

Treasury Committee

Oral evidence: Work of HM Revenue and Customs, HC 416

Wednesday 27 November 2024

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[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Bobby Dean; John Glen; Lucy Rigby; Dr Jeevun Sandher; and Yuan Yang.

Questions 1 to 144

Witnesses

I: Sir Jim Harra, First Permanent Secretary and Chief Executive, HMRC; Justin Holliday, Chief Finance Officer and Tax Assurance Commissioner, HMRC; and Myrtle Lloyd, Director General Customer Services, HMRC.

Examination of witnesses

Witnesses: Sir Jim Harra, Justin Holliday and Myrtle Lloyd.¹

Q1 **Chair:** Welcome to the Treasury Committee on Wednesday 27 November 2024. We are pleased to welcome HMRC to the Committee, and we want to talk to them about their work, as this is our first hearing with them in this Session. I am delighted to welcome Sir Jim Harra, the permanent secretary and chief executive of His Majesty's Revenue and Customs. He is joined by Myrtle Lloyd, who is the director general for customer services at HMRC, and Justin Holliday, the chief finance officer at HMRC.

Sir Jim, this is perhaps not quite your last time in front of us—we might squeeze you in one more time—but we know that you will be standing down as permanent secretary. Can I ask what is happening about recruiting your replacement?

Sir Jim Harra: Good afternoon, Chair. I am due to retire in the spring. The exercise to recruit my successor is already under way. In fact, I believe interviews have been held already.

Q2 **Chair:** That is hot news. When you said you were standing down, did you have a timeframe in mind? Have you been asked to extend your stay at all?

¹ See Also: [Letter from Sir Jim Harra following the oral evidence](#), dated 18 December 2024

Sir Jim Harra: Yes, I did extend. My five-year appointment was up last month, but I agreed to extend by six months, mainly because of the general election and the new Government.

Q3 **Chair:** It is your loss but our gain that you are here, and so knowledgeable about the subject.

It is perhaps not a surprise to you that I want to kick off by asking some questions about tax on farms. This has obviously been a big issue in the Budget, and has affected a lot of people. Obviously, HMRC are not responsible for the policy; it is a matter for the Treasury, and the Chancellor was in front of us explaining the position just a few weeks ago. First of all, I wonder what data HMRC have on farms and their sizes, and how you fed that into the Treasury while it was making its decision.

Sir Jim Harra: What we have is data on estates for inheritance tax purposes. We have data on all estates where there were claims for relief in the past, and that is really the analysis that we have provided. We do not have data about farms so much as data about deceased people's estates, but that includes how much relief has been claimed, which is the basis of the analysis that we provided to Ministers for the purposes of their decision making and to assist the OBR with the costing of the measure.

Q4 **Chair:** Some taxes are more specific to farms. Do you not have any data to break that down so that you can see where estates have claimed taxes relating to agricultural activity?

Sir Jim Harra: Yes, we have precise data about exactly the number of estates that claimed agricultural property relief and how much relief they claimed. That is comprehensive data about the use of the relief, which is what we used to analyse, for example, how many estates would be affected by the changes in policy.

Q5 **Chair:** Obviously, farms may pay other taxes, rather than inheritance or other reliefs, while they are working. Do you have any information on the number of working farms that are actually producing food, rather than estates that are farmland?

Sir Jim Harra: I am not sure what your definition of that is.

Q6 **Chair:** The ones that have animals or produce food—they are arable or livestock farms that are actually producing things. They are working farms rather than smallholdings, where there might be a farmhouse but the land around it is no longer being productively farmed.

Sir Jim Harra: That is not the kind of data we would hold for the purposes of inheritance tax. It is really valuation of agricultural property and ownership of property.

Q7 **Chair:** For inheritance tax, but you must have some record of a working farm that is paying other taxes through the system—through self-assessment. Do you match that up with inheritance tax?

Sir Jim Harra: I am not sure. You are right—we obviously have data if someone has a farming business and is submitting self-assessment returns with profits or losses. But there is not necessarily a match between

who runs the farming business and who owns the farmland for the purposes of inheritance tax.

Q8 **Chair:** Okay. Do you know how many farms are being bought by large international corporations because of the international taxation issue? Would you have any information on that?

Sir Jim Harra: I can check. I am not aware, but I can check.

Q9 **Chair:** It might be helpful if you could just lay out very simply, for people who have been confused about this issue, your take on what farms would have to pay inheritance tax and what would happen—the thresholds and so on. Could you lay that out?

Sir Jim Harra: The Chancellor has written to the Committee with some of that information, but—

Chair: But hearing it from the horse's mouth might be clearer than some of the data.

Sir Jim Harra: I am not an expert on inheritance tax, but I shall have a go. The relief is on top of other exemptions and reliefs, such as the spousal exemption, which is applied first. Then, if land is liable to inheritance tax but would qualify for the relief, the relief is given on top of that. At the moment, that is a 100% uncapped relief, but in the future it will be capped at £1 million for the 100% relief and thereafter relieved at a 50% rate. How much exemption can be applied before agricultural property relief depends on the circumstances of the deceased person and whom they leave their estate to, but it can be up to £3 million if you have property left to a spouse and a residence included.

Q10 **Chair:** Ms Lloyd, do you have any information about customers ringing up to ask about this? Do you keep any data about people contacting the helpline who might ask questions about farms and inheritance tax?

Myrtle Lloyd: We have not seen an increase in inquiries on that, but I can get you exact figures.

Q11 **Chair:** That would be helpful. Has there been any consideration of setting up a specially dedicated helpline for people asking questions about this?

Sir Jim Harra: That is not our intention. Obviously, a very small number of estates are likely to be affected, and we have an existing IHT service, which can help people. Also, most people are represented—a professional executor and professional agents will be involved.

Q12 **Chair:** You are relying on their accountants, and you have an existing specialised hotline—okay, that is helpful to know. Before I pass over, we have had 24 years since self-assessment went digital, but inheritance tax will not go digital for a few years yet. If you had had a digital inheritance tax, would you have had better information that you could have provided to the Treasury when it was making these decisions?

Sir Jim Harra: We intend to implement a digital service for inheritance tax. That does not necessarily change the data that people will provide, so

it will not necessarily give us additional data. In the case of this analysis, it has meant that we have had to analyse data that has been submitted to us on paper, so it is a bigger chore, if you like, for our analysts. That data could therefore have been more easily accessed, but we have nevertheless done a comprehensive review of the data.

Q13 **Chair:** Out of interest, how long did that take? You must have had some notice, presumably, from the Treasury. How long does it take to do it manually?

Sir Jim Harra: We already do that in advance. We do not necessarily wait until a politician says what they are interested in; we anticipate what people might be interested in, and we publish a lot of data about inheritance tax reliefs, so we already do quite a bit of analysis. For other reasons, we expect the number of estates that are liable for inheritance tax to grow in coming years. Therefore, it is important that we implement a digital service, because the paper-based service will become more and more costly to operate.

Q14 **John Glen:** May I ask you about the incidence, value and revenues of business roll-over relief, where individuals sell a business asset, buy land and defer CGT? That is commonly seen as how wealthy non-farmers have created the mechanism to avoid tax. Essentially, there is revenue forgone consequential on that activity. Surely that would have been an option evaluated in the process of preparing for the Budget. Can you say anything about that?

Sir Jim Harra: You are talking about the capital gains tax roll-over relief. I cannot really say what options Ministers will have looked at during that process, because that is a matter between officials and Ministers. Sitting here, I do not really know precisely what data we have regarding roll-over relief in CGT.

Q15 **John Glen:** It would be helpful for the Committee to receive a letter from you or your colleagues setting out how roll-over relief works at the moment, and what you think it constitutes as a saving from CGT.

Sir Jim Harra: I can certainly do that. We already publish comprehensive data on tax reliefs and I will obviously check what we have on rural reliefs specifically.

Q16 **John Glen:** Okay. To return to the Chair's line of questioning, the key debate that we have seen over recent weeks is how this change in inheritance tax relief will affect people and who it will affect. What I think I am hearing from you is that you do not really have definitions of those different classifications of farm; you just have historic data on who has claimed previously, but there are no working definitions making distinctions between a property with a few acres, a property with tens or hundreds of acres, and a landed estate. It is really about just the value of those estates as it affects the incidence of tax. So you do not collect data classified by size of farm?

Sir Jim Harra: That is correct. The relief does not have the kind of categorisations that the Committee has mentioned, and therefore we do not collect that data for the purposes of administering the relief. What we

have is data on all the relief, case by case, given over the years, and from that we are able to calculate the number of estates we expect will have to pay more tax as a result of the policy change, and how much.

Q17 **John Glen:** How do we account for this discussion about working farms? From your perspective, there is no actual definition of a working farm.

Sir Jim Harra: There is no formal definition. There is the £1 million 100% exemption threshold, and that obviously covers farms up to a certain size. Smaller farms could be wholly within that exemption, together with the other reliefs; larger farms would be more likely to be affected. But we do not categorise the relief by the types of definition that the Committee has mentioned.

Q18 **Bobby Dean:** Just to follow on from the two lines of questioning so far, you mentioned that you have data on farming businesses and then separate data about who claimed for estates. Would it be possible to make a formal definition if you dug into the datasets that you have, or would you need to go and gather new data to be able to define what a working farm is versus an estate that is sitting there and not being worked?

Sir Jim Harra: Any farms where someone is making returns on the basis that the farm is going to be taxable on the profits or to have allowable losses are working farms, in the sense that they must be being run with a view to making a profit; otherwise, they would not be within that.

Anyone who has farmland for a hobby, for example, where they do not intend to make a profit, would not be subject to being returned under self-assessment. But the person making the return under self-assessment on the farming business is not necessarily the owner of the land; they could be a tenant farmer, for example. So there is not a match-up between the ownership of estates and the ownership of the businesses.

Q19 **John Glen:** So you do not have any cross-referencing with the Rural Payments Agency and its interactions with the estate? One view could be that if an entity is registered with the Rural Payments Agency, it might constitute a farming enterprise, but you do not have any need for that information and you do not make any interrogation of that entity's status with respect to the RPA.

Sir Jim Harra: We may well do for self-assessment. From time to time, a question or a dispute may arise between us and the taxpayer as to whether a farm is being run as a farming business with a view to profit. That is the kind of thing we would then look at to assess whether we believe that that is the basis on which it is being run. However, for the purposes of the inheritance tax relief, the focus is on the status of the land and the ownership of it, so it would be less likely for inheritance tax purposes that we would need to do that. The key issue is the valuation of the property.

Q20 **Chair:** Do you have any assessment of people who might be doing this as an avoidance thing? For example, you could own agricultural land with sheep roaming on it, and have some cottages that belong to the original farm and that are let as Airbnbs or holiday lets. That might be the main

business, and those sheep might not produce anything useful in the food chain; they might be just grazing. Would that be legitimate? If not, how would you know?

Sir Jim Harra: I am not aware that tax avoidance—by tax avoidance, I mean the use of relief for a purpose for which it is not intended—is a significant problem. Clearly, there is lots of evidence that it is an estate and IHT planning tool, but it has long been accepted that that is something people can do.

