

Treasury Committee

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

Wednesday 15 January 2025

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Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; John Grady; Dame Siobhain McDonagh; Lola McEvoy; Dr Jeevun Sandher; Yuan Yang.

Questions 145 - 284

Witnesses

[I](#): James Murray MP, Exchequer Secretary to the Treasury, HM Treasury; Dan York-Smith, Director General, Tax and Welfare, HM Treasury.



Examination of witnesses

Witnesses: James Murray and Dan York-Smith.

Q145 **Chair:** Welcome to the Treasury Select Committee on Wednesday 15 January 2025. We are really pleased to welcome James Murray MP, who is the Exchequer Minister responsible for dealing, among other things, with HMRC and is now chairing the HMRC board. He is joined by Dan York-Smith, who is the director general of tax and welfare at His Majesty's Treasury. I wanted to kick off, if I could, Minister. You have taken over as the chair of the board of HMRC from Jayne-Anne Gadhia and you are awarding it to yourself. What was the process involved in taking on that role?

James Murray: Thanks very much, Chair, for having me today. If I set the context of when I was appointed, under Rachel Reeves as Chancellor, we had some very clear priorities for HMRC, which I am sure I will come to later in the session today. I was determined to drive those changes through the organisation at HMRC. I know that different Ministers over the years have had a different relationship with HMRC. I decided from day one that I wanted to be very hands-on with HMRC, talking at the most senior level to the Perm Sec, but also throughout the organisation to other people working there, to make sure that we are delivering our agenda effectively and at pace.

I wanted to make sure that I was as integrated into the structure as possible, had many views on what was going on in terms of delivery and was also open to having that support from third parties, so from the private sector and people who bring a different perspective to challenge what is going on in terms of delivery. The HMRC board felt to me to be an institution that can provide that challenge and oversight, and bring in people from the private sector, from outside, to give that independent challenge. I wanted to be integrated into that.

Jayne-Anne Gadhia, who you have mentioned, has remained on as the lead NED and plays a vital role, along with the other NEDs. For me, as chair, it means that I can benefit from the work of the board, informing myself, contributing also in terms of my work outside the board to the board's work and making sure that we are delivering our priorities.

Q146 **Chair:** What was so wrong with Jayne-Anne Gadhia that she could not do that herself? She has founded successful businesses and has a big, strong track record in overseeing large organisations. Why did you think you could do the job better than she can?

James Murray: It is a different job. The role that Jayne-Anne Gadhia plays is a fantastic benefit to HMRC. She brings a huge amount of experience, counsel and advice for me. Her staying on as the lead NED has been really important.



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Q147 **Chair:** My point is that she was the chair of the board. You are now chair of the board. What was she not doing that you are going to be doing? I am a bit unclear.

James Murray: I wanted to reform the board around our priorities as an incoming Administration.

Q148 **Chair:** You did not think that she could have done that under your direction. You are the Minister, after all, and she is there chairing the board. The Minister has always had a relationship. Your position has always had a relationship with HMRC to advise and direct to a degree.

James Murray: I wanted to ensure that the priorities that I have on behalf of the Government, Ministers and the new Administration were transmitted as directly as possible through to HMRC to deliver that.

Q149 **Chair:** To be clear, did other Ministers in history—I do not mean just the last 14 years but prior to that—not deliver their priorities clearly to HMRC?

James Murray: I have to be slightly careful because civil servants, rightly, do not tell me exactly what previous Ministers' relationships were like with HMRC. My impression of it is that Ministers have been, certainly in recent years, much more arm's length with HMRC. There is an issue here where the principle of taxpayer confidentiality has spawned a bit of a culture whereby there is a greater separation between Ministers and the broad operational decisions of HMRC than there should be.

Ministers ultimately have responsibility to give general directions about how HMRC operates. I wanted to make clear that I would take a role in developing HMRC's operations in the way that it administers the tax system, to make sure it is delivering our priorities, while respecting that taxpayer confidentiality. I feel that, in recent years, there has been too much of a culture of Ministers stepping back and not being directly involved in driving priorities forward.

Q150 **Chair:** You sound like you are more of an executive chairman than a non-executive chairman, if you take the role of chairing the board in its purest form. Is that fair to say, that you are going to be directing more directly?

James Murray: No, because that is with my hat on as Exchequer Secretary. As a Minister, I would have a role in setting the general direction of HMRC. Ultimately, the backstop is that Ministers can issue directions to HMRC. That is never needed, hopefully, because the backstop is that directions can be issued, which means that, on a day-to-day level, HMRC would interact with Ministers to get their views, consent and agreement to various things it is doing. The role of chair of the board is a different role than the direct role that I play as a Minister. It is one to help make sure that I can benefit from the expertise of all the other NEDs and the independent advisers on the board and the sub-committees.



