced on the 19th. There are opportunities—we certainly do not have to wait until the next spending review to have those kinds of discussions.

Q403 **Dame Angela Eagle:** I think some of the most frustrating times that any one of my constituents has in dealing with organisations is the digital access to them, where one ends up either on the phone listening to inane music, or trying to have a chatbox conversation online, and not being able to talk to a human being. When one is trying to check a bill or something, that might be just about standable, but can you see why people may wish to speak to a human being when they are talking about their tax returns? If they get it wrong, they may have to pay fines or get into difficulty, into trouble, and it is often a more complex thing than one's average attempt to deal with other services digitally.

**Jim Harra:** Yes. We have done some research, which we published, about our customers' attitudes to dealing with us online. A positive finding from that is that 86% of our customers are willing to deal with us online, but the research also showed that complexity is a key driver for them not wanting to deal with us online, but wanting to deal with us personally. Obviously, the more we can simplify processes for customers, the more likely they are to willingly adopt online services. Secondly, our research showed a very high need among customers of HMRC for reassurance that they are getting it right.

Q404 **Dame Angela Eagle:** That isn't a surprise, is it?

**Jim Harra:** No, it's not a surprise, but it obviously needs to be reflected in how we design our online services. For example, our online services need to reassure people as they go along to keep them in the digital journey. Also, it is a key driver for simplifying the tax system for people, because we know that just adding a little bit of complexity will cause customers to prefer to deal with us on the phone or by correspondence.

Q405 **Dame Angela Eagle:** To be fair, it's not in your bailiwick to simplify the tax system. You have to get people to respond and put in their tax returns or deal with you in all of these areas—VAT, PAYE or self-assessment—regardless of how complex the tax system is. That implies a much more bespoke, reassuring system than would be normal. Are you designing bespoke systems, which by their definition will be more expensive and harder to maintain?

**Jim Harra:** I will work backwards on that. I cannot design a concierge service for 45 million taxpayers.

**Dame Angela Eagle:** Unsurprisingly.

**Jim Harra:** It has got to be a self-serve system as much as we can possibly make it.

In terms of simplification, there are things that HMRC can do to try and make things as simple for people and to reassure them. For example, one of the main causes of calls to the pay-as-you-earn helpline is from people who don't understand their pay-as-you-earn tax code, which is unsurprising, and if they have more than one source of income, don't understand how their tax-free personal allowance has been allocated among them; so we are working on producing an online tool that makes that clearer for people and simplifies their ability to understand their code.

Beyond that, we are part of the policy partnership that advises Ministers on tax policy. The Chancellor has given us an explicit remit to advise on simplification. At both the autumn statement last year and at the spring Budget this year, he introduced a package of measures to simplify the tax system, as well as a set of metrics for how we are going to measure simplification going forward. I think Ministers are fully aware that the simpler the tax system, the simpler the task of administering it, and therefore the more savings you can make. But of course there are trade-offs in that all the time.

Q406 **Dame Angela Eagle:** Were you surprised at the suddenness and fierceness of the response on 19 March?

**Jim Harra:** I wasn't surprised that stakeholders didn't welcome the changes. I was disappointed that, despite the work that we had done the previous year, there was so much concern and doubt about whether they would work and whether we would be able to support customers effectively, because I believe the evidence demonstrates that we can. But we are a public service and we have to recognise that it is not just us that set the pace; others do as well. Our customers need to have the confidence that they will be properly supported, so we are going back to reflect on that.

Q407 **Dame Angela Eagle:** Looking back, what do you think you did wrong?

**Jim Harra:** First of all, I think we did not give enough time when we published the evaluation to take our stakeholders through it and explain the evidence. We published a detailed evaluation on the same day that we announced what we were going to do as a result of it, and frankly, I think some of the speed of the stakeholder reaction indicates that they did not have the time to digest the evaluation that we had published. So in the

Department we have to reflect on not just the pace at which we want to move, but how effectively we are engaging with stakeholders and explaining and informing.

Q408 **Chair:** Are you sure you weren't just doing this to try and make the case for more resources? I am sort of hearing a bit of that too—but Stephen is next.

Q409 **Stephen Hammond:** Good afternoon. Thank you for coming to give evidence. Can I continue where Dame Angela finished? You said you need to engage more carefully with stakeholders. Do you think you should have taken more soundings? Do you think you should have taken more time to take people through the changes? What would you do differently in the future?

**Jim Harra:** Before I answer that, I just want to pick up the Chair's comments. I fully believe in our strategy. When we had our spending review in 2021, I signed up to the spending review on the basis that we would be able to deliver the savings in it through the implementation of this strategy. I want us to continue implementing the strategy as fast as we can. So that is definitely not the reason; there is nothing tactical involved in this at all from my point of view. In fact, I am very disappointed that we have not been able to take what I regard as a modernising step at this point.

Building on what I said before, there are certainly lessons for the Department in how we engage with stakeholders. I believe that maybe we would have assuaged some of the concerns if we had taken more time to go through the results of the evaluation of last year's trials and to explain how we were going to make sure that vulnerable or digitally excluded customers could get through to an adviser—indeed, that more would get through than would otherwise be the case—and had explained that our digital journey has an HMRC adviser at the end of it on webchat to speak to: not a chatbot, but an actual person. But it also the case that modernisation of HMRC is not always in the immediate interests of some of our stakeholders, so sometimes we will have to be prepared to make decisions in the face of disagreement with our stakeholders.

Q410 **Stephen Hammond:** In response to one of the other questions, you said that some stakeholders had concerns about whether the online system would completely work, and yet in the letter to our Chair on 19 March this year you described "highly rated online services". How do you explain the difference between your perception of your services being highly rated online, and acknowledging the concern of some significant stakeholders about the viability of your online service?

**Jim Harra:** Angela can give you more details about what we have been doing with our digital services. We have been investing heavily in them. We are seeing very considerable growth in their use. For example, there were a quarter of a million users of our mobile app last year, up from 200,000 the year before. We see very good customer satisfaction levels with them—much higher than with our helpline service.

There were a couple of things that didn't cut through in our messaging. One was that vulnerable customers and digitally excluded people would not have to try to use the services. The second was that, even for people who were using them, if the service didn't meet their needs, there is an HMRC adviser at the end of the digital journey on webchat who can help. So, I am confident that whilst we need to continue enhancing and expanding the services, they are very good quality and can deal with a significant number of customers' queries and filter out the ones that we don't need to deal with through an adviser.

Q411 **Stephen Hammond:** So the words "highly rated" refer to customer satisfaction?

**Jim Harra:** Yes.

Q412 **Stephen Hammond:** Can I just be clear about this? Several times, you have said that you are going to proceed with the changes that were due to be implemented on 19 March. For the record, to be absolutely clear, does that mean that they are now cancelled? Does it mean that you are going to take further consultation and bring them back later? Or are you just waiting to sneak them back in—say, in October?