We would not be challenging people who buy agricultural property just because one of their motivations is reducing their inheritance tax bill in the future. That is something that has been within the law. I am not aware that avoidance, in the sense of things that we would want to challenge, has been a particular feature of it. It has long been an issue in income tax whether people who report, say, losses on farming are genuinely trading with a view to profit, and therefore should be allowed those losses or not—

Q21 **Chair:** That is more where you are focusing your attention?

Sir Jim Harra: That is where we are focusing.

Q22 **Chair:** How many inquiries do you open into IHT claims on agricultural land?

Sir Jim Harra: I do not have that information.

Q23 **Chair:** Is it possible to write to us on that? It would be helpful to know, and in addition to know what that raises. I know that the Revenue has been looking in more detail at inheritance tax. I think the last figures I saw were that you are getting an extra £20,000—if someone owes £70,000 and you investigate, they might owe £90,000. Those are the margins, not on farmland but on others. It would be interesting to know what the situation is with farmland.

Q24 **Rachel Blake:** Thank you for joining us. It is good to meet you. I wanted to probe some of the Budget measures to close the tax gap. I am particularly interested in the table which sets out some of these measures, and in line 19: “Increasing tax receipts from modernising HMRC systems and data”, anticipating an additional £35 million in the next financial year. Could you elaborate on which of your activities that line will incorporate?

Sir Jim Harra: That is mainly systems that we use for risk assessment. If we improve our systems and improve the data in them, then we can get better at risk-assessing cases and therefore have a higher hit rate on the cases that we investigate. It is a constant need to update those systems. Similarly, with the systems that our fraud investigation service uses to analyse data—sometimes we have very large volumes of documentation that have to be analysed—if we can improve that, we can improve our productivity and bring in more tax revenues with the same resources as a result.

Q25 **Rachel Blake:** Could you give us a little more detail on what those systems might include? We have some questions further on in the session about AI and analysis, but what exactly will you be doing? Are you

seeking to find more complex cases to raise significantly larger sums in fewer investigations, or is it flatter, smaller sums across more investigations? What is your plan?

Sir Jim Harra: I think it is both. Certainly when it comes to using our specialist resources in the fraud investigation service, it is our aim that they are focused on higher-value cases. Therefore the better we are at assessing and identifying those, and also analysing the data within them, the more we can get from that.

If you take the more mass-market cases, for example, in our individuals and small business compliance, it is really more about improving the hit rate and reducing the extent to which we take up inquiries in cases where there is no adjustment to tax required. That obviously makes us more productive; it is also better for the taxpayer, because compliant taxpayers do not get caught up in a compliance inquiry. So it is really both.

In terms of AI—

Q26 **Rachel Blake:** We will come on to AI separately. I wanted to understand this system. Is it something to which you are going to be allocating more resource? Is that how you are changing the system—by moving more people on to the investigations? What is it that you are changing in the system?

Sir Jim Harra: There are different categorisations. In addition to the investment that we are getting to improve our systems, we are getting funding for additional staff—compliance staff—and that is a separate line in the table. The investment in systems is specifically about improving our case management and risk assessment systems, to make us more productive in the work that we do.

Q27 **Rachel Blake:** I am sure Governments of all colours would like this to happen. This is not a particularly political debate whether or not you increase tax receipts from systems, so is there a particular reason this has been introduced now? Were you not keen to do it under a previous Government?

Sir Jim Harra: I have to say that regardless of the colour of Government, we have often got investment in our compliance work. We do not have just a new Government now, but a spending review. This is part of the cyclical process of getting investment in Government. We do get slugs of investment from time to time in fiscal events. HMRC is unusual in that. Most Departments have to wait for a spending review for their investment bids, but because we can bring in additional tax revenues, we often get investment at fiscal event time, which is quite regular.

Q28 **Rachel Blake:** Lastly on this particular line—£35 million next financial year. How confident are you in reaching that? Relatively few investigations could yield that if you have a good hit rate, as you say, but how confident are you in that £35 million next year?

Sir Jim Harra: In terms of being able to spend to improve our systems, yes, we know we want to do. One of the things we will do between now and the money arriving on April 1 is ensure that we are mobilised to start

spending it as early as possible, so we will do the design work, set up the projects, and define what it is we want to do with it. I am confident that we know how we want to use the investment. Overall, the Budget forecast is that by '29-30, we will be bringing in almost £6.5 billion additional tax revenues from the total of all that investment. That is clearly challenging. We have to be on the ball in using all the funding we are given to ensure we deliver that.

Q29 **Rachel Blake:** Another line that I wanted to focus on was line 18: "Increased collection of overdue tax debt by additional investment in HMRC debt management staff". You have a target of £275 million in five months. How are you getting on?

Sir Jim Harra: We have been given a total of £1.6 billion extra over five years to recruit 5,000 additional compliance officers and 1,800 additional debt management officers. Of those, 1,500 were already in post with funding that we had previously been given, but that was due to expire. This funding allows us to retain those staff, otherwise we would have had to lose them. Then we can recruit a further 300 on top. That means that because there are 1,500 already in post, we can hit the ground running on the additional debt collection because they are proficient, trained and already able to operate.

Q30 **Rachel Blake:** That was an announcement made in the Budget, so you only have five months to generate that additional income. Can you give us a sense of how you are getting on towards that target, given that the officers are in place? It has been a month.

Sir Jim Harra: Sorry, the additional revenues in what tax year?

Q31 **Rachel Blake:** In '24-25, there is an additional £275 million, if I have read the table correctly, for additional income generated by additional staff on debt management.

Justin Holliday: Let me help, and also slightly correct Jim's numbers. There are currently 1,200 staff in debt management who were due to leave at the end of this year, but are now staying. The reason we are confident about next year's numbers is because of existing people currently in post who will stay in post and carry on doing the work. Then there are a further 600 who will be there by the end of 2027.

Q32 **Chair:** This is this year we are talking about. You said they will be in place next year to start, but it is '24-25 that Ms Blake is talking about.

Rachel Blake: There is £350 million.

Chair: It is from the Red Book.

Justin Holliday: They were phasing down towards the end of the year, because they were all due to go by the end of the year—

Q33 **Chair:** Sorry, the end of this calendar year or the end of this financial year?

Justin Holliday: Financial year—but they are now staying, so therefore we do not need to lose those people.

Q34 **Chair:** So you would have lost some of them before the end of the financial year? They were already going, in other words.

Justin Holliday: Yes, correct. They are now not going, so therefore they are there delivering for us.

Q35 **Rachel Blake:** That does not get to the answer to my question, which was about progress towards that quite significant target of £275 million extra by the end of this calendar year, based on those staff. I understand your explanation that they were going to go, and now they do not have to go, but I am not clear on the progress towards that significant additional sum after one month, given that there are only four additional months to meet that target. Perhaps that is something you can write to us on.

Sir Jim Harra: Yes, we can do that.

Q36 **Rachel Blake:** I want to push on this point about additional staff. In April 2024, you spoke about having "to reduce the size of our customer service group by about 5,000 staff." You have talked about the 1,200 who are essentially just safe, based on previous cuts to staffing. How quickly can staff be hired now to meet these really quite significant additional income targets?

Sir Jim Harra: The additional staff are for debt collection and for compliance. If you take the 5,000 additional compliance officers that we are due to add to our workforce by '29-30, we have already got going on that. The Government actually gave us £12 million additional funding in '24-25 in the supplementary estimate, which has enabled us to start recruitment now. The first 200 of those officers joined us this week and have entered their training, and we expect to bring in another 300 by the end of this financial year. That enables us to sort of get a head start on that.

Q37 **Chair:** So 500 in this financial year will lead to the results in '25-26?

Sir Jim Harra: Yes. Then we will bring in the remainder in slugs over the five-year period, because we cannot take them all in, train them and mentor them at once. It obviously takes time before they are productive, because most of them are entirely new to tax compliance, so they have to go through some basic training before they can be added on to casework, and then it takes some time for that to bear fruit. But together, the debt collection staff and the additional compliance staff we expect will be raising £4.7 billion a year in additional revenues by '29-30, as they are trained and become more proficient.

Q38 **Chair:** Does this have any impact on Time to Pay? Are you looking at ratcheting up rates of repayments where there are people who have a debt? Time to Pay is something you have always talked about as something that is very positive.

Sir Jim Harra: There are no plans to change our Time to Pay policy. In fact, one of the things we will want the new debt management officers to do is encourage more debtors to get into Time to Pay arrangements, if that is what they need. Our policy remains unchanged.

Q39 **Chair:** That means there is potentially a lag in the money coming in. Is there any pressure to do that faster?

Sir Jim Harra: Our experience of Time to Pay arrangements is that they are a very effective way of managing debt, because they get people who otherwise cannot afford to pay their debt into affordable payment arrangements. We have very high compliance rates with those arrangements. About 90% of them conclude successfully, so they are a very effective way of managing debt in a way that is affordable for the debtor and is better for us than taking enforcement action. There are certainly no plans to change the policy on it at this point.

Q40 **Chair:** No increase in the threshold?

Sir Jim Harra: No.

Q41 **Rachel Blake:** You have talked about ramping up staff and training them in order to generate the additional income that you have anticipated. The additional income is really quite significant and, if this additional income does not materialise, we do get close to not meeting fiscal rules. Clearly, therefore, the role of HMRC is quite significant in terms of delivering on this Budget. How did the conversations go between yourselves and the Treasury in terms of coming up with this table of income and these measures?

Sir Jim Harra: The figures in the table are certified by the independent Office for Budget Responsibility. We work with it to show it our analysis of what yield we think we can get from the additional funding that we have been given and our plans for spending it.

It then certifies that and takes an estimate that it believes is the correct one to put in the Red Book. We would hope to do better, but it goes through quite a thorough process, so it is more than a promise from HMRC; it is evidenced to the OBR so that it can sign that off. I would expect it then, as this period goes on, to monitor whether we are actually implementing what we have said we have done—for example, that we are actually recruiting and deploying the additional staff that these measures are based on.

Q42 **Rachel Blake:** Are you able to say what kind of iterative correspondence you had with the OBR in terms of the confidence and risks around these estimates?

Sir Jim Harra: It is a well-worn path for us, because we have had many similar investments in previous fiscal events, although often they are much smaller. We know the rate of return that we can get on compliance staff. We know how long it takes us to get new compliance staff trained and proficient. We therefore have got good evidence that we can show the OBR about how we can implement that and the impact that it will have.

Currently, the rate of return on our compliance work is about £22 for every pound that we spend. Obviously, if you look at these figures, we are not suggesting that that is the rate of return that we will get on this—it is a lower marginal rate than that—but it is very much in line with what we have done in the past.

Q43 **Rachel Blake:** So if those yields are not generated, will it be the fault of HMRC?

Sir Jim Harra: As far as I am concerned, we have been given good funding to get on and deliver this yield. It should be achievable. But, of course, that does mean that we have to be really effective at implementing it. It is not easy, at all, but it is—as you would expect with something certified with the OBR—entirely achievable. However, we have to be on the ball to deliver it.

Q44 **Rachel Blake:** My final set of questions is really about policy, regarding line 13. The reason why I am inquiring about this is the relatively small level of income—additional yield—that you have identified in here. “Amending anti-avoidance rules to ensure shareholders cannot extract funds untaxed from close companies from 30 October” has an expected additional yield of £5 million in this financial year. Could you talk about your confidence ratings for that one?