Q151 **Chair:** In the past, if you had had an issue and, for argument's sake, Jayne-Anne Gadhia had been the chair, you would be able to hold her to account. Who holds you to account as chair of the board—yourself or another Minister? How does that work?

James Murray: Ultimately, I am held to account by the people of this country and the voters. As a Government, we are held to account for whether we deliver. We were elected to deliver.

Q152 **Chair:** It is the people of the country. If there is a problem with HMRC now and something goes wrong, you say that you are accountable with both hats on, as chair and as Minister. The buck stops with you, basically.

James Murray: Ultimately, it has always stopped with Ministers. The way to make sure that you can not only make clear that accountability line but use the relationship between the Minister and HMRC to deliver change is by making sure that it is less arm's length than it has been in the past.

Q153 **Chair:** Given Jayne-Anne Gadhia's background and skills, what background and skills do you bring to chairing HMRC that you think are significant?

James Murray: One thing that I have noticed about my approach to jobs I have had in the past is that—it has been in local government and city government—I am very focused on delivery and about how you make public sector organisations deliver against political priorities, whether that is in City Hall or a council before that. That focus on delivery helps me in terms of me chairing the board.

Q154 **Chair:** What have you delivered? Do you want to give us some examples of that? You have given a broad brush, but can you point to some proud aspects of delivery in your career?

James Murray: Do you mean previously?

Q155 **Chair:** Yes.

James Murray: When I was at City Hall, we delivered the affordable homes programme there. A lot of that was around unblocking individual housing developments in London and working with third parties in the private sector to ensure that our policies were ones that would work and support the private sector to play its role in what we were doing. Before that, on a council, I was in charge of housing. A lot of that was to do with delivering the housing management service, so the council as a landlord, and understanding how you deliver change throughout an organisation and the role of culture in an organisation, not just formal accountability mechanisms. Alongside the policy role of a Treasury Minister, in my position there is also a delivery role through HMRC. I am keen to make sure we deliver on our priorities.

Q156 **Chair:** If something is not delivered properly in HMRC, and we will get on to some of the pledges that you have made, quite boldly, about what you



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want to see achieved, who is responsible? Is it the chair, an Exchequer Secretary, or the Permanent Secretary?

James Murray: Ultimately, it would always be the Minister. The buck stops with Ministers. That has always been the case, but I am very happy to make that clear.

Q157 **Chair:** If something goes wrong in HMRC, so the phonelines go haywire or get closed again, or there are problems with the digital transformation, your neck is on the block for it.

James Murray: That is one way of phrasing it.

Q158 **Chair:** It is putting it in stark terms. You are putting yourself in the job twice over, effectively, of being responsible for HMRC.

James Murray: I actually do not see it as twice over. I disagree with your analysis, because I do not think that the chair of the board has ever actually been responsible, because the board is non-executive in its nature.

Q159 **Chair:** You are indicating that you are about delivery.

James Murray: Yes, but the Minister should always have been responsible for delivering and making sure that improvements are delivered, obviously working with the Perm Sec, the commissioners and everyone throughout the organisation at HMRC to deliver that. Ultimately, we are elected as Ministers to deliver a set of priorities. HMRC is a crucial part of delivering on those priorities and the broader government missions. I see it as my role as Minister to make sure that those are delivered. I do not think that the idea that "it is an arm's length organisation and nothing to do with us" is acceptable.

Q160 **Chair:** There are a lot of arm's length organisations across Government. Arm's length bodies proliferate under any Government. What discussions were had about the constitutional shift that this might introduce? What processes were gone through in the Treasury before this decision was made?

James Murray: It was discussed with the HMRC commissioners and we looked in the context of the Act that sets out what the powers of the commissioners are. There was a need to comply or explain—I think the phrase is—to work out who should chair the board, because the presumption is that it is non-ministerial. If it is going to be ministerial, you need to explain why. That is exactly what we have done in terms of some of what I have just said to you now. In terms of the constitutional set-up, there were no changes needed to the regulations. The law stands as it is.

Q161 **Chair:** It was always a non-ministerially led Department. You are now there. What would you describe it as now? What is the description of HMRC in that context?



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James Murray: I suppose it depends whether you are talking in the strict letter of the law or about how I relate to HMRC and what I see my responsibilities to be.

Q162 **Chair:** Take your position then. How do you see it?

James Murray: My position is that I lead change at HMRC.

Q163 **Chair:** It is now a ministerially led Department.

James Murray: Whatever phrase you want to use—

Q164 **Chair:** This is quite important. It is on the website as a non-ministerial Department still.

James Murray: We can check the website, Chair. My view is that I help lead change at HMRC.

Q165 **Chair:** Most Departments have a ministerial lead. The Secretary of State will appear in front of the House and be responsible for overall what is going on in the Department. That is not quite the same for HMRC. Ministers speak for it, but they are not answering for it in quite the same way. Is it now a ministerially led Department?