**Jim Harra:** They are cancelled. In October, we would certainly not have wanted to be introducing a closure of the self-assessment helpline; on the contrary, the proposal was to bring it back online at that point because that is the peak period of the year. I am not saying that we will not return to this. It is part of implementing our strategy and we do think it was effective last year. But we are not just pausing to try again; we have stopped those changes, and we will reflect with stakeholders and we will replan the implementation of our strategy. That may or may not include this type of measure in the future.

Q413 **Stephen Hammond:** Notwithstanding the fact that you have a digital first strategy, in response to one of Mr Hendry's questions you talked about a significant improvement in service levels, and yet a recent report suggested that if someone is using a PAYE phone or self-assessment helpline phone, there are now record waiting levels. How do you marry the two comments?

**Jim Harra:** That is our key problem, and it is very regrettable. I am sorry for the experience that our customers get, but we have very high wait

times on some of our helplines. For example, on phone self-assessment, during the peak people had to wait about 38 minutes on average to get through to us, and that is far, far too long. There are really only two ways of addressing that. Either we reduce the demand on the helpline by deflecting demand online, where it can be adequately dealt with online, or we increase the resources on the helpline to meet that demand.

Q414 **Stephen Hammond:** In terms of resources, how many of your staff at the moment are working from home and could be deployed to improve wait times?

**Jim Harra:** We are an office-based organisation. We have a policy that we expect colleagues to come into the office most of the time. On the last statistics I saw, more than 95% of colleagues came into the office last month, for example. The standard that we have is that you should come in at least 60% of the time. The majority of colleagues meet that standard.

Q415 **Stephen Hammond:** Is that a standard across the whole operation, or is it in different offices? You will be aware of the report that we have seen in *The Telegraph*—I don't know whether it is accurate; you will tell me in a moment whether it is—that at your head offices only 54% of the staff were in, on average, in January, February and March.

**Jim Harra:** I can tell you that is inaccurate. Yes, we have a general policy. Helpline advisers are expected to work in the office most of the time, but they are able to work from home if they wish to do so and if they are able to perform their duties satisfactorily at home.

We know that we are able to monitor, from our telephony system, when our advisers are online and how many calls they are dealing with. There is no difference between the number of calls that a helpline adviser deals with on a day depending on whether they are at home or in the office; we get the same level of productivity.

Nevertheless, we see value in colleagues being in the office, because they learn together and they collaborate, so even though an experienced helpline adviser can be as productive at home as they are in the office, we still expect them to come into the office most of the time.

Q416 **Stephen Hammond:** "Most" of the time is 60%. Is that right?

**Jim Harra:** Yes. We expect a full-time officer to come in on at least three days a week.

Q417 **Stephen Hammond:** And at the other times, they are working from home, and they have the facilities to answer helpline queries from home.

**Jim Harra:** Yes. All our systems are available remotely as well as in the office, so there is no difference to the telephony and systems that our

helpline advisers can use. We are able to monitor their performance, whether they are online and the number of calls they handle, in exactly the same way.

There is not an absolute right for people to work from home. You have to have adequate facilities at home to do so and you have to demonstrate that you can perform your duties at home. But our monitoring tells us that our helpline staff, our webchat advisers and staff on our post teams are as effective at home as they are in the office. So while I want to make sure that colleagues comply with our working-from-home policy, I am confident that an answer to our problem is not to change the balance between working from home and office.

**Q418 Stephen Hammond:** So you are confident that that would not change or alter your resource problem. As part of the Committee but also as a Member of Parliament, I get an amount of correspondence about your services, and there are frequent reports about how long it is taking to reply to postal correspondence now. I accept that it is not the primary part of your strategy, but what is the average length of time to respond to a postal query at the moment?

**Jim Harra:** I will let Angela give you the precise details. We have two service standards: how much post is answered within 15 working days and how much is answered within 40 working days. We aim to answer 80% within 15 working days. I believe we are currently at about 75%.

**Angela MacDonald:** Yes, 75%. We get about 20 million items of post a year, and 75% is what we are expecting our outturn to be in '23-24; that is for replies in 15 working days. That is the best performance in four years. We have been gradually improving our performance. What is really important and why it is so important to focus on that is that if you get behind in your post, a chunk of those phone calls are people chasing you, trying to find out where their items are. Therefore staying on top of that becomes incredibly important.

There are a number of areas where actually we have sought to take the post approach out altogether. If we take child benefit as a good example, we introduced a new, totally digital child benefit service last year. This has moved us from a very manual post, which takes you at least 19 working days to get an answer, to a fully digital service, where people are getting money in their bank accounts in three days. It is not just about how fast we process post; it is also about how we seek to provide the alternatives that our customers would expect. Yes, absolutely, we are just about at service standard—at that 80%—and it is the best that it has been in four years.



Q419 **Stephen Hammond:** Is that across the whole range of people coming to you, or is it one particular area? For instance, one gets an awful lot of remarks and comments from constituents about how long it is taking to get a response to self-assessment queries.

**Angela MacDonald:** That is the picture across everything. The amount obviously moves at varying times of the year, because dependent on the tax there are rises and falls in the processes that mean we get more or less of a particular topic depending on deadlines or filing. But yes, that is the average across the entire position.

In some instances, we are actually significantly outperforming our service. If you take the incredibly important area of VAT registration for businesses, our service standard for that is 40 days, but we are currently running at 20 days for VAT registration because we know how vital it is. Obviously, the challenge is that in the averages there are ups and downs.

Q420 **Stephen Hammond:** I take your point about the averages, but I was keen to see whether there were particular areas, because I seem to get more comments about how slow it is to respond in particular areas.

**Angela MacDonald:** A particular area of challenge can often be repayments—when people want self-assessment repayments back. Again, for standard repayments where we have no concerns, those repayments are pretty much going through to the average number that I have quoted.

Where we see a repayment that perhaps looks unusual, we will refer that for risking. Those cases where we ask significantly more questions of the customer definitely take longer. I am at the other end of the correspondence that you might send in, and often the complaints about length will be on cases where we have sought to do more compliance checking than normal. Again, that is on average, and things can move around during the year.

Q421 **Dr Coffey:** How many people fill in a tax return every year?

**Jim Harra:** About 12 million are in self-assessment.

Q422 **Dr Coffey:** About 12 million. You have just told us that you have had 11 million to 12 million calls on the helpline. So that is an average of under one per person.

**Jim Harra:** On our helplines we get about 38 million calls a year. There were about 11 million calls in 2022-23 on the pay-as-you-earn helpline. I have not got the final figures for 2023-24, but it is probably more than that at about 12 million.