Sir Jim Harra: Again, all of these lines are certified by the Office for Budget Responsibility. We use our data to provide analysis for them about how much tax is being lost through a loophole, and therefore what you could expect to gain by closing it, but also what the behavioural effects might be. They then certify the costing for the Red Book. This is not an HMRC estimate; this is the OBR’s certified costing.

Q45 **Rachel Blake:** And the costs of implementation are factored in, in terms of changes to policies, additional skills and investigations?

Sir Jim Harra: Yes. In addition to the extra staff that we are getting for compliance work and debt management, the Budget as a whole can sometimes involve more cost for HMRC or less cost, depending on which way the policy change goes. We monitor all of that and tot it up, and we ask the Treasury to fund all of that as well. Therefore, we will actually get funding for staffing that is slightly higher than the additional staffing, because some of it is to implement these measures.

Q46 **Yuan Yang:** Sir Jim, just to follow on from those questions, you mentioned the really high rate of return from your compliance staff, and my colleague has just mentioned the line containing 5,000 additional compliance staff in this Budget. Could one simply keep on going? Would even more staff continue that high rate of return? Where do you think that that would start to drop? I mean, what would be your—

Chair: What is your wish, Sir Jim? Here’s your chance to bid.

Sir Jim Harra: Yes, it is 5,000 additional—

John Glen: I’d expect that you’ve got everything that you asked for.

Sir Jim Harra: We will not have reached a break-even point, in the sense that there is a point where you could not get extra revenue from deploying extra resources in HMRC, so there would still be scope to go further.

Yuan Yang: Another 5,000?

Sir Jim Harra: Potentially. However, ingesting 5,000 additional staff over that time period is quite significant, because that is 5,000 new recruits on top of the people we would already have been recruiting for attrition. Over five years, it is probably 12,500 people that we will be recruiting, training and mentoring, and obviously you are taking experienced officers away from the frontline to do that, so there is an opportunity cost.

It is important that we are able to professionalise these people and support them to become proficient. Therefore, the first point that you reach is actually about the Department's capacity to do that, rather than the capacity of the tax system to give you a return on the investment.

Yuan Yang: Have we reached that point?

Sir Jim Harra: As you would expect, that is something that we are looking at. From our point of view, this is very sizeable. We have some experience of it; I think back in 2019 and 2020, we had a big recruitment, and we did actually see a dip in the compliance yield for a period after that because we had to take people away from the frontline to mentor them.

If you look at these figures, they mean that, by the end of this Parliament, about 30% of my compliance workforce will either be trainees or relatively newly trained. Therefore, it is a judgment call, really. But, certainly, as we get experience from bringing the first cohorts in, we will look at whether we could do more.

Yuan Yang: Thank you.

Q47 **Chair:** In summary—Ms Yang has touched on it a bit—what is different this time? I have sat opposite you quite often, Sir Jim, discussing the tax gap over the years, and it is always going to get better, isn't it? Is this a step change? How can you convince us that this is going to bring in the money that the Red Book tells us it is going to bring in?

Sir Jim Harra: We have a very good track record on reducing the tax gap. Sometimes we have been funded to keep it at its existing level; sometimes we have been given additional funding to reduce it further. It has gone down significantly over the last 20 years, for example, although it has been flatter in recent years. With more resources and investment in systems, there is definitely still scope to get more from the tax gap. We have a high level of confidence that deploying more compliance resources will get you more yield.

Q48 **Chair:** One of the other things that happened is that, as you mentioned, you had a boost in staff a few years ago. There have been ups and downs—staff come, you have a cut in staff, and then you have to recruit again—and, as you say, that is quite costly, because of the expertise that is needed to support those staff. With the current arrangements, are you confident that this will now be a steady-state approach? Have you had any guarantees of support?

Sir Jim Harra: Obviously, other factors in recent years, like the pandemic, have distorted things, but if you look at our performance, we had record compliance yield last year, and last year was the first year when all those trainees from earlier on were proficient and were deployed.

That is one of the reasons why we had that record yield last year, and I would expect us to achieve a higher yield this year than we did last. I have a high level of confidence that we know how to recruit, train, mentor and deploy these people, but the larger the cohort you try to do that with, the more tricky it is.

Q49 **Chair:** Point well made. Of course, since I last saw you in Committee, a Minister has started chairing the HMRC Board. The HMRC has always been a non-ministerially led Department. Is it now a ministerially-led Department?

Sir Jim Harra: Our constitution has not changed. Our constitution is set out in the Commissioners for Revenue and Customs Act 2005. It has always provided for Ministers to give us direction, and different Ministers have exercised that in different ways—some in more formal governance structures than others. The Exchequer Secretary, James Murray, wishes to chair the departmental Board, and that is a means by which he can have oversight of us, scrutinise what we are doing and give us that direction, as he is empowered and entitled to do. It is a new structural approach to it, but it is applying an existing, long-standing direction power.

Q50 **Chair:** Does it have any impact on your role as permanent secretary? Do you feel any difference in relationship with the Minister, now that he is chairing the Board, of which you are a member?

Sir Jim Harra: Ministers always have an impact on the permanent secretary.

Chair: You have to say that in front of two former Treasury Ministers.

Sir Jim Harra: The permanent secretary of HMRC always has to work closely with the Minister to make sure that we understand what the Minister's priorities for us are, and to make sure that our operational policies and strategies are aligned with what the Minister wants, even though the day-to-day running of the Department is for the commissioners. That is unchanged, but obviously it is a new governance structure that we have to get familiar with, and it is still bedding in.

Q51 **Chair:** "It is still bedding in" is a rather laden comment, if I may say so. One of the reasons that Ministers did not have a role before was that it meant they could not look at individual tax information. Now, I am sure that we all have great respect for Minister James Murray and that he would not be trying to interfere, but the point is that the system has now changed, and the constitutional position is slightly different, to put it politely. What is to stop a mad, bad or dangerous Minister saying, "Sir Jim, I need to see Meg Hillier's tax return," and how would you deal with that?

Sir Jim Harra: First of all, the Board has never seen individual taxpayers' affairs or had any decision-making role in them. That was the case before the Minister became the chair and remains the case. The law remains the same: neither I nor any other HMRC official can disclose that information or give a decision-making right to a Minister in relation to an individual taxpayer—that is completely unchanged—and it is in fact a criminal offence for me or any other officer to do that.

Q52 **Chair:** So that is your protection. If somebody was trying to push you, where would you have to escalate it to, given that a Minister is the chair? If you had had pressure from a politician—say that one of us pushed you, now, to give us evidence—you could presumably take it up through the Board and say, “I’ve had this pressure.” Where would you take it now? Would you still take it up to the Board and the chair of the Board?

Sir Jim Harra: It is not, I have to say, something that I have experienced.

Q53 **Chair:** I am heartened to know that.

Sir Jim Harra: I am not sure how helpful my Board, or the chair of my Board, would have been in those circumstances. But yes, if a Minister were to unduly ask to see information, or unduly try to make a decision, it is my job as permanent secretary to say, “You cannot do that.” Ultimately, I guess, it is a matter for the ministerial code, so if there was persistence, I would go to the Cabinet Office and the Cabinet Secretary about that. But it is not, in practice, something I have experienced.

Q54 **Chair:** To be clear, are you saying that you are confident that the current arrangements do not change your legal position and responsibilities and have any impact on your judgments?

Sir Jim Harra: I can give a categoric assurance that it does not change in any way the legal constitution of HMRC, and nor, in any event, does information about individual taxpayers or decisions about individual taxpayers go to the Board. That was never the case before and it is not the case now.

Q55 **Chair:** May I just ask, because this happened quite quickly after the election, whether you were aware that this was going to happen before the election.

Sir Jim Harra: I cannot really discuss what officials—

Chair: I am sorry; I am not trying to go into the access talks. I don’t remember it being in my party’s manifesto. It probably was too detailed to be.

Sir Jim Harra: It certainly wasn’t in the manifesto.

Q56 **John Glen:** I really do not understand what difference this makes. If you are operationally independent, and the Minister chairing the Board has no discretion over your day-to-day activities and cannot obtain any more information, what additional value does it bring the Government other than a superficial presentational one?

Sir Jim Harra: My experience so far is that it is not superficial at all; it is the means by which the Exchequer Secretary is exercising his rights and powers to have oversight over us and to give direction of a general nature to us, which is what the law provides that a Minister can do. That is something that different Ministers have done in different ways.

I have had Ministers who have done that through a quarterly performance review with the executive committee. I have had Ministers who have done

it in an ad hoc way as and when issues have arisen. I have had some Ministers who have been quite hands-on and want to do it a lot. I have had other Ministers who have said, "Why are you coming to tell me this? It is your job to run the Department," and have been quite hands-off. There is flexibility within the existing legal constitution over the extent to which a Minister wishes to exercise that right; this is just a different governance route for so doing.

Q57 **John Glen:** I am sorry, I do not want to labour the point, but I sat next to the Financial Secretary when the Financial Secretary was responsible for HMRC, and I saw you coming in a number of times, quite routinely, so I do not really understand. I have the greatest of respect, genuinely, for James Murray, but I do not understand what, materially, is different between those previous, very open and real conversations that you had with a series of previous FSTs and the new arrangement.

Sir Jim Harra: I continue to have that kind of relationship as well, but the Exchequer Secretary has three key priorities that he wants to see the Department deliver on.

Q58 **Chair:** There is the tax gap.

Sir Jim Harra: Yes.

Q59 **Chair:** And customer service; I never remember the third.

Sir Jim Harra: As Ms Blake has mentioned, within the Budget scorecard is a very large amount of revenues that are riding on the Department delivering, and it is his job to oversee us and make sure that we do that.

Q60 **John Glen:** Previous Ministers would have had a very similar conversation about similar priorities, but in a slightly different way and not formalised in this way.

Sir Jim Harra: Yes.

Q61 **Chair:** So from your point of view, there is no constitutional issue—no constitutional change needed to take place for a Minister to be able to ask the Chancellor, "Let me chair the Board." That was all it took, was it?

Sir Jim Harra: Yes. There is no need—the HMRC non-executive Board is not a creature of statute at all. Statute really provides two things. One is that the commissioners have the day-to-day running of the Department. The other is that the Ministers can give us general direction.

Q62 **Chair:** It is very loose. We have a loose constitution.

Sir Jim Harra: The commissioners have long had an arrangement where we have had a non-executive Board that scrutinises us, challenges us and advises us. It is just a new chair of that Board.

Chair: Thank you. I will leave it there.

Q63 **John Glen:** Could we turn to AI and machine learning? Could you set out for the Committee what role you see that as playing in HMRC and how it facilitates, presumably, additional tax being obtained through those methods?

Sir Jim Harra: We have long had extensive use of what I would call traditional AI—not generative AI, which is a hot topic at the moment—particularly for analytics, to help us to find risks. For example, we have a lot of repayments between the VAT system and the self-assessment system, and we use AI to identify what we think are risky repayments before we make them.