James Murray: Certainly, as a Minister, I lead the change at HMRC. As I say, we have not had to change the law to make this happen. The set-up, the relationship between me and the HMRC commissioners and the way in which Ministers can issue directions have not legally changed. In terms of the role that I take, it is one of leadership to help deliver the change that we were elected to do.

Q166 **Chair:** Some people might be worried about a politician being in charge of something where there are tax records. Taxpayer confidentiality is an important tenet of the way we work in this country. What can you say to taxpayers who might think that a politician being in charge means that there is any risk of their tax confidentiality being breached?

James Murray: There is no risk whatever of individual taxpayer confidentiality being breached as a result of me chairing the board, because, as I was saying earlier, there is taxpayer confidentiality. There is the fact that Ministers, whether as a Minister or as chair of the board, cannot intervene in individual taxpayer's affairs. I cannot get involved in any individual cases. That is entirely for HMRC to do, with no input from me whatever.

The part of the set-up where I see myself as having this leadership role is in terms of how the organisation runs as an organisation, what its policies are, how it changes and how it administers itself as an organisation overall. There is a very clear gap between the way the organisation runs and individual taxpayer's cases, confidentiality and so on. There is an absolutely hard rule that Ministers, as I say, whether with my direct ministerial hat or the HMRC board chair hat on, cannot get involved in that.



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Q167 **Chair:** In terms of legal responsibilities, are you legally responsible for delivery now?

James Murray: I am politically responsible for delivery.

Q168 **Chair:** Okay. What if HMRC broke the law? What assessment has been made of the legal risk of having a Minister as chair?

James Murray: As I say, I do not get involved in individual taxpayer cases.

Q169 **Chair:** Has there been an assessment of the legal risk? Maybe Dan York-Smith can help here.

Dan York-Smith: As the Minister says, there has been no change to the Commissioners for Revenue and Customs Act, which sets the boundaries of HMRC's responsibilities. There is no change to the role of the board in terms of exercising the commissioners' powers, which is where that would be most likely to manifest, because that is about the application of the law to an individual taxpayer and HMRC's duty of taxpayer confidentiality. Therefore, the responsibility would lie with the commissioners, who are running the organisation on a day-to-day basis.

Q170 **Chair:** That is the interpretation of the law, but I was asking very specifically whether there has been any legal assessment of whether this would create challenges if there was a tax tribunal and they wanted to cite the fact that the Minister was chairing it as a reason to take on the issue.

Dan York-Smith: We might have to write to you, Chair, if that is okay. The key thing is that there has been no change to the underlying legislation, because the underlying legislation does not set out what the composition of HMRC's board should be. There is not a statutory basis of what the composition of the board should be.

Q171 **John Grady:** I suppose what that legal assessment might engage, for example, is the fact that we have a change here and a Minister who is now chairing an NDPB, as I understand it. Self-evidently, you have someone wearing two hats in that role, which are quite different. That may—I do not know; I am speculating—engage a range of legal risks in the context of judicial reviews and other challenges or tax tribunal cases. I do not know, but that is the sort of thing that a legal risk assessment would consider and address. From that would flow questions as to whether people were recused from certain discussions and so forth. That is what a legal risk assessment might address.

Dan York-Smith: We should write to you, but the key thing here is that the exercising of the legal powers HMRC has with respect to individual taxpayers, or the application of the law to a group of taxpayers, is completely unchanged, because that was never within the remit of the HMRC board. The HMRC board had no role in exercising the powers about individual taxpayers, what the law meant for taxpayers or tax policy. Tax policy is the responsibility of the Minister.



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The only thing that I would add to what the Minister has already said is that there has always been a kind of dual accountability to Parliament for the operations of HMRC, as evidenced by the Minister giving evidence to this Committee. Also, were there to be a parliamentary question or an urgent question and so on, it would be for Ministers to answer that. Equally, as is the case for every Department, the accounting officer is accountable to Parliament through appearances in front of this Committee or the Public Accounts Committee. There has always been this dual accountability. The change is about the Minister being able to deliver his objectives for HMRC, rather than necessarily changing the dual accountability that existed.

Q172 **Chair:** Is this a permanent change? It is early in your job to suggest that you might be moving on, but Ministers move on. If you were not in the post in five years' time, two years' time or whatever, would your successor be expected to chair the board as well?

James Murray: I cannot bind the hands of future Ministers, but this is a permanent change as far as I am concerned.

Q173 **Chair:** It is intended to be a permanent change. You have outlined what you think your particular skills are that uniquely qualify you to do this role. What if your successor did not have those skills that you have outlined for us?

James Murray: That would be a question for a future Minister. You can call them back whenever that is the case.