Q423 **Dr Coffey:** Of the 12 million people who are asked to fill in a tax return, how many contacted you in the last tax year?

**Jim Harra:** Calls to our self-assessment helpline are roughly at about one call for every two taxpayers.

Q424 **Dr Coffey:** So half the people have to contact you in some way.

**Jim Harra:** Yes, and that is too high. Some of those calls will be necessary because the person has a query where they need a piece of information or advice before they complete their return. Many of them are from people who go to log on and realise they have forgotten their password or whatever, and they ring us to help them get online. But yes, that is the volume.

Q425 **Dr Coffey:** Can I just clarify whether the 20 million items of post are in addition to the 38 million?

**Jim Harra:** Yes.

Q426 **Dr Coffey:** How many people work on this helpline, whether through post, on the phone or webchat?

**Jim Harra:** In the customer service group there are about 19,600 staff altogether. They are doing the helplines, post and clearing work items that the computer systems generate, and that also includes our debt management service.

Q427 **Dr Coffey:** Okay. Given that tax debt is now at a significant record high, I am trying to work out how you assess your productivity.

**Jim Harra:** At an individual level, we know how many calls a helpline adviser should be able to handle in a day. We know how many pieces of post someone working in the post team should be able to clear in a day, on average—there will be days when that is different. That is how we measure people's productivity.

In the case of calls, we are constantly re-evaluating that, because as we implement our strategy, what should happen is that the simpler calls get dealt with by our online services and the more complex calls go through to our helpline advisers. We therefore expect our call-handling times to grow per call, even though the number of calls will fall. We will have to keep re-evaluating that, but that is our key way of measuring people's productivity.

Q428 **Dr Coffey:** In terms of measuring the people working from home or from wherever they work, you have told us about the quantitative comparison. What is the qualitative difference?

**Angela MacDonald:** We do quite extensive quality measurement across sample cases. There are two tiers of that. First, your line manager will be looking at a sample of your cases, and then we also have a completely independent second tier who will do statistical dips into individual cases.

The main difference is not the location of where you are doing it; the main difference will be, as you would expect, people who are newer or have less experience. We provide them additional support. We see some mistakes made by newer people, which is not at all a surprise. Therefore, in any team—a team is typically 12 to 14 people—a team leader will usually have a mix of really experienced people and newer people in order to be able to manage that through.

Q429 **Dr Coffey:** Of your most experienced people, how many are in the office at least three days a week?

**Angela MacDonald:** There is no different requirement except when there is training, for instance. When we have new people, you could absolutely be expected to be in five days over a long period of time because you are going through new training or, as a more experienced person, you are offering training to that new person. It comes back to what Jim said earlier. We have an overarching organisational policy, but that does not mean that we apply it in an unthinking way.

Q430 **Dr Coffey:** What proportion of your team, in the last 12 months, have come in at least 60% of the time? There is no point in just saying that 95% came in last month. They might have come in for an hour for a meeting; that would be classified as them having come in. How many people are in the office at least three days a week?

**Jim Harra:** That has been growing over the course of time. By the end of the last financial year, something like 57% of colleagues were meeting our expectations on the amount of time they were spending in the office.

Q431 **Dr Coffey:** What is it today? When you say the end of the last financial year, do you mean the end of March?

**Jim Harra:** The end of March, yes.

Q432 **Dr Coffey:** What was it at the end of March last year?

**Jim Harra:** I think it was 57% of colleagues were meeting our expectation.

Q433 **Dr Coffey:** In March '23?

**Jim Harra:** Sorry, no; in March '24.

Q434 **Dr Coffey:** What was it in March '23?

**Jim Harra:** I am not sure I have that number to hand, but it has increased over the course of the year.

Q435 **Dr Coffey:** This is one of the things that I am asking for simply because HMRC staff have had considerably higher pay rises than the rest of the civil service on the basis of productivity. I heard you say earlier that half of those who are expected to fill in a tax return still do not think your

website is sufficiently good not to resort to post, using the phone or anything like that.

It is not that many years ago that you signed these extensive leases on buildings. During lockdown, I went and saw yours. There was not a single person in quite a lot of your offices. I am just trying to get an understanding. I would be interested to hear from Dame Jayne-Anne on this. At the moment I understand that HMRC has spent, and continues to spend, a significant amount of money on offices, and you are now having to get the rest of the Government to bail you out by coming to share your very flash premises.

**Jim Harra:** There are several gross distortions in what you have said.

Q436 **Dr Coffey:** I am saying this as a former Secretary of State.

**Jim Harra:** You may do, but I am afraid I have to correct them one by one.

Q437 **Dr Coffey:** Of the seven floors that you took on in Belfast, how many does HMRC occupy today and what is your occupancy rate in Belfast? I am really pushing this at the board on how they are holding because, on one hand, you are saying you want more money and, on the other hand, it feels to me that there is a lot of money that has not necessarily been spent wisely in the past. It is only because of reaction to Ministers, even though you are a non-ministerial Department, that you have been more responsive to customers. That is my frustration.

**Dame Jayne-Anne Gadhia:** Inevitably, it is always easy to look at some of the problems. Let us not forget that HMRC is collecting nearly £800 billion of tax a year and that over 80% of customers are very satisfied with the service. That is the first thing that we should put on record.

The second is that, in terms of the property strategy, the merging of a huge variety of different buildings into individual premises that are now much reduced in number was clearly a very sensible thing to do strategically for a whole variety of reasons. The buildings are more efficient and greener overall, and the cost of the premises makes sense. At the same time, people coming into HMRC are obviously people who can be attracted to jobs elsewhere, so ensuring there is overall competition, if you like, where HMRC is attractive is really important. To your point, as a board, we have discussed at every board meeting where people are working from home, their levels of productivity and the way in which people are expected to come in. We are seeing that improve, to your earlier point, month on month.

Actually, on that property strategy, even before covid and the conversations we are having now, the vast majority of people only

expected that they would be coming in for three days a week. Otherwise, there simply is not enough property for the people who need to be dealing with customers.

As a board, of course there are really important things that need to be addressed, but I still think that it is really important to realise that HMRC collects nearly £800 billion worth of tax. The tax gap is very small. Debt has been increasing, as you pointed out earlier, but there is a huge focus on that. The development and employment of staff are absolutely at the forefront of everyone's minds, and developing projects that improve the digital strategy will only make that more efficient.

Of course, there are all sorts of areas, and you are addressing them, that need to be improved, but we as a board believe in terms of the fundamentals of HMRC strategy and execution that there are some very good points to celebrate. But I should ask Jim to come in.