Similarly, we have used it for analysing vast amounts of data. So, for example, a few years ago when we got the Panama papers data, that was unstructured data, and we were able to use AI to analyse that and identify risks that need to be pursued. We will continue to do that.

What is new is generative AI, which is AI that is able to produce text, audio or images. We have some use cases for that, but it is very new and unproven technology. We need to make sure that we use it safely and effectively. At the moment, most of our use cases are aimed at making our officers more productive, rather than dealing directly with the customer.

For example, in Myrtle’s area, we have run a proof of concept to see whether generative AI can produce a wrap-up of the helpline call at the end of the call, to save the helpline operator the task of doing that, so that they can get on quicker to the next call. We have also rolled out Microsoft Office 365 Copilot to colleagues—if that helps them to be more productive in the production of minutes of meetings or whatever, they can use that.

We are taking part in one customer-facing pilot that the Government Digital Service is running—a generative AI chatbot to give Government guidance to people setting up a new business. That is a toe in the water for whether it will be safe and effective to use gen AI for customer-facing guidance. Otherwise, at the moment, we do not do that. In particular, we have a digital assistant on our gov.uk website, which is a chatbot that gives answers to queries, but that is in effect a big FAQ—it is curated answers written by officers; it is not generated by AI.

Q64 **John Glen:** To play that back to you, AI is essentially a tool for increasing the efficiency of the way your staff work, rather than a customer-facing mechanism or product.

Sir Jim Harra: At this time, yes. Obviously, we need to make sure that we have our risk appetite right—we need to keep it under review, because it is a very fast-moving technology. Through the OECD and other forums, we have checked in with what our colleagues internationally are doing in other tax authorities. We are in line with them at this stage in the use of this technology, but there are potentially big prizes to be had from gen AI in terms of much more productive public services, so we need to be ready to change our policy, if that is what we need to do. But at the moment I think our risk appetite does not take us there.

Q65 **John Glen:** Would you be able to quantify the value of AI in terms of reconditioning processes and saving time, or indeed in terms of the additional tax that you might be able to raise as a consequence of the greater productivity of your staff?

Sir Jim Harra: We have certainly looked at the traditional AI, which we have already deployed. We might well have quantification—I would need to check. But with the newer applications, we are really at the proof-of-concept stage with most of them.

Q66 **John Glen:** As Chief Secretary, I found that AI was used in a ubiquitous fashion in all Ministries, basically to justify investment to make things more efficient, but what about the quantification of the net effect of AI? I recognise from the use cases that you described, Sir Jim, that there is a meaningful chance that that is changing. I think it would be helpful to the Committee to substantiate the value of the use cases in order to get behind where AI's application is valuable.

May I ask you one other question, about machine learning? Your report says that machine learning is used alongside other controls and that you have prevented £1.9 billion in revenue loss. Do you think all of that would be attributed to machine learning, or how do you quantify it? That is going back to my core concern that we want to be able to put numbers against investments and justify further use cases.

Sir Jim Harra: I will check what more I can tell you about that number. In practice, it tends to be used in conjunction with officers. For example, if you take how we have used AI to analyse bulk unstructured data, it is to find the best cases for an officer then to go away and use. It improves our productivity, but it is in combination with an officer. We have very few instances in which it is all automated.

Justin Holliday: The machine learning being referenced with that £1.9 billion is the risking of repayments. It is related to what Jim was saying about general risking. Clearly, with VAT in particular, but also with other regimes, part of the nature of the regime is that people can make claims for repayments. That is an area that can get targeted by people to behave badly. We risk those repayments and have used machine learning to identify repayments that are wrong, which an officer then looks at to challenge.

Q67 **John Glen:** I see. I will ask one more question, to Ms Lloyd, around the customer service side of things. There is typically a degree of apprehensiveness when people encounter HMRC. Sometimes, that is totally without foundation. How do you see AI enhancing the experience of customers with respect to their interactions with your organisation?

Myrtle Lloyd: As Jim pointed out, we are actively looking at proofs of concept in the productivity space. For us, the value of gen AI in that space is in the summarisation of a call, the aggregation of our guidance across the patch, and looking at some of our quality assurance processes and our complaints handling processes.

In those areas, we see it as a huge way forward, and our colleagues see it as an opportunity for them to focus on the things that the human being can do best: the contact and the interaction with the customer themselves. Certainly, from a colleague perspective, we see it as a huge step forward, as we are seeing from the feedback from the proof of concept we currently have on Microsoft Copilot.

Q68 **John Glen:** I have a final question. I know you are slightly different, but do you have any conversation with other customer-facing organisations across Whitehall to examine whether you are using AI in similar and best practice ways? I was in the Cabinet Office before the election, and there was always a challenge to ensure that each Department was optimising in the best possible way the use of investment in these areas. Can you tell us something about that?

Myrtle Lloyd: Absolutely. We have been working with some of the big delivery Departments. I am in touch with my counterparts at the Department for Work and Pensions, the Ministry of Justice and the MOD, in particular, in some of the smaller agencies.

Q69 **John Glen:** So you have a community of interest in this area?

Myrtle Lloyd: We do. As an operational delivery community, we do. Not only that, but we have been interacting and engaging with external organisations—financial services institutions and some of the utilities—to understand how they are using it in their high-volume environment, and then bringing that learning in.

Q70 **Bobby Dean:** In your product experimentation with AI, have you considered the role for email? I was struck the other day when I got a letter from HMRC saying that I could only really call a phone number. I appreciate that a chatbot might be looked at too, but both phone calls and chatbots require you to be present for the entire time that you are trying to find out what you are trying to find out. I know that at least one large company—an energy company—has looked at using AI for email, and it has proved effective. I would like to know if you are looking at that too.

Myrtle Lloyd: It is in our backlog to consider, but it is not the first thing. Email, as a channel of communication, is probably second in line, because we would really like to have asynchronous secure messaging with our customers, but also encourage people to go into their personal tax accounts or into the app to get the information. That would be our preferred method for customers to go in and find the information. Email is also a channel, but it is not one that we promote, because of the propensity for phishing and poor practice on the part of bad actors.

Chair: There is a lot of cyber-security stuff, which we can come to.

Q71 **Yuan Yang:** I have some questions about data collection and policy development in HMRC. The first is on the Taxes Management Act 1970, which was passed, of course, over 50 years ago. What have been the major changes in the tax policy environment since then, and what do you think are the largest shortcomings of that legislation in the present day?

Chair: Sir Jim, it is like all your Christmases have come early.

Sir Jim Harra: The Taxes Management Act 1970 takes me back to my training days. That is the framework within which we administer tax. They are not completely distinct, but there are two distinct things for me: one is tax policy, which really is setting who should pay tax, how much they should pay and what reliefs and exemptions you should have; and the

other is the tax administration framework, which is the powers and the safeguards for us as we administer the tax system. That is really what the Taxes Management Act 1970 contains, and that has obviously been changed very considerably over the years as we have implemented different ways of administering the tax system.

The constant challenge is making sure we have effective powers, so that we are able to keep up with how the world is changing and to intervene when necessary. We must also make sure that we have effective safeguards for taxpayers, so that they can have confidence that we are using those powers responsibly and that they have got a right to challenge if we are not doing so.

The nature of tax policymaking is that it accretes and accretes and accretes and becomes a very large body of law, but we do periodically have pretty fundamental reviews of our powers and safeguards. We go back to basics to make sure that they are kept up to date.

Yes, it has changed significantly. One of the biggest changes, obviously, was moving to the system whereby it is really the responsibility of the personal taxpayer to assess what their liability is, rather than HMRC. That was the self-assessment system that was introduced about 25 years ago. It needs to be constantly kept under review.

Q72 Yuan Yang: You talked about the challenge of having effective powers. My understanding is that the Taxes Management Act gives you the power to collect information relating to the enforcement of the current tax system but not to collect information that would help to inform future changes to the tax system.

That might explain, for example, some of my colleagues' questions around the provision of data on farm ownership and also the lack of information about the offshore income gains of non-doms, which previously were not taxed but are now about to be taxed. What would you say to the criticism that HMRC needs more powers in order to have more forward-looking data for policy evaluation and development?

Sir Jim Harra: There has been some review of this recently, particularly since the pandemic. The general rule is that I can only collect the data that I need to administer the tax system.

Q73 Yuan Yang: According to law.

Sir Jim Harra: Yes, and that is about making sure that I do not take upon myself more powers than I need, but it is also just about managing the administrative burden on people who have to provide that data. We have encountered situations in which that means that we have not got the data that we would have liked to have; it might be to analyse a new policy, but in the case of the pandemic, it was to help people who needed help. There was some review after that about whether we should gather more data than we currently do, so that we are well placed to deal with contingencies, if they happen.

There is some more that we are collecting. For example, I believe we are going to collect data about dividends received by shareholders of owner-managed companies, because one of the criticisms during the pandemic was that we were unable to identify those people and direct help to them. But it is a balancing act between making sure we are able to respond to those contingencies and minimising the burden on people of giving data that might not be used.

Q74 Yuan Yang: After that review, was there a change to the way that you can proactively identify future data needs, or is it simply on a case-by-case basis? How is that now managed?

Sir Jim Harra: I think the outcome of that review, in the end, was a fairly modest increase in our data-collection powers. I think that one of the issues is about not just what data we receive, but when we get it. If you take employment taxes, we have pretty much real-time information about people—every time an employer runs their payroll, we get that payroll data—but, for self-employed people, we are often getting data a long way down the line, and that can affect our ability to administer the tax system effectively.

One area where, in recent years, there has been a lot of error and fraud is in research and development relief, and one of the challenges for us there has been, first, that it was a quite limited amount of data that people had to give us with their claim, and, secondly, that the claim could be made a considerable time after the R&D had taken place. Therefore, getting more real-time data—as well as more data—can be quite useful.

Q75 Yuan Yang: Legally speaking, for you to have the power to collect the kind of data that you are speaking about, in real time, and any more practical data that you might need over the course of the next Parliament, is that a change that needs to be made in law, or is it something that can be done through a kind of agreement with Ministers?

Sir Jim Harra: By and large, it has to be legislative. If we need data to administer existing taxes, sometimes there is a provision in law that says, “Such information as the commissioners may prescribe,” so we can do that in a secondary or tertiary way, but, if you are talking about us gathering data that we do not currently need to administer the tax system, that would require legislation.

Q76 Yuan Yang: You talk about the timeline of getting the data in, and, of course, we all know how time-pressured the Budget cycle can be. Do you ever receive policy suggestions that you feel you cannot cost or develop fully in the timeline of one Budget cycle? If so, what happens to those suggestions? Is there an agenda for working on them practically in future rounds?

Sir Jim Harra: Certainly, the Budget process with Ministers involves us giving advice on the operational capability to deliver policies, and Ministers will then make their trade-offs about when they want to introduce something versus what it is we can do. For some policies, Ministers will decide, “Well, we’re going to take some considerable time to introduce that, to give you and others time to prepare.” For others, Ministers will

say, “Well, we want to introduce this policy really quickly, and we are prepared to take some rough edges on its implementation because the priority is getting it into place fast.”

John Glen: And then they have to backtrack.

Sir Jim Harra: And part of my job is to advise on those options, but the choices are obviously for Ministers to make.