Q174 **Chair:** Would it be a matter for the Minister or for the Chancellor or the Prime Minister? Where would the decision be made?

James Murray: That would be a conversation for future holders of the role to raise.

Q175 **Chair:** It could go backwards and forwards. You could have Ministers now diving in and out of being chair of the board, after all these years when it has not been chaired by a Minister. There is nothing to stop that.

James Murray: I would hope that I can show, by what I do as chair of the board, the value that it adds by having a Minister who is not only engaged with the ministerial hat on but also directly through the board.

Chair: We will be quizzing you as we go through this afternoon on what you are planning to achieve, so that we can get that on the record.

Q176 **John Glen:** Thank you, Minister. I wanted to reflect. I never had responsibility for this during my ministerial tenure, but I sat in the office next door; the offices of your predecessors were next to mine. Events occurred. Jim Harra, the Perm Sec, or his predecessors, came in when events occurred. There was a dialogue and then decisions happened. I am struggling to understand what is qualitatively different in what you are going to be doing versus the role of your predecessors in terms of that interrogation.



For example, HMRC has a lot of complexity in terms of delivering IT systems and changes to try to deliver a Government's objectives. Are you suggesting that your role on the board would mean that you would have oversight on those day-to-day delivery challenges? I am trying to get the distinction between articulating—legitimately, of course—Government policy and seeping into the operational matters of running quite a complicated organisation, notwithstanding individual's tax affairs, which I think we all understand you would not be doing. How far do you intend to be doing that where your predecessors were not?

James Murray: Even with my ministerial hat on, before we get to the question of being chair of the board, I am routinely involved in making sure that things are delivered, not just seeing Jim Harra once every few weeks and having an update. I meet other members of HMRC, not only the executive committee, the commissioners—

John Glen: Your predecessors did too.

James Murray: —but also people throughout the organisation, right down to people who are managing individual programmes on the frontline to go through with them exactly what is going on: "Are there any issues? Are there any you want to surface now? Is there anything I can do to help deliver this?" Even with my ministerial hat on, I am embedding myself in the operational delivery of certain key programmes that we have committed to.

The HMRC board is, by its nature, non-executive, so the board role is about taking a step back and having scrutiny of whether the overall priorities are being delivered. For instance, I do not think I am breaking any confidences here to explain that we are focused on improving customer service with digital transformation. That is something where I am involved day by day, working with individual HMRC officers to develop those plans. I am going to see private sector organisations to get some ideas from them, feeding them back to HMRC and sometimes having joint meetings with HMRC and the private sector. At the same time, the emerging strategy will be looked at by the board, so that people from a wider set of points of view can give their opinion.

Q177 **John Glen:** Can I intervene quickly there? Your board members who were recruited explicitly with the functional expertise of a lifetime of skills outside of local government or city government, I would have thought you would agree, would be better equipped and would have more experience to give the technical expertise on that than you would, surely.

James Murray: The non-executive directors are an absolutely fantastic asset in HMRC, not just Jayne-Anne Gadhia, who we have spoken about already, but some of the new NEDs who we have recruited on a temporary basis pending the full recruitment. I do not want to single out individual people, but there are people, who you will know if you have been following who has been appointed, who bring a huge wealth of experience. I value that hugely.



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I also attend the sub-committee meetings as an observer, but those are chaired by individual non-executive directors with the relevant experience in that area. The modernisation and reform is chaired by Mike Bracken. You have Bill Dodwell doing the closing the tax gap one and Jen Tippin doing customer services. I will attend there to watch and engage, but very much let them chair those sub-committees. It means that our political priorities are joined up with the work of the board and then benefit from all that external experience.

Q178 **John Glen:** It is reinforced by your presence.

James Murray: It makes sure that it is linked up. There is no need to have another meeting to update me on what the board said. I get to see first hand the board's reaction and its suggestions, and to input where appropriate. They can ask me questions, because it is right for them to talk to me.

Q179 **John Glen:** I can assume that you are not paid extra for this role.

James Murray: No.

Q180 **John Glen:** Let us move on to the substance of your role and your impressions of the organisation. Perhaps you could give us your initial take, six or seven months in. What worries you? Perhaps you could set out what the priorities are that you have as a Minister in this new role.

James Murray: I would start by saying that the individual officials I have met who work at HMRC are fantastic. There is an amazing dedication and an amazing amount of expertise and determination to do their job absolutely as well as they can.

Chair: We would concur.

James Murray: The role that I can add to that and what is helpful, I hope, by me being involved is to make sure that, as an organisation, we can transform and take some risks as well, maybe get outside of a comfort zone and say, "Actually, we need to do things slightly differently. We need to test and learn a bit more. We need to work out how we can make this transition to a digital-first organisation" and so on. For me, I feel like I have employees at HMRC who are brilliant at doing their individual jobs. Working with HMRC commissioners and, indeed, with