**Jim Harra:** Just to pick up some specific things, first, on the pay of our staff, I am this month having to give nearly a third of my staff, including all the helpline advisers and the staff who work on the post teams, a rise so that they can keep up with the national living wage. That is the rate of pay I am giving those colleagues, which is not a position that I want to be in, but just in case people were left with the false impression that we pay people very high salaries, that is not the case.

**Dr Coffey:** I wasn't saying that.

**Jim Harra:** In terms of our locations, we have made very significant savings since 2015 with our new location strategy and have also been building Government hubs on behalf of Government. We have been able not only to make those savings as we got out of our old offices—we have moved from 170 offices in 2015 down to 13 regional centres today—but to sub-let 84,000 square metres of property to other Government Departments and other tenants. We are committed to ensuring that the use of our estate is efficient.

The building I have with the lowest occupancy is the headquarters building that Mr Hammond referred to earlier, where the figure that you quoted is not for the proportion of staff coming in, but the proportion of the estate being utilised. It was about 65% last month. I need that to be higher; I want that to be 80% to 85%. We are restacking that building in June and giving up surplus accommodation so that we can do that.

Is my Department 100% as efficient as it possibly could be? I do not believe any organisation is, but we know that colleagues answering phone calls at home have the same productivity as colleagues answering them in the office. While we continue to implement our office working attendance

strategy, that will not make a material difference in the short term to the performance of our helplines. I believe that we have made really big savings and are very efficient in the use of our estate.

**Q438 Dr Coffey:** I would be grateful if you could write to us with the occupancy of each of your buildings. I am using this as an example about how money gets spent within Government. It was in 2017 when you had to increase the pay of your AAs to match the national living wage, so it is slightly disappointing to hear that that has had to happen again. I am not criticising pay; what I am flagging is that, compared to the rest of the civil service, in return for productivity increases that were expected, Ministers agreed a sign-off higher than for other civil servants. It just concerns me now that you are saying, "Well, we won't be able to achieve that because of x, y, z."

I want to pursue a particular thing. There are plenty of people, and I am not getting into some ridiculous politics about MPs' tax returns and all the rest of it, who you then chase having issued tax rebates. I am going to use the example of people who went for advice from Apostle Accounting in Suffolk. They are now being chased for that. Meanwhile, the person's firm is liquidated, and they have another accountancy and tax firm being done.

What are you doing to go after the advisers? At the moment, I think the fear is that people are turning to other advisers rather than HMRC. Ultimately, what they put in their tax return is their—whatever. When people are making what they consider to be honest mistakes, do you not feel that you could be more attuned to the ear of people wanting advice, rather than their going off elsewhere? What are you doing to close the cowboy tax advisers? What are you doing to make sure that people can get the best advice they can from gov.uk and stuff like that? At the moment, if half of the people filling in a tax return are still contacting you, that suggests that it is not working.

**Jim Harra:** There are about 43,000 professional tax advisory firms in the country. Most of them are doing a good job for their clients and a good job for the tax system, but a significant minority are not. While it is the taxpayer's responsibility to choose their agent wisely and know what their agent is doing on their behalf, we also want to make sure that we do not allow rogue agents to operate in the tax system. There has been a particular issue in recent years with what we call repayment agents, who mass market to people the ability to make relatively small repayment claims, when in fact most of those are relatively straightforward to make.

We have been building the best possible self-service options for customers, so that they do not feel the need to use those agents unless they really want to, and the Government have taken measures to help us to change

that market. For example, one of the practices of those repayment agents was getting their clients to assign their right to the repayment to the agent, so that we had no alternative in law but to pay the money to the agent. That has now been abolished. While customers can still nominate their agent to receive their repayment on their behalf, that is now at our discretion, and we will not do that where we are not satisfied with the agent's standards. If those agents get into that position, it is pretty damaging to their business model.

Q439 **Dr Coffey:** But are you pursuing people to be struck off?

**Jim Harra:** Yes.

Q440 **Dr Coffey:** Could you let us know how many you have done that for?

**Jim Harra:** We can report agents to their professional bodies for misconduct, but there is no requirement in this country for a tax agent to be a member of such a body, so there are unregulated agents.

Q441 **Chair:** But you are consulting on some changes in this area.

**Jim Harra:** We are consulting.

Q442 **Danny Kruger:** I have a couple of questions, first, about your vulnerable customers. I appreciate what you have been saying about the helplines and so on. Can you say a bit more about how you classify vulnerable customers? How confident are you that, with the changes that are under way, you will continue to be able to provide them with the service that they need?

**Jim Harra:** We believe that a very small proportion of customers, because of their health or personal circumstances, are vulnerable in the sense that they cannot deal with their tax affairs or HMRC in the usual way. For some of them, that might be an enduring characteristic. For others, they may be vulnerable at a particular point in time, but not always. We rely on them alerting us, but we also train our advisers to try to identify them, and we have an extra support service.

First of all, most of our advisers are trained; they are able to help vulnerable customers if they need help. But for the particularly vulnerable, we have a "needs extra support" service that they can be referred to. One of the tests during the pilot last year, when we temporarily closed the self-assessment helpline, was whether we could catch those people and refer them. In fact, we increased the referral rates through to the "needs extra support" team during that period.

Q443 **Danny Kruger:** I am not sure of the timeframe of this or whether it was during that period, but you had an assessment of the helpline trials, which says that 26,000 calls were transferred to the extra support team—

more than three times the number of calls prior to the trial—and 88% were handled by an adviser. What happened to the other 12%? Who looked after them, and why did they not make it through to an adviser?

**Jim Harra:** That would have been the 12% where the call did not get picked up. Those people would have had to call back.

Q444 **Danny Kruger:** I am not following the process. Just talk me through what happens if I call in. How am I transferred to the extra support team, and why wouldn't I be?

**Jim Harra:** During the trial period, anyone who rang the self-assessment helpline got an automated message that said, "This helpline is closed. You're ringing about query x. We're SMSing you a link to the website that gives you the advice you need on that. But, if you're unable to use our online services or need special assistance, here's a number you can ring where you will be dealt with." That was a sort of triage. We saw a big increase in people ringing that number during that period, which meant that there were 26,000 additional referrals. We did not succeed in answering all of them. We answered 88% of them.

Q445 **Danny Kruger:** Do you have any sense of what happened to the other 12%? They would have had to call back. Do you think they would then have joined the 88%? Is that the assumption?

**Jim Harra:** They would have had to call back. What normally happens is that the caller will call back at another time and get their call answered, so the number of calls is greater than the number of callers.

Q446 **Danny Kruger:** Yes—we do not know how many customers are behind those 26,000 calls.

**Jim Harra:** Yes, that is correct.

Q447 **Danny Kruger:** Thank you. I will come on to the high-income child benefit charge and the changes that the Chancellor announced on that. Obviously, a very important reform was proposed. First, on the raising of the threshold from £50,000 to £60,000 and the tapering of the charge up to £80,000, is there a process under way for reaching out and communicating with families who may have been caught by the charge before, but now will not be?