Q77 **Yuan Yang:** Do you ever get timed out by that process—as in, there are policies that are suggested but, because of the lack of data that you have, you cannot really do anything about it in the timespan?

Sir Jim Harra: If Ministers wanted to make major, radical reforms to the tax system, which is the work of several years, or maybe even more than one Parliament, then yes, we would sit down and advise them about how, in a phased way, we could move towards that objective.

Q78 **Chair:** Mr Glen picked up on AI, but surely there is a possibility that AI could be used to pull data that you already get. I do not know what legislation you would need for that. We have talked about farms and about self-employed people before Covid. Would pulling that data together and collecting it through AI be legal, or would you have to have a change in the law for AI to do that? That might be a temporary thing, for instance, just to provide advice or indeed to provide a solution, as with Covid.

Sir Jim Harra: You are testing my knowledge of data protection law, which is not my specialty. Obviously, if there is publicly available data, then yes, we can use our analytical power to try to bring it together and use that to advise on policy.

Q79 **Chair:** And AI could potentially be positive in that. For instance, with the farms thing, there must be other data around that could have been aggregated, with the right artificial-intelligence program.

Sir Jim Harra: It can certainly help with data analytics, particularly if you have large quantities of unstructured data, but data-protection laws also limit who can access what data, so we may need legislative cover depending on the nature of the data.

Q80 **Lucy Rigby:** I wanted to follow up on that in relation to AI. You mentioned other jurisdictions that use AI—I cannot recall whether you meant gen AI in that context. First, are there any jurisdictions that you think are particularly good on that at the moment, which we might be able to emulate in certain ways? Secondly, following on from that, are there programs that are being used elsewhere that you think are good but just would not work for our circumstances, or that you would judge to be too risky?

Sir Jim Harra: We engage with lots of other tax authorities, mainly through the OECD Forum on Tax Administration. We have obviously got comparable places—Australia is a good example, because they have got a relatively similar tax system to ours and the ATO are people that we work with closely and learn from. If you ask which tax authorities have got

more advanced use of data, it tends to be Scandinavian countries. They are able to pre-populate people's tax files with lots of data. However, they have got a whole culture of the state gathering data and being able to match it to citizens; one that goes quite beyond the tax system. It is not something that would be within the gift of HMRC. Scandinavian countries tend to have much more automated digital tax systems than we have.

On the application of gen AI, having engaged with my colleagues in other tax authorities I am comfortable that they are all taking a very similar approach to us. For example, I met the Singaporeans two weeks ago—they are regarded as being at the front edge of this—and they are taking a very similar approach to us, which is that there must be lots of potential in this, but it is an emerging technology and there are lots of risks around it as well. Therefore at this stage they are focusing on internal use cases that improve the productivity of their offices, rather than on use cases that involve gen AI producing answers for our decisions for taxpayers.

Q81 Lucy Rigby: Would it be fair to say that you are actively on the lookout for new use cases?

Sir Jim Harra: Yes, and we liaise closely with the Central Data and Digital Office and the Government Digital Service in DSIT, whose job it is to coordinate across Government. One of the things we do is assess our risk appetite against other Departments to make sure that it is in line, but also understand what they are doing so that we can learn from them and not duplicate. The UK is very well placed on AI. Most of my colleagues see us as well advanced and learn from us, as much as we learn from them. However it is interesting to see where people are setting their risk appetites.

Q82 Chair: There was one case in which someone had put in an appeal on an HMRC tax bill, attaching I think 12 precedent cases, none of which were real. It was entirely possible that the correspondent did not know that, because they went through ChatGPT or whatever. Are you getting many cases like that and what is the impact on HMRC's resources?

Sir Jim Harra: That was not directly to HMRC. A taxpayer went to the tribunal, put in their arguments, and quoted some decided cases. When we searched for those cases we could not find them, and it turned out that ChatGPT or something similar had just invented them. That is one of the risks with this; that it will hallucinate and invent things. That is one of the reasons why you have to step carefully.

Q83 Chair: Are you getting many situations like that?

Sir Jim Harra: I am not aware that there have been any more. That one obviously got reported because it was so unusual. I think luckily for them they were an unrepresented appellant. I suspect if it had been a lawyer the judge might have been less understanding. It is an example of why we have to step carefully. I think if you control the data that gen AI uses, then you are less likely to get that kind of response. I mentioned earlier that we are dipping our toe in the water with one use case on which we are working with GDS, and that is something that we will be testing as part of that.

Q84 **Dame Harriett Baldwin:** I know colleagues will have a lot more questions on Making Tax Digital and so on. However I wanted to go back to the questions the Chair had about the Minister on the HMRC Board and revisit that saga we had earlier this year when HMRC turned off the helpline. My understanding is that the Chancellor at the time then overruled that—

Chair: Are we are talking about summer 2023?

Dame Harriett Baldwin: I think we have had two instances of this. I wondered whether you could share with us how you think having a Minister on the Board is going to affect a decision like that, which you clearly took operationally independently, but with which Ministers did not feel comfortable.

Sir Jim Harra: I would not necessarily agree with your assessment of how that happened. There were two things. First, we did pilot temporarily closing helplines in 2023. Then in March this year we announced that we intended to close the self-assessment helpline for the summer months and that we would make that a permanent part of our cycle. That was withdrawn almost immediately.

It goes back to what Mr Glen said earlier—we do liaise with our Ministers. That is not the kind of decision that the Commissioners for Revenue and Customs would take without consulting with our Minister, because it is the kind of area where a Minister can give you a direction of a general nature and can say: “Yes, I am happy for you to go ahead and do that” or “No, that is not what I want you to do.” At that point, with no Minister chairing the Board, the mechanism would have been as Mr Glen described, which was to go and see the Minister and say, “This is one way we could do this.”

That is potentially the type of thing that we would take to the Board and say that we are considering, but it is still ultimately for the Minister to make the call.

Q85 **Dame Harriett Baldwin:** So the Minister could have overruled that before it happened, last time?

Sir Jim Harra: Yes.

Q86 **Dame Harriett Baldwin:** Obviously, a key part of your goal, which I think is still your strategic plan—is to move people much more on to online interactions—is the app. I think you shared with us some statistics earlier this year about the take-up of the app. The app seems to be quite consumer friendly. I think I follow these things relatively closely and I had no idea it existed until that whole saga with the helpline. I do now actually have the app downloaded—

John Glen: So do I.

Dame Harriett Baldwin: I do not know whether all my colleagues do yet.

Chair: There is the next bit of homework for the Committee!

Q87 **Dame Harriett Baldwin:** Could you tell us how the app downloading take-up is going?

Sir Jim Harra: Last year, there were just under 4 million users— I think 3.8 million. It was used 88.5 million times by those people. That was a 64% increase on the previous year. We are seeing rapid growth.

Q88 **Dame Harriett Baldwin:** How many people have downloaded it now?

Sir Jim Harra: I do not have an up-to-date figure. We are in the middle of a campaign to promote it to 18 to 34-year-olds.

Q89 **Dame Harriett Baldwin:** How are you doing the campaign?

Sir Jim Harra: It is on television and social media, on both paid and unpaid media. This is a key target group, first, because they are familiar with using apps, and also because, for example, at the moment Myrtle is getting a lot of phone calls from students who have got a Christmas job and who are ringing up saying they need their national insurance number. That is quite frustrating, because if they had the app it has their national insurance number readily available. We are really focusing on them at the moment and we want to increase the app's usage.

What we are finding with customers using our digital services is that even if they are not using the app, they increasingly want to use a mobile device. If you go on to our app to, for example, do your self-assessment tax return— you can do it on there—it will seamlessly bring you through to gov.uk to complete that and you can do all of that on your mobile phone, sized for the screen. It is the fastest growing part of our digital services. I think we reached a point recently where it tipped over as the main way that customers—

Q90 **Dame Harriett Baldwin:** I think what the Committee would love to know is your strategic plan for how you expect take-up to evolve, what your numbers are today, and then we can keep holding you accountable on that front.

Sir Jim Harra: We can certainly look to do that. Our Minister has committed that in the spring we are going to publish a digital services road map, setting out how we intend to implement our digital first strategy.

Q91 **Dame Harriett Baldwin:** You must already have an idea of what the numbers are now and what is in your plan.

Sir Jim Harra: It is well over 4 million users.

Q92 **Dame Harriett Baldwin:** So we do not need to wait until next year's road map to get some data out of you.

Turning to another aspect of online—the sale of goods online through the likes of Vinted, which the Committee discussed in the previous Parliament—very small sellers in online marketplaces were inadvertently threatened with being captured. Similarly, there is the situation where someone selling something in the UK is pretending to be a UK business, because you will treat the non-UK businesses on online marketplaces differently to UK businesses. Can you give us an update on where HMRC

is on those slightly grey areas that come about from the fact we are all buying more online?

Sir Jim Harra: There are two different issues there, if I can separate them. First of all, new rules have been introduced requiring online marketplaces to share data about online sales with HMRC. That does not in any way change the underlying rules about whether people are taxable; it is simply about giving us more data. Some stories ran away with that. It was an interesting experience for us in terms of the use of social media, because it was TikTok where the story that this is a change in the tax rules took off—it is not at all. The tax rules about whether someone has to pay tax if they sell things online are unchanged.

Generally speaking, if you are selling clothes that you no longer wear, children's clothes that they have grown out of, or books that you have read and do not want any more, there is no question of you having to pay tax on that. But if you buy goods for resale to profit, or if you are making things to sell for a profit, then, yes, you will be taxable on those, whether you sell them online, on a market stall or whatever.

We now get better data from the online marketplaces about people who are selling. There was a financial limit put in such that, if sales are above a certain level, the requirement for the online marketplace to give us that data is triggered. We will obviously use that to identify anyone who might not be declaring income that they should be declaring, or might be under-declaring it, but it is not a decision-making tool; it is simply helping with our risk assessment.

The second point is about collecting VAT from sellers, particularly foreign sellers, who are selling to UK residents.

Q93 **Dame Harriett Baldwin:** It is more about the fraud that is being committed where people are pretending to be UK-based sellers.

Sir Jim Harra: Yes. The rule is that if it is a foreign seller using an online marketplace, the online marketplace has to account for the VAT; if they are a UK seller, the online marketplace does not. That obviously creates the risk that a foreign seller will try to masquerade as being established in the UK.

Q94 **Dame Harriett Baldwin:** The National Audit Office says that there is lots of that happening.

Sir Jim Harra: Well, it is a risk. We do not believe that that is the case. We have—

Q95 **Chair:** Are you saying that the National Audit Office is wrong?

Sir Jim Harra: They will have their view. It is just one of many compliance risks that we have to manage. We have given guidance to the online marketplaces about what they need to do, in terms of due diligence, to identify the place of establishment of a business and make sure that it is in the UK, so that they do not have to account for VAT. We will keep that risk under review.

Q96 **Dame Harriett Baldwin:** I think they are telling you that there is wholesale fraud going on, aren't they?

Sir Jim Harra: As a result of the introduction of these online marketplace rules, we have seen a significant reduction in non-compliance and a significant increase in VAT compliance. It is not perfect—we will keep it under review, advise Ministers on changing the law or change our operational response if necessary—but we have seen a very significant improvement in VAT compliance.