**Angela MacDonald:** There are different groups of people who manage their way through the child benefit service: customers who applied for child benefit but decided not to take payment; people who apply for child benefit and then pay the charge; and people who decided not to apply for child benefit at all rather than be in the tax system. So there are three different approaches that customer groups take. The changes take about 170,000 families out of the high-income child benefit charge altogether.



We are trying to make sure that we are focused on two groups. We launched a new service on 17 April to help customers who are already registered but were not taking the payment to opt back in really easily. We are only a week in. We have already seen 1,900 people use that service to opt themselves back in, and another 18,000 have already reactivated their child benefit coming in through the more traditional route.

Q448 **Danny Kruger:** How are you communicating with those people?

**Angela MacDonald:** We use a variety of ways to try to get in touch with the people who have live claims. We are out doing all sorts of social media. We've been going in through things like Mumsnet, and Money Saving Expert has been trying to draw people's attention. We have been updating all the flyers that parents get when they go to hospitals, and we are getting in touch with the people who were in that catchment area to point out that they may now be able to take payment. But we are bearing in mind that it is not just the £60,000; there is a taper all the way up to £80,000, so there is a much larger community. About 485,000 families will be impacted by the change. Our aim is to either draw your attention in to claim child benefit for the first time—the new digital service that I spoke about to Mr Hammond—or to make it as easy as possible to reactivate your payment. We are being very active on helping those people.

Q449 **Danny Kruger:** Could the Government be doing more to advertise the change? We boast about it as a party, but do you think the communication has been clear enough?

**Angela MacDonald:** The communication is pretty straightforward, but as with all things, people lead incredibly busy lives. It has got to be persistent. Part of the reason for the action we have taken to do that is that if you already have a live claim to child benefit, you will be able to come in up to two years from now and still get it backdated to this point. We are not trying to assume that we can get everybody through really quickly. We are going with the fact that people will need time. But we are getting as many people as we can, as fast as we possibly can.

Q450 **Danny Kruger:** Okay, well that is encouraging; thank you. The change to calculating the child benefit on a household basis is quite a significant alteration in the way that HMRC works. Of course, it is the way that the benefit system recognises the household, but since 1990 or so, your work has always been done on an individual basis. How big of a change is it to try to calculate this particular aspect of your work on a household basis?

**Angela MacDonald:** Obviously, the Chancellor announced the desire to make changes, and the Chancellor has talked about this being an unfairness between dual-income and single-income families. The Chancellor is extremely clear that the principle of independent taxation

must remain. We will be sharing a consultation very shortly; we will wait for Ministers for the date for that. It is important that we understand how we go about this in a way that means that we collect data. We are mindful of the particular risks for vulnerability—for financial abuse—so there are some concerns, but how do we do that as effectively as we can to support everybody?

We already collect an awful lot of data; the challenge is how you put those two pieces of data together, and what makes up a household. That is an issue that already progresses through things such as universal credit, so there are already models to explore there; but, as you know, the whole purpose of a consultation is to lay out the options and then take as broad a set of feedback as we can to take all views into account. Ministers will progress that in due course.

**Q451 Danny Kruger:** Yes, that will be an interesting exercise, and I don't envy you the challenges involved, but I understand that the change is supposed to come into effect from April 2026. Are you confident that, no matter the outcome of the consultation and the options chosen for operationalising it, you will be able to meet that deadline?

**Angela MacDonald:** I think we will understand how the policy design lays out, and then we will advise Ministers on what will need to be true in order for us to hit the deadlines that they need us to make. As with all things, these things depend on complexity and challenge, and what other priorities we have, but if that is the decision that Ministers ask of us, then we will do what we need to do in order to deliver what Ministers ask.

**Jim Harra:** I should add that, obviously, we do give policy advice to Ministers, so the 2026 date was announced under our advice.

**Q452 Danny Kruger:** Okay, so you are confident of that. Continuing on the topic, the danger, as you suggest, is of defining a household and of the risk of abuse. But likewise, in order to mitigate that risk, there might be the necessity of some quite intrusive questions or complex assessments being required of individuals and their families.

We no longer have the former DWP Secretary of State here, but I am aware that DWP has a 15-page questionnaire that advisers are supposed to use to assess whether a couple are living together as a married couple. It is called the "living together as a married couple" assessment, with 15 pages of all sorts of questions—it's so much easier if you're just married. Are you concerned about the implications for your staff, with having to potentially get quite involved in people's domestic arrangements?

**Angela MacDonald:** I think that these are precisely the things that we will need to understand during the consultation.

Q453 **Danny Kruger:** Okay. Lastly—although I think you might have answered this already—you are saying that the timing of the consultation is with Ministers, not with you. Is that right? Do you know when that will be issued?

**Angela MacDonald:** We are simply awaiting notification from Ministers as to when that consultation will be issued.

Q454 **Mr Baron:** Good afternoon. May I raise with you the issue of research and development tax credits? As you know, companies can retrospectively receive a payable tax credit or reduce their tax bill for new or existing projects. That is designed to support companies that work on cutting-edge projects, in a general effort to help to make Britain a tech superpower by 2030. Before I go any further, just for clarity, although I believe my companies do not benefit from R&D tax credits, I refer everybody to my entries in the Register of Members' Financial Interests.

Can I put it to you that, in HMRC's effort to clamp down on fraud and error, there is a general view building, particularly coming from start-ups and small businesses, that it is putting economic growth and innovation at risk by rejecting legitimate claims for R&D tax relief, delaying payments and clawing back tax credits, especially given the time that that involves? There have been various reports in the *Financial Times*, for example, and relatively recently nine business leaders broke cover to say that that is what is happening. What is your response?

**Jim Harra:** There is a balancing act to be achieved between making sure that R&D credits achieve their policy objectives of promoting innovation and business investment in R&D—which is absolutely what my Department is there to ensure that they do—while at the same time protecting the Exchequer from error and fraud, which has recently been reassessed at an unacceptably high level. As we implement our compliance approach, we have to listen to all the feedback and take it on board, and to understand with Ministers how we strike that balance. We plan to release information shortly about our compliance plan, which will not only inform people about how we intend to do that, but enable them to engage with us and give feedback.

Our aim, obviously, is to enable legitimate claimants whose claims are accurate to get their R&D payment as quickly and as easily as possible, while preventing the non-compliant claims from going through. Most non-compliant claims have some relief due, just not the amount that is being claimed, but some—about one in seven claims in the small business scheme, in the mandatory random inquiry programme that we carried out—were not due any relief at all in our view. I appreciate that we have to get that balance right. We are working in a constant process.

Q455 **Mr Baron:** I appreciate that it is sometimes a difficult balance for large organisations. We fully appreciate the good work you do, but I think it is right to examine whether you have the balance right between trying to clamp down on fraud and error, and making sure that legitimate claims are suitably administered. I suppose that comes down to two lines of questioning: the resource, and whether the necessary expertise is there. May I kick off with the first? Nine bosses told the FT that the UK tax agency's administration of the flagship schemes—in other words, R&D tax credits—“left them exploring moving overseas or scrapping plans to create jobs or invest, while two more said it had stunted their companies' growth.”

To move to a specific example, Matthew Millar, co-founder of Really Clever, a fungal discovery platform, said he was considering moving its operations abroad after it was asked to repay £44,000 in relief, a request by HMRC that the company disputed. He said: “It is completely contradictory to wanting to be a tech superpower,” and added that officials had denied requests to discuss the claim on a call. I have a list, but rest assured, I will not quote them all. That, however, is one example of clients, of customers, who are not happy. Entrepreneurs who want to grow in this country, who want to employ, are thinking of moving jobs overseas. What would you say to Mr Millar?

**Jim Harra:** I am obviously well aware of those feelings and that feedback. Part of the balancing act is about whether we can do our checks before we make a payment, or make payment and then do checks. The advantage of the first is certainty for the claimants, because they know when we pay them that we have been through the claim and are satisfied that that is the amount that they are entitled to. Therefore, the risk that we will come along afterwards and say, “You weren't entitled to all of that. You need to pay some of it back”, is removed. The downside of that, however, is that it builds in delay in receiving the money. One of the trade-off choices we have to make in our compliance approach is when we do checking prepayment versus when we do checking post payment. At the moment, roughly about a third of our checks are prepayment and about two thirds—

Q456 **Mr Baron:** I would have been slightly more heartened—comforted even—if I had heard from you that you recognised the issue and were putting more resource into sorting it, unless you are saying it is not an issue and that these are a small minority of cases.

**Jim Harra:** In terms of resources, there is no backlog of R&D claims. We have a service standard to process them within 40 days and we either pay them at that point or notify the claimant that we have concerns and that we want to carry out checks, and we are meeting that service standard.

Q457 **Mr Baron:** Without exception?

**Jim Harra:** I cannot say “without exception”, but I certainly do not have a backlog that is not meeting that standard. And we have increased the resources on R&D about fivefold over the last two years in response to this issue.

The Government have helped us to make some key changes; there have been a number of measures announced by the Government to help us to administer the relief while managing error and fraud. One of the issues that we had in the past was that there was very little information that people had to submit with claims. They did not have to submit claims online and therefore our ability to risk-assess them and identify claims that we did not have concerns about and that we wanted to just go through versus those that we did have concerns about was impaired.

We now have a number of new requirements. First, you have to make your claim online and secondly, you have to supply additional information with your claim. That should enable us to improve the quality of our risk assessment and reduce the extent to which legitimate claimants are caught up in compliance checks that they should not be caught up in.

The other area is expertise and that is a real challenge on R&D. My people are tax inspectors. They are not software engineers or rocket scientists and they meet a vast range of claims in areas in which they do not have expertise.

Our approach to compliance is to ask the claimant to demonstrate that they have thought through why their claim qualifies for relief. The Chancellor has also recently announced, however, that we will appoint an expert advisory panel to assist the Department in the areas where we clearly do not have the scientific expertise.

Q458 **Mr Baron:** Thank you for that. I am pleased to hear about the increased resource in recent years being put across, because that is reassuring.

Can I just press you a little bit, though, on the expertise? In March, Ministers said that the new panel that has been created would provide insights into R&D across critical sectors, including technology and life sciences. These are very specialist sectors that you would not normally expect Government Departments to have a depth of expertise in.

Some of the businesses that spoke to the *FT* accuse the agency of lacking expertise and producing error in its processing of claims, echoing wider industry concerns. I will give you one example. Paul Morey, the chief executive of Herschel Infrared, said that the heating company had been told that it owed over £31,000 to the Government, despite not receiving the value of an R&D claim in cash or a reduced tax bill from HMRC. He described it as a complete miscarriage of justice, and he and others are

talking about, when it comes to the expertise element of this, moving jobs overseas.

I am trying to be fair here, but you have a Government Department dealing with a very specialist area that even parts of the City struggle with sometimes. What additional measures do you think are needed to ensure that you have got the balance right? And do you think that this sort of panel will help in a material way?

**Jim Harra:** A significant number of measures have already been taken, but we will not see the effect of all of them yet. For example, a lot of them were introduced in 2023. The benefit of those measures will take some time to come through.

Our aim is, first of all, to get companies to focus on their claim, because unfortunately a significant number of claimants use an agent and we have seen this market being populated with agents of variable quality, some of whom push their claimants into making highly speculative claims. When we come along to investigate, sometimes the company will say, "I don't know anything about this claim. This agent came along and said they could get us some money back and they have gone." One of the measures that has been taken is that there must be a named officer in the company who is responsible for the quality of the claim.

We have also been working on improving standards in the agent community that supports claimants. We have an educational programme for agents. We also have an anti-abuse unit, which aims to tackle the agents who we think are giving spurious advice. Another measure that the Government has introduced is that claimants must tell us the identity of anyone who has advised them in making their claim.

Although there are sectors like the ones you described where it is well known that they will be involved in R&D, we have seen a significant number of claims from rather surprising sectors. For example, last September, we wrote to about 7,500 care homes, because we were seeing R&D claims from care homes, which is not a sector in which you would expect lots of R&D. We have been making sure that they are educated about R&D so that when they are approached by one of these agents and given a promise about what can be achieved, they think, "Oh, I've had something from the taxman that says, 'Take care. Yours is not a sector that we would normally expect to qualify for this relief.'"

It is a challenging relief to deliver. We are well aware that we must administer it in a way that achieves its objectives, but it has a £1.13 billion error and fraud gap in it, which is an extraordinarily high proportion of the relief.

Q459 **Mr Baron:** Two quick questions, given time is short: if you are talking about these spurious agents going around encouraging people to make claims, that is a waste of public money. Is enough being done to deal with that? And what would you like the Government to do if it is not?

**Jim Harra:** The Government has introduced two measures. First, there must be a named person in the company who takes responsibility for the claim and therefore focuses on what the agent is doing on their behalf. Secondly, they must tell us the identity of the agents and advisers that they have used. We know which ones we think are good and which are not. We have also worked with the Advertising Standards Authority to tackle promises made online that are clearly not achievable, and we have been forcing agents to change their messaging to potential clients. The Government has taken measures and we are taking steps. It's an ongoing—

Q460 **Mr Baron:** It's a long road. Finally, how do you assess what is innovative—it is difficult? Do you have a resource whereby you can go to third parties outside HMRC and get advice on where the dividing line is? I can understand your predicament, because you are not scientists or biologists.