That is one particular risk that we have to manage because of a boundary in the legislation, but we feel that we have given good guidance to the online marketplaces. We work very closely with them on their processes, to make sure they are applying them effectively. If they do that, we believe they should be able to identify cases where the company is not established in the UK and therefore they should be paying tax.

Dame Harriett Baldwin: That sounds like fertile ground in terms of the area that Rachel Blake MP was asking about and that, I think, Lucy Rigby has some further questions about.

Q97 **Bobby Dean:** We have talked quite a bit about digital capabilities already, but I want to move on to Making Tax Digital—a service that has been around for some time but is still being rolled out. I think we read in some of your documentation that you want to roll it out to income tax from 2026. Could you give us a review of where you think you are at with it? Have you spotted any concerns so far? Are you happy with the pace of the roll-out?

Sir Jim Harra: We have already implemented Making Tax Digital for VAT, and that has proved effective. We are getting lots of feedback from VAT payers that they are finding it easy to comply with. We have already processed millions of VAT returns through it.

We have evidence that it is reducing error in VAT compared with pre-MTD days, because it requires the taxpayer to maintain their records using business accounting software that speaks to our systems. It therefore reduces the risk that they are not keeping contemporaneous records, are losing receipts or are making errors as they are transcribing from their systems into the VAT return.

The next phase is MTD for income tax, which we have a small number of users testing in a private beta at the moment but is mandated for the first cohort of people from April 2026. That is later than we would have liked, but it is well on track to deliver for then. A second cohort then comes on in 2027, and the Government have recently announced that they intend to bring a third cohort on before the end of this Parliament.

Q98 **Bobby Dean:** What is the reason for it being phased over such a long time? I appreciate the need to get things right and that you are doing tests to make sure of that, but why can't that happen at a much faster pace?

Sir Jim Harra: The challenge of implementing it for income tax is much greater than it was for VAT. It is a different population of taxpayers.

Certainly, the third cohort to come on are people with much lower levels of turnover, so they were not already in the VAT system and not used to making quarterly filings with us. It is a bigger challenge for those people.

One of the changes that we made to assure delivery of this was that we would bite it off in chunks. Obviously, it does reduce the tax gap, so the faster we can implement it the better, but you have to balance that with making sure that it is effectively landed.

Q99 Bobby Dean: My final question relates to that, actually. Obviously, there is still scope for human error; there are still human beings inputting stuff into the software. Just how transformational has it been so far? Has it provided you with marginal gains, or have they been substantial?

Sir Jim Harra: It bites a bit off the tax gap, but it does not solve the small business tax gap. It is very much focused on reducing error as opposed to deliberate evasion, for example, but it does contribute something off the small business tax gap, and it is substantial in terms of the amounts of additional revenue that are on the Government scorecard as a result. While we have not quantified it, I would expect that the extra cohort—when the announcement is made about when they are going to come on—will, similarly, reduce the tax gap more. But it is not a magic bullet to the small business tax gap.

Q100 John Glen: On Monday, Pat McFadden, the Chancellor of the Duchy of Lancaster, made a speech about the risks around cyber-attacks. We have seen Transport for London, for example, have some challenges. Given the growing emphasis that you are placing on digitalisation of services, how well equipped do you think HMRC is to deal with the ever more sophisticated range of threats from hostile actors?

Sir Jim Harra: We are an attractive target for cyber-attacks and we are constantly attacked. It is an arms race, really, so we cannot rest. We obviously have legacy IT; we have some challenges in HMRC that some of our technology is not the most up to date and therefore can contain vulnerabilities. We are constantly looking at how we can use the investment that we get, not just to deliver the benefits that are on the Budget scorecard or to deliver cost savings, but to make our IT estate more resilient.

We have made some improvements. For example, over the last 18 months, we have had a dashboard that tracks the security, reliability and resilience of our systems. We have what we think our score is, and we have a target for what we want to attain, and we track that we are making progress against that all the time. I would like to make more progress, because we are carrying more risk than I would like. Nevertheless, it is a never-ending battle.

I am not aware that we have had any cyber-attack that has been successful in defrauding us. The attacks to try to defraud us tend to be non-cyber. They involve fraudsters persuading our customers to give them their data, often unwittingly. You will get a phishing attack that appears to come from HMRC, you will give them data and they will then try to use

that to get into our systems. That is not really a cyber-attack on HMRC; it is just breaking through—

Chair: It is still what you might call the old-fashioned—

Sir Jim Harra: It is just breaking through our ID&V checks. We have not had a successful cyber-attack that has caused the kind of disruption that you have seen in the NHS, the British Library or TfL, but we have vulnerabilities and we are a big target.

Q101 **Lucy Rigby:** Sir Jim, I want to pick up on the point that Dame Harriett was making about the loophole when it comes to platforms and foreign sellers masquerading as domestic sellers. You clearly do not think the amount of tax lost is as big as the NAO does, but do you have a ballpark figure? Or might you be able to let us know?

Sir Jim Harra: No, I will take that away. I am not saying that it is not a problem and that we don't need to be on it—indeed we are. The point I was trying to make is that we have made significant headway—from the days when the Chair was waving things she had bought online without having to pay VAT—in reducing the loss of VAT from online sales. It is not perfect and probably never will be, but in a sense we have more residual issues to deal with than in those days.

Lucy Rigby: Understood, and the Chair may yet bring out some things—

Q102 **Chair:** You are tempting us to do mystery shopping now. There will be a dozen people more on the apps—you will get that 4 million or whatever thanks to Dame Harriett.

Before we go back to Ms Rigby, we have a trust now about doing things online, to a degree. You do your tax return—a lot of things. People trust that the population of data will be correct. It has come across my desk that for the child benefit tax charge—it is perhaps worth your having a look at the glitch in the system—it rates the repayment at the rate of this year's child benefit, not at the rate of the tax year concerned.

My calculation is that there is a £74 difference that taxpayers are having to pay from their tax return from last year. If you have £96 for one child, instead of £102, I think it is, for this year, you are being charged at the £102 rate for last year. Is that something you are aware of or could have a look at?

Sir Jim Harra: It is not something I am aware of, or my colleagues.

Q103 **Chair:** I will find some information and write to you, but my point is that if a bit of the system goes wrong people start losing trust in it. Ms Lloyd, do you have any data about whether customers trust the system when they go digitally—sort of customer satisfaction?

Myrtle Lloyd: We do; we measure customer satisfaction and net easy scores. We do not have a trust score as such, but we do trust surveys on HMRC as a whole on a regular basis. There is some work for us to do in reassuring customers. If I look at the contact I get, quite a big proportion of it is from people who do stuff and then call us to seek reassurance.

There is work to be done over there, but we do not have a specific trust measure.

Chair: It is quite complex. I had a constituent raise concerns with me only the other day. She has now gone only PAYE because of challenges getting things right on her tax return. It was not down to her—in fact, she was owed money by HMRC and then it became very complicated. She found it so headache-making, even though in the end she got an accountant at some expense, that she stopped wanting to engage with HMRC except through PAYE. If that is the case, that seems to be a limit on people's employment prospects and entrepreneurial spirit. I will raise that with you separately; I think I might be writing to you anyway.

Q104 **Lucy Rigby:** I wanted to pick up on the phone lines that Dame Harriett mentioned earlier. Sir Jim, you announced last year that you were going to close them and you then reversed that decision. I think you told the Committee last time you were here that you were talking to Ministers about that. Can you update us on the status of those discussions?

Sir Jim Harra: There are currently no plans to close our helplines. They are all open and that is the plan. We were given additional funding this year to compensate for the service impact of not closing the helpline—we got an additional £51 million in the supplementary estimate, which Myrtle has used to deploy additional helpline advisers. As a result, we expect that we will hit our service standards on the helplines in the second half of this year.

It is nevertheless the case that we have been reducing the telephony contact from customers through greater take-up of digital services. We know that there is customer appetite to do more digitally and, from our analysis of our phone calls, we know that we are getting avoidable contact that could be handled digitally. We will want to keep on a path of reducing that contact and increasing digital self-service, but there are no plans at the moment to close any helplines.

Q105 **Lucy Rigby:** Can you tell us a bit about the metrics you are using for the purpose of assessing those phone calls?

Myrtle Lloyd: Yes, we use a couple: customer satisfaction and net easy. Customer satisfaction measures how satisfied the customer is with their service and the outcome. Net easy is about how easy it was for them to access our services. We also look at the average agent handle; that is the percentage of calls that come through to an agent. Our target is to have 85% agent handled. We understand how long people are waiting to get through to an agent. We measure our webchat availability as well.

Q106 **Lucy Rigby:** In relation to the extra money going in, is it right to say that on those metrics things are looking better and improving? Is that fair?

Sir Jim Harra: Yes. We were well below our adviser attempts handled target last year and in the first quarter of this year, but with the additional funding that we were given, that has been on an improving path throughout the summer. From 1 October we have been hitting our service

standards, and we expect to be able to do so for the remainder of this year.

We also believe that with the funding we have been given for '25-26 we should be able to hit those service standards next year as well. But they do depend on us continuing to drive down contact demand, as we have been doing in recent years. It does not enable or involve us reversing our strategy of digital first.

Q107 **Lucy Rigby:** That is a very helpful segue to what I want to ask about next: the digital transformation road map. You are preparing for that at the moment. Is that right?

Sir Jim Harra: We have a long track record of implementing digitalisation. For example, almost all self-assessment returns are filed online. Virtually all employer, pay-as-you-earn, VAT and corporation tax is filed online. What we are focusing on now is the contact from personal taxpayers. On pay-as-you-earn, for example, this year we have already made progress. We have introduced significant system improvements to pay-as-you-earn coding, which reduces the number of calls that we receive, because pay-as-you-earn calls represent 41% of all the calls that we receive.

In 2023, we also completely digitised child benefit; a service that prior to May 2023 was almost wholly paper-based is now almost entirely digital. The vast majority of claims are made digitally. We have a long backlog of changes that, with investment, we can continue making. Roughly two thirds of the calls that we receive are calls where the customer could self-serve, and that would free up Myrtle's advisers to focus on customers who really need to speak to a human being because they might have personal or health circumstances that mean they are not capable of doing things digitally, or they might have a complex matter that needs to be dealt with by an officer. We want to be able to reach those people by encouraging others to self-serve online.

Q108 **Lucy Rigby:** A fair number of people are digitally excluded at the moment, and a number of people, I am sure, would feel slightly uneasy about the push towards digital because they much prefer doing things in a non-digital way. Would your message to them be, "Don't worry, because there will always be an option to do things over the phone and via paper"?

Sir Jim Harra: We are always going to encourage anyone who can do it online and whose issue is capable of being dealt with online to try that first. There will be a webchat adviser at the end of your digital journey if you find that you cannot do that. We definitely want to encourage people. Your first option should not be to lift the phone. Your first option should be to go online and try that if you can. But if you know that you can't, our advisers are there to help you. The more we can manage down the avoidable contact, the quicker we can get to those people.