**Jim Harra:** Yes. We go to other parts of Government—DSIT or DEFRA. The relevant Department might have experts who can help us, but the purpose of setting up the external expert advisory panel is to address the fact that within HMRC we do not have that range of expertise. We will be exploring how we can make best use of that panel so that claimants who are clearly working on innovation get their claims paid as fast as we can and get certainty that they can keep the money, whereas those where it is much more questionable get the right level of focus from our compliance team.

**Chair:** Angela, I think you had some further questions.

Q461 **Dame Angela Eagle:** Yes, about the loan charge, which is an ongoing issue. While we are on agents doing potentially dodgy things, certainly there is an issue around the loan charge, which is about the mis-selling of some of these products over quite a few years by what we might also call agents. People probably profited very much from them, didn't they?

**Jim Harra:** Yes, definitely. The loan charge is a specific policy intervention applying to a specific point in time, but disguised remuneration and tax avoidance is an enduring problem. We have significantly reduced marketed avoidance in recent years. The tax gap from it has gone down from about £1.5 billion in 2005-6 to about half a billion in 2021-22. The key area where there is persistent promotion of avoidance is in

employment taxes—disguised remuneration schemes focused on gig workers and contractors. There is a hardcore—

Q462 **Dame Angela Eagle:** There are very many gig workers and contractors, so there is a big financial incentive to declare income in a different way from employment because the taxes on it are lower. This is an area where there is plenty of potential for tax avoidance.

My question with respect to the loan charge was really about how people were drawn into it originally. You are pursuing those who owe money, and many people would say that that is the right thing to do, although there would be some complaints about how and how far back you have gone. However, what I worry about is the mis-selling of these schemes that went on in the first place, which was picked up only much later on. Quite often, these schemes were not picked up at all for years, yet clearly the people who owe the tax are being asked to repay. It is ruinous for some, but at the same time those people who profited by selling these schemes in the first place appear to have gotten away scot-free.

**Jim Harra:** Historically, there were probably many more, but there is now a core of 20 or 30 firms that really promote this avoidance. Many of them are based offshore and do this online. One of the key measures we have taken is that we have a joint enforcement notice with the Advertising Standards Authority; we have had websites closed down and forced amendments to what websites say so that they do not actively mislead potential clients.

Now, a key area that this tends to flow through is certain umbrella companies. Many agency and contract workers will be employed by an umbrella company, then an agency will post them out to end user clients. Some of those umbrella companies are set up as vehicles to push this type of avoidance, and in the last week the Government have announced that they are minded to introduce a requirement for due diligence checks in labour market chains to try to tackle that.

Q463 **Dame Angela Eagle:** Is this list of dodgy companies that push these schemes available publicly?

**Jim Harra:** We do publish the names of promoters of tax avoidance schemes and their schemes. We also undertake that where we detect or believe that a worker has got into an employment tax avoidance scheme, within two months of us knowing that we will contact them and tell them, “We believe that you are in a tax avoidance scheme. Please contact us if you want to get out of it and we will help you to get out of it.” That is trying to address a criticism from the past that people used these schemes over a very long period of time before they realised that they were in



trouble. Now, we try to notify people as soon as we possibly learn that, rather than waiting until we have conducted an investigation into it.

Q464 **Dame Angela Eagle:** The Morse report suggested that you do not go back to 1999, which is where you were going back to on the loan scheme issue, but go back only 10 years. You are putting that into effect.

**Jim Harra:** The Government have legislated for the Morse recommendations. The loan charge initially applied to loans made as far back as 1999. It now applies only to loans made from 2010 or, in certain circumstances, from 2016.

Q465 **Dame Angela Eagle:** You recently started using your powers under section 684 in relation to those affected by the loan charge. The last number I saw was that you had issued 3,000 letters. Is that an accurate number now? Are there many more letters that you intend to issue? How much tax is at stake via the section 684 power letters you are issuing?

**Jim Harra:** I am sorry, but I do not have information about the volumes or the amount of tax.

Q466 **Dame Angela Eagle:** Could you let us know?

**Jim Harra:** Yes, I can write to you.

Q467 **Dame Angela Eagle:** I also want to know whether any of the companies that made quite a lot of money pushing these schemes for years have actually been brought to book by HMRC. You are clearly pursuing individuals, some of whom will have been perfectly aware of what they were doing, but many of whom will have thought that they were probably complying, because they will have been mis-sold these disguised remuneration packages. How many of the mis-selling companies that made a fortune over the years selling this stuff have you actually brought to book and/or prosecuted?

**Jim Harra:** First, picking up on the point about people being misled, there is really no doubt that none of these schemes works to avoid the tax, but they are sold on the basis that they will, so people are very much misled into believing that if they use these schemes, they will succeed. We have sought to publicise the fact that that is not the case. As I say, we use the joint enforcement notice with the Advertising Standards Authority.

Q468 **Dame Angela Eagle:** I mean going back, not going forward. I am satisfied that you are looking at ways of closing some of these loopholes; I am talking about the loan charge issue going back. There are a lot of people involved, and you will tell us how much money is involved when you write to us. The issue is that you are clearly going after the individuals who avoided paying tax, some of whom are finding themselves in extremely difficult circumstances as a result, and many of

them probably reasonably innocently thought that this would work—perhaps rather optimistically but innocently. How many of the companies that made a lot of cash mis-selling this stuff to naive people who now find themselves in trouble have you chased and prosecuted—the companies, not the individuals?

**Jim Harra:** Generally speaking, the promoters of the tax avoidance schemes are not liable for the tax. It is not their tax bill; it is the worker's tax bill, which is why we seek the tax—

Q469 **Dame Angela Eagle:** I understand that, but they are tempters. They are exploiting people and conning them into getting into a situation where they are on the wrong side of the law.

**Jim Harra:** For a lot of this period, very few financial sanctions could be applied to these promoters. The promotion of tax avoidance in itself is not a criminal offence, so we cannot prosecute and convict people—

Q470 **Dame Angela Eagle:** Isn't the promotion of tax avoidance a criminal offence?

**Jim Harra:** No, the promotion of tax avoidance in itself is not a criminal offence, but we look for any evidence that the promoter of a tax avoidance scheme has committed a criminal offence in the course of promoting it. We have prosecuted and convicted promoters of tax avoidance, not in relation to the loan charge. I believe one person involved in the promotion of disguised remuneration has been convicted of a related offence, but I wrote to the Committee and set that information out.

Q471 **Dame Angela Eagle:** It's not very many, is it? It's not going to put off people who have no compunction about mis-selling their dodgy schemes to people, because they are not going to expect the taxman to knock on their door and prosecute them for it.

**Jim Harra:** It is a key part of our anti-avoidance strategy that we tackle the promoters of tax avoidance. First, they are under a legal obligation to tell us. They have to notify us of the schemes they are selling, and if they don't do that, they can be fined. As recently as February this year, there was a fine of £900,000 levied on a promoter, and in 2022 there was a fine of £1 million. In addition, in certain circumstances we can issue them with a stop notice, which legally obliges them to stop selling their scheme. The Chancellor announced in his Budget this year that he will make it a criminal offence not to comply with that notice. Previously, there was a financial penalty, but it was not a criminal offence. We also publish the names of promoters and their schemes, and we use that in a marketing campaign to workers to say, "You should steer clear of these people."

Q472 **Dame Angela Eagle:** The gate is closed for that. I am trying to ask you whether you can take any action against the people who have got those with outstanding loan charge problems into the situation they are in. Are you saying that there is not a lot you can do about the people who mis-sold these schemes that led to such misery for many people, because it is too late?

**Jim Harra:** There is often no sanction we can apply to those people. We look at whether a criminal offence may have been committed, and if it has, we criminally investigate. As I pointed out in my letter to the Chair in February, we have secured convictions and prison sentences for promoters of tax avoidance. On disguised remuneration, I think there has been one related offence that we have established so far.

Q473 **Chair:** I have a last few quick-fire questions. One is about the online journey that you are taking people on. I did my own self-assessment and payment online this year, and I have to say that I was quite worried that I was perhaps paying money to a fraudulent front page. Are people still being tricked by fake HMRC fraud pages, or has that issue gone away?

**Jim Harra:** No, scams are attempted on our customers all the time. In fact, in the last couple of days we have had an issue with people being sent QR codes which purport to come from HMRC. They are asked to click on them and enter personal information. We have gone out immediately to say, "We will never send a QR code that asks you to do this; this is a scam." We have become quite effective at identifying scams and acting quickly to block them. So we block websites and we take down mobile SMS factories, but it is an arms race.

Q474 **Chair:** That is a reason why people will be very worried going on this digital journey with you. You mentioned earlier about the app and that a year ago, 200,000 people used it and now it is 250,000. At that pace of adoption, it will take an awfully long time.

**Jim Harra:** I should have said 250 million now.

**Angela MacDonald:** If I might add, 5.2 million people have downloaded the app since it went live and we had 3.8 million unique users this year. One of the things, back to the move forward of the digital journey, is awareness of the app. I don't know about you—

Q475 **Chair:** I had not heard of it until very recently and I chair the Treasury Committee.

**Angela MacDonald:** Exactly right, totally. We reckon about 21% of people are aware of the app. We release new services on to the app every month and we are broadly increasing. Our big challenge—we talked a bit about whether, with the changes to the phone lines, we were unable to

pursue our digital strategy. Actually, the level of usage of our digital services is increasing every month.

Q476 **Chair:** Where are you aiming to get the app adoption to?

**Angela MacDonald:** Our aim is to drive app usage up across the entire personal tax base.

Q477 **Chair:** To what level, by when?

**Angela MacDonald:** We have got targets. I would have to write to you with the details, but we are absolutely seeking to drive that. There is exponential growth in the use of our digital services.

**Jim Harra:** Chair, I should have clarified that the 250 million figure I mentioned is for all digital accesses to all of our online services—the app and gov.uk.

Q478 **Chair:** Okay, thank you. In terms of the app services, will you also be able to do self-serve in terms of getting your taxes right on that app?

**Angela MacDonald:** Yes. There are a variety of services that we are seeking to put through there, some of which are about information services—for instance, your national insurance number is stored there, your national insurance record is on there, and your state pension forecasting is on there—which people regularly ring to ask us about. There are also things like your employment history. One of the most regular things—

Q479 **Chair:** But you will not be able to get advice on your tax?

**Jim Harra:** You can. I completed my self-assessment return on the mobile app this year and made a payment on it as well. It links through to our digital assistant, which can answer your queries. And then from the digital assistant, there is access to a webchat adviser.

Q480 **Chair:** Would that cover things like capital gains, hypothetically, where you have bought a council house under Right to Buy and you want to get your tax right on that? That would also be covered in your app, would it?

**Jim Harra:** Yes. We have extensive online guidance on that and we have two self-assessment—

Q481 **Chair:** In the app?

**Jim Harra:** Yes, you can access that guidance via the app.

Q482 **Chair:** You said you wanted to make things much simpler, but there is a new complexity in the tax system that I have been alerted to. Let us say you are a hard-up mum trying to sell 35 bits of baby clothing online. All of a sudden, it apparently now has to be reported to HMRC that you have

done more than 30 transactions online. That came into force at the beginning of this year. It is not likely to lead to any tax revenues. According to your impact assessment, it has cost about £35 million for you to get ready to receive all those reports. Is that an area where you are thinking about potentially reducing complexity?

**Jim Harra:** I am glad you raised that with us, because I think a number of hares were set running earlier this year on what that meant. It was a lesson for us on how people use social media to generate take-up. Clearly, more people are now trading online and selling goods online that are liable to tax, as well as lots of mums selling surplus baby clothes that are not liable to tax.

Q483 **Chair:** It is not liable to tax, but the platform is liable to tell you that they have done it.

**Jim Harra:** Yes. There are now new rules that platforms must notify us of sales on their platforms in certain circumstances. That does not impact on the seller, but it gives us more information, so that we can identify traders who are selling online who may not be declaring to us. But I want to reassure the mum who is selling the clothes that her baby has grown out of on eBay or whatever that that is not a taxable source of income and we would not be contacting them.

Q484 **Chair:** No, but it will have to be reported to HMRC. You have had to invest in people and resources to be able to receive those reports.

**Jim Harra:** I am sure we will test and learn. We have set the limits at a level that we believe will give us information that is useful to us, without too much information that is not useful to us. I am sure we will monitor that over time and adjust the limits if we need to. We are not interested in information about a mum selling the clothes that her baby has grown out of, because that has no tax consequences. But we are interested in the trader who, increasingly, is making a living not selling on the high street but online, because they have to pay tax like everybody else.

**Chair:** We heard today that you are on a journey to try to be digital first. We also heard a lot of concerns about the most law-abiding people in the land, the ordinary taxpayer trying to get their taxes right with yourselves, and about the fact that there are still quite a lot of challenges for you on that journey. It would be very helpful to the Committee if you were able to share your strategic plans and the strategic direction of travel, such as the objectives for getting uptake of your app and by certain dates, so that we can continue—I am afraid this will be “to be continued”—to hold your feet to the fire in terms of the journey you have decided to take the British public on. Thank you very much.