We have done some customer research, which showed that 86% of our customers are willing to deal with us digitally. But that number drops off quite significantly once complexity comes into it or if they encounter a

problem. So the smoother we can make it for people, the better. There is also a need from our customers for reassurance. One of the things we learned with child benefit is that, although we now have an end-to-end digital service, a lot of customers ring us to progress-chase straightaway. We now use SMS messages for people who have filed a child benefit claim online to say, "Don't worry, we have your claim, and we will get to it." That reduces avoidable contact.

Q109 **Dr Sandher:** I want to talk about minimum wage enforcement. You name and shame some companies—I see B&Q and easyJet. What is the process for deciding who to name and shame, and how does that fit with your overall enforcement strategy?

Sir Jim Harra: HMRC does not name employers; that is done by the Department for Business and Trade. We enforce the national minimum wage on behalf of the Department for Business and Trade. We refer what we find to them, and then they decide who to name, but they have a general principle that they will name employers who have breached national minimum wage law.

Q110 **Dr Sandher:** All employers or certain employers?

Sir Jim Harra: I don't think it is 100%, but you would need to speak to the Department for Business and Trade, I'm afraid. We don't make the decision in HMRC.

Q111 **Dr Sandher:** Do you find it easier to assess compliance in large companies, as opposed to small ones?

Sir Jim Harra: You obviously have a bigger impact with large employers, because you are reaching many more employees per employer, but we look into any complaint from anyone who says that they are not receiving the national minimum wage. We have a 100% review of those, and we proactively risk-assess ourselves and add cases for investigation based on our risk assessment. Any employer that pays very close to the national minimum wage is high risk, because if they start making deductions or they don't pay for people's training time or whatever, they can easily find themselves falling foul of the law, so we have our own risk assessment approach to that.

Q112 **Dr Sandher:** Do you have a particular risk assessment for the social care sector?

Sir Jim Harra: We do not pick on a sector. The employment practices in that sector may throw up risks because of the level of pay or its practices. For example, if the sector expects people to pay for their uniforms, and they pay very close to the national minimum wage, they could fall on the wrong side, so we would take that risk factor into account in selecting cases. In addition, any care worker who feels that they are not receiving the national minimum wage can contact us or ACAS, and we will always look into their complaint.

Q113 **Dr Sandher:** I suppose the individual care worker might be an issue. They are minimum wage, there are 10% vacancy rates and there is a turnover of about a third every year, so if they come into a sector where

they are not being paid the minimum wage, they might leave quite quickly. The Low Pay Commission found in 2023 that non-compliance was rife in the sector, and the Nuffield Foundation found similar. The Resolution Foundation found that 23% of care workers are not being paid what they are owed. I suppose the question I am trying to get at is, what is HMRC doing about that?

Sir Jim Harra: We actively tackle national minimum wage non-compliance. We have collected millions of pounds on behalf of people who have not been paid their wages, and we have made sure they got the money they are entitled to. We do that without fear or favour. We obviously try to cover where the risks are, and we respond to any complaint—people can make them anonymously, or they can be named if they wish.

Q114 **Dr Sandher:** Given that this new Government have pledged to bring in a social care service, have you had any meetings with DHSC to see how you can enforce the minimum wage in the sector to help improve retention and the care that we all receive?

Sir Jim Harra: I don't know whether we have had any dealings with DHSC. Obviously, we enforce this policy on behalf of the Department for Business and Trade—it is their policy, and we certainly liaise a lot with them to make sure we are meeting their needs.

Q115 **Dr Sandher:** I would like to move on to something different: Brexit border checks and implementation. We thought that the implementation of import requirements was going to happen in 2022. In October this year, we were told that it was going to be another three months—until 1 January 2025—before the Brexit border checks are implemented on goods coming into the UK. Why the delay?

Sir Jim Harra: The customs responsibilities that HMRC is responsible for have now all been implemented, with the exception of safety and security declarations that are coming in on 31 January 2025. So we now have full import and export controls, from a customs point of view, for GB-EU movements. That has been done in two stages: first, the EU with the exception of Ireland, and then Ireland. The final brick in the wall, on 31 January, is safety and security declarations. So there are no outstanding controls that HMRC is responsible for.

Q116 **Dr Sandher:** So you are ready for 31 January 2025.

Sir Jim Harra: Yes. We agreed to slightly delay the implementation of that, because we were unable to do some things during the pre-election period, and we concluded that traders would need a bit of extra time. I think it was extended by six months, to 31 January.

Q117 **Dr Sandher:** Do you think traders are now ready?

Sir Jim Harra: Yes, we have a high expectation. Our experience of the previous controls that we introduced is that there is a high level of compliance with them, and we are confident that we have supported traders to be ready for safety and security declarations. Customs is a highly intermediated market: there are lots of customs intermediaries out

there and lots of software products that help traders, so there is a ready support industry to help traders to do what they need to do.

Dr Sandher: That is great to hear. Thank you very much, Sir Jim.

Q118 **Chair:** One thing that often gets raised with us is people having something delivered and there being a tax charge on it that they had not expected. You say traders may be ready, but I am not sure that they would all agree. And consumers then think, "I am not going to pay that much money for this parcel; I wasn't expecting that." Is this causing a problem in your system at all, or is it something that you think is someone else's problem, and are you aware of the scale of that challenge?

Sir Jim Harra: Yes, we certainly get—I certainly see—quite a bit of correspondence from people who have ordered things. It is perhaps not always transparent to them, when they order something online, that it is going to come to them from abroad, for example, and that therefore there could be a tax charge that they have to pay when they receive it. The couriers are responsible for making sure that that is complied with, but the market needs to make sure that it has the right transparency for consumers, so that when they are ordering things, they have an awareness of what is going to happen.

Q119 **Chair:** Do you see a role for HMRC there? You were talking earlier about the channels on which you advertise to 18 to 34-year-olds about the app. You talk about how the scare stories about sales of clothes on Vinted went around very quickly on TikTok. Do you think you have a role, first, to warn people about the charges that may come in, because they may not be as ready as traders? Secondly, are you using all the right social media apps? Which ones are you using to advertise to the people who might otherwise not be aware?

Sir Jim Harra: That is a good question. We tend to deal with the people who have the liability, which in this case is the couriers, and make sure that they are complying with their obligations. But I am sure that for them it is unwelcome when customers challenge and say they were not aware that these things were going to happen. I will look at what we do to raise consumer awareness. It is definitely the case—I do see cases.

Q120 **Chair:** Which channels do you use? Maybe Ms Lloyd can answer, but if young people are on TikTok finding out about scare stories about selling their clothes on Vinted, are you using those sorts of channels to advise people on everything from the app to the deadline for their tax return?

John Glen: A guest appearance for you, Jim!

Sir Jim Harra: I personally don't; I should have brought my head of comms.

Chair: You could become a new hit, Sir Jim—the taxman on TikTok.

Sir Jim Harra: We certainly have a very active presence on social media, because it is a relatively low-cost way of reaching people. So we do use it heavily, yes.

Q121 **Chair:** Are you allowed to use TikTok as a Government Department?

Sir Jim Harra: I'm not sure we do, actually. I am not aware that we do.

Chair: Ministers are not allowed to now. I am going to ask quickly about Covid fraud. Obviously, there were a number of fraudulent claims. They were not in your accounts—there is no specific mention of Covid in the accounts—but there will be a number of fraudulent claims that have not yet been written off. What are you going to do about them? Are you going to be writing them off in next year's accounts?

Sir Jim Harra: No, we've got no plans to write off pursuing Covid fraud. If you recall, our estimate of the total error and fraud in the Covid schemes that we were responsible for was about £5 billion, which was about 5.1% of the total value of the schemes. We have so far recovered over a quarter of that. While we have stood down the specific taskforce that was looking at it, we continue to look at it as a risk.

Q122 **Chair:** You and I have discussed furlough fraud—not in this Committee, but I am sure you have discussed it in predecessor Committees. It is very hard to track down. At what point are you going to write off that fraud? If I were to give you an example of furlough fraud now, would you still find it cost-effective to pursue it? Mr Holliday is nodding.

Sir Jim Harra: Yes, we would pursue it. One of the reasons we stood down the taskforce was that we were starting to see diminishing returns, and we could get better returns from that resource on other things. However, we still actively pursue furlough fraud. In fact, a trial is under way in Birmingham right now on people who are being accused of it.

Q123 **Chair:** The Government have a Covid fraud tsar. Is that anything to do with you? Do you work with them, or will you be working with them? Mr Glen might find out if they have been appointed yet.

Sir Jim Harra: Yes, we are within their ambit.

Chair: Over to you, Mr Glen.

Q124 **John Glen:** I think there is some sort of misunderstanding because it was my recollection that after Covid, additional resources were made available—£100 million—so that you could pursue fraud cases. You then have the £1.16 billion out of the circa £5 billion you estimated that was fraud. You will obviously—as you dutifully have throughout your distinguished career—do whatever Government asks you to do, but there is a professional judgment, surely, about a law of diminishing returns.

The Government is going to have a Covid fraud commissioner. How does that interact with your professional judgment of the tail of the, I assume, £3.5 billion—less 3%, or less—of the lost money? We always knew, from the assessment made when you were doing all that work in the first quarter of 2020, that there was a risk associated with it.

Sir Jim Harra: Yes, and obviously, we used our professional judgment when we decided to close down the taskforce because we did not feel it was the best value-for-money use of that resource.

Q125 **John Glen:** We now have a Covid fraud commissioner. In essence, that runs counter to that professional judgment around shutting it down, because there was a law of diminishing returns. That is why we stopped doing it in the previous Government.

Sir Jim Harra: The commissioner is looking much more widely than at the schemes that HMRC was responsible for. Indeed, I would not expect them to be at the core of what the commissioner is looking at, but they are within their ambit. My view, particularly for fraud, is that we are never going to give up and say we are not going to pursue it.

I think there is potentially a different judgment on error, because employers who made an unintentional error need to be able to move on, and there is nothing formally to write off. What we write off in our accounts is unpaid debts, and I am not aware that there is any material on unpaid debt in relation to Covid. It is something that we would never give up on. As I say, we have a trial under way in Birmingham at the moment, and we have other criminal investigations.

Q126 **Chair:** Which fraud is that trial for?

Sir Jim Harra: That is on the furlough scheme. But we do not have the dedicated resource that we deployed on it any more; it is just picked up as part of our general risk assessment of other things.

Q127 **John Glen:** What I am trying to get at is that your professional judgment was to curtail those activities. Like all fraud, you are never going to say, "No, never," but no resources have been allocated to it. That was based on your judgment of the likelihood of diminishing returns.

Sir Jim Harra: Yes, and it was because we knew that we could get a higher rate of financial return from those resources if we put them on to other work.

Q128 **Dame Harriett Baldwin:** Very quickly, if we were ever in a situation where we had to implement something like that again, at short notice, in order to prop up the economy, how would you do things differently?

Sir Jim Harra: Thankfully, I am retiring, but—

Q129 **Dame Harriett Baldwin:** I hope, Sir Jim, you have left behind some institutional wisdom.

Sir Jim Harra: We certainly have. We have, with the Treasury, created a playbook from our experience of doing that. The key issue for us was what data we had. The more up to date the data, and the more granular, the better job we could do of reaching the people who needed help and not paying out money to people who did not need help. We found that we were able to set up the furlough scheme, for example, very quickly because we had the digital platform to do that.

Looking back, a key lesson was that we had invested in capabilities that you did not expect to use for this, but actually just having those capabilities meant that you were responsive to whatever you were asked to do. There are benefits that hard business cases do not measure, but

actually having up-to-date, modern technological capabilities just makes you flexible for whatever you need to turn to doing.

As a leader at the time, in a sense, I thought, "I have either put in place the capabilities that will enable us to do this, or I have not, in which case we will not be able to." We did have them, but the main issue was the data that we had access to.

Q130 **Chair:** Hence a lot of self-employed people did not get anything, because you did not have the data on them.

Justin Holliday: I will just say a bit more about error and fraud. When we designed those schemes, we estimated that the level of error and fraud would be about 5%, which is what it came in at. I would like to think that with the kind of things Jim is talking about, we would be able to estimate maybe 3% or 4% next time, if there is a next time, but there is a compromise to be struck between putting in control and the ability to—

Q131 **Dame Harriett Baldwin:** You chose speed over perfection.

John Glen: Ministers did.

Justin Holliday: It is partly speed, and it is partly the ability for people to be able to apply. If you put more anti-error and fraud controls in, it becomes harder for people to apply, so there is a balance there.

Q132 **Chair:** From my perspective in my previous role, HMRC and DWP had well-worn fraud mechanisms, so you understood the risk. There was still a risk and a challenge, but you understood it better. Is there anything that you have left behind or will leave behind to help other Departments understand that? It was certainly the case that other Departments really did not get it quite as well.

Sir Jim Harra: One of the things in the playbook is that we had a structured fraud control framework, where we made explicit trade-offs and decisions against the other priorities. At the time when we were introducing the furlough scheme, for example, the economy had already closed down. If we did not get money to people by a certain date, they were simply going to have to lay off their staff, so there was a limit to how much time we could take to put more fraud controls in place. But we had a clear control framework and understood the risks that we were taking, and the extent to which we would be able to manage them pre-payment or try to manage them post-payment.

Chair: I suspect they might have you on speed dial if anything were to happen again. I know that happened in another Department and we asked, "What would have happened if—?", and they said, "Luckily, we had an experienced member of staff still on schedule," and rang some retired people. So I do not think you will be off the hook, Sir Jim.

Q133 **Rachel Blake:** HMRC is a supervisor for businesses that are governed by money laundering regulations, and you did 3,629 interventions in the last financial year. To what extent does your anti-money laundering capacity actually compete with some of your other teams for resource?

Sir Jim Harra: Anti-money laundering supervision is paid for from the fees that we charge—

Q134 **Rachel Blake:** Entirely?

Sir Jim Harra: Entirely, yes, so it is kind of ringfenced. We cannot use that money for other purposes, but I do not use my general resources to supplement that.

Q135 **Rachel Blake:** Would it then be capped?

Sir Jim Harra: Well, I was going to say that there is one caveat. One thing we have learned is that in managing tax fraud, the ability to use anti-money laundering regulations is another string to our bow; it is a way of leveraging open the case.

I guess that when we were made a money laundering supervisor, I would have been a sceptic about whether that was something the Department ought to be doing, because it was slightly off-mission, but actually it can be quite a useful power for us to have as a tax authority as well as an anti-money laundering supervisor—my fraud investigation service, for example, will use it as a means of managing tax fraud. Generally speaking, however, we have a contained workforce that is paid for by the supervision fees. We cannot use that money for anything else, and we generally do not supplement it with other resources.

Q136 **Rachel Blake:** On the point of supplementing and potentially needing to supplement, how are you assessing whether the fees are enough to expose the extent of money laundering?

Sir Jim Harra: Obviously, there is a central body that we feed into, together with the other supervisors, and those fees have been adjusted over time. HMRC is the supervisor of last resort.

We supervise all those organisations that are not otherwise in a body that supervises them; those tend to be smaller and less formal organisations, so we have particular challenges in our customer base. We have had to devote a lot of our resources to educating them, because a lot of them are not people who are deliberately breaching the regulations; they are unaware that they are supposed to comply with them, for example, or they do not have the sophistication to understand how to do that. A big part of our task is actually education and support, as well as enforcement.

Q137 **Rachel Blake:** Could you say which sector that is concentrated in?

Sir Jim Harra: We are responsible for money service businesses, which could be bureaux de change, for example.

Q138 **Rachel Blake:** Is that where you are needing to do most of your education?

Sir Jim Harra: That is just one of them, but there are also estate agencies and letting agencies, or the art market. They are not subject to a lot of oversight from a professional body. They can be relatively small and quite fluid, and they do not necessarily have to be qualified to do their jobs. It is that end of the market that HMRC deals with.

Chair: A quick one from Yuan Yang, I believe.

Q139 **Yuan Yang:** On assets held offshore, are you able to look at assets in other people's names—for example, in the names of trusts or shell companies—or are you looking at only the specific people being considered in money laundering investigations?

Sir Jim Harra: I cannot speak with authority on money laundering. Certainly when it comes to tax compliance, we have a healthy exchange of information with other tax authorities, and we are increasingly able to identify the beneficial ownership to see through corporations and trusts.

This year, for the first time, we have come up with a measure of how much of the tax gap relates to offshore income and assets. That is a continuing process internationally. We make sure that countries have good registers, for example, of beneficial ownership and good exchange of information.

Q140 **Yuan Yang:** So that tax gap review includes assets held in other people's names offshore?

Sir Jim Harra: We have put out, effectively, experimental statistics, or statistics in development, about the offshore tax gap. It is about UK taxpayers who have income—details of which are shared with us under the automatic exchange of information arrangements—with overseas companies and who have not declared it, or not fully declared it. We have identified about £300 million in that tax gap. It is a partial measure of the overall offshore gap, and it is experimental, but it is the first time we have been able to do it.

Chair: We will keep an eye on that, then. Bobby Dean.

Q141 **Bobby Dean:** The Budget contains measures on registering those providing tax advice, so I just wanted to get your thoughts. Could you outline what the need for that is, and whether you think the proposed action will be sufficient to tackle rogue advisers?

Sir Jim Harra: The tax system is highly intermediated. The vast majority of tax advisers and agents help their clients to comply, to make sure that they pay what they owe and no more than what they owe. They add value to the tax system, but unfortunately there are some who do not.

We have seen in recent years a concentration of agents encouraging people to make repayment claims, for example, or in R&D relief. Far from adding value to tax administration, they have been abusing the tax system, so encouraging their clients to put in claims that are not substantiated or eligible. That is abusing the tax system, but is often abusing their clients as well. The clients may not be fully aware of what is being done in their name. They may not realise that we could come along afterwards and recover the tax from them, and they will have lost out because of the fees they pay to the agents.

In our interests, and in the interests of our customers, we have been tightening up the rules around what agents can do to make sure that they behave responsibly. As you say, it has been announced that they must be

registered with us to submit claims on their client's behalf and be nominated to receive the repayment. If they are not registered, we will not make the repayment to the agent, and the repayment going through their hands is usually a key part of their business model so they can deduct their fee on the way past. That will hopefully improve standards, but it is just one step in an ongoing process.

Q142 Bobby Dean: You mentioned that some people may not realise what is done in their name. Something else that came up in the Budget review is revisiting the loan charge scandal. I don't know whether you want to add anything for the record about the new review, or indeed HMRC's role in the previous review. Do you have any reflections on that in relation to what we have just been talking about?

Sir Jim Harra: The Government have announced that they will have a review of the loan charge. Details of that have not been published—we need to wait and see what that is. HMRC will implement whatever recommendations the Government accepts. My job, and HMRC's job, is to enforce the law, tackle tax avoidance and make sure that tax that is due is paid, and that is all we have been trying to do.

The loan charge was introduced in 2016 with the intention of drawing a line under the historical use of disguised remuneration tax avoidance, which has been a problem for two or three decades and is still ongoing. It is a key part of the mass-marketed avoidance that we see today.

But it was very controversial. We know that behind every case there is a human being. Some people will have had a good awareness and understanding of what they were getting involved in, known that HMRC was likely to challenge them and been ready for that. Others have been misled by their advisers and therefore find themselves facing a big tax bill from HMRC that they were not anticipating and are finding that very stressful. Our job is to support people who are faced with potentially life-changing bills that they do not know how they are going to pay. But as far as a new review is concerned, HMRC awaits the outcome of it.

Q143 Bobby Dean: Do you think that might be related to the registration with HMRC of future tax advisers? Might we need to have stronger regulation in the future to prevent this sort of thing happening again? I accept that, as you say, some will have been aware of what they were getting involved in, but how much do we need to put on to the taxpayer versus the authorities, which have the widest knowledge of the tax system? Should we have mandatory professional bodies, for example?

Sir Jim Harra: The Government have recently consulted on whether there should be regulation of the tax profession and what the options for that are. At the Budget, the Government said that they were holding their counsel on that, which is understandable. They have announced some measures that we are going to take forward. But the question of which option, if any, for regulation of the profession is adopted is something that we will have to wait and see about.

On the specific issue of avoidance, we have been given quite extensive powers to tackle promoters of avoidance in recent years, particularly in

2021 and 2022 and in the Budget—on 30 October, the Chancellor announced that we will be getting further powers to tackle promoters. They are a particularly egregious end of the system, not necessarily the people that this registration measure is aimed at. That is aimed more at agents who are marketing to the mass market repayment claim services.

Q144 **Dame Harriett Baldwin:** To go back to the question on social media strategies, Ms Lloyd, do you know if you are on TikTok or not? I just want a yes or no.

Myrtle Lloyd: I do not believe we are on TikTok.

Chair: You say you do not believe you are—you have carefully worded that. If you find that you are, I am sure you will write.

Sir Jim Harra: If it is any different, we will let you know.

Chair: We are just interested because different bits of Government are doing different things. Thank you very much indeed for coming to see us today—well, you did not really have an option, did you? But we like to put it politely.

In summary, today we have heard that you have no future plans to close the phone lines, which will relieve quite a lot of our constituents, and that you are now meeting your target service standards, which was not the case earlier this year. Also, we had an interesting discussion about how AI can be used in meaningful ways to provide customer service and identify trends for tax collection. We will want to quiz you or your successors more in future on how AI is being used.

We also heard that staff who are being taken off tax collecting roles have already been kept on and are raising more tax—again, we will be watching those figures; we have all seen many a Red Book in our time, and we all want to watch to see that they are being kept to—and that you could be raising more money with more staff, but there is a big challenge about recruiting in large volumes, which we have seen before.

We will work out what our messages will be to the Treasury Minister. We may well have James Murray MP in front of us before long. He has the only excuse you can use to dodge a Treasury Committee hearing: he is in the House now dealing with the Finance Bill. We felt that was a reasonable excuse, but it is the only one.

I thank you all very much indeed. Sir Jim, I hope this will not be the last time. We would love to tempt you back for one last time before you retire, when you no longer have to worry about what anyone will say about what you have told us. But if we do not see you, we wish you all the very best of luck in retirement. We may have had our differences at times, but to have a tax specialist in charge of HMRC brought some shift to the delivery of the Department compared with some people who, I am sure, had great things to offer but were not all tax specialists. I thank Sir Jim Harra, Justin Holliday and Myrtle Lloyd very much indeed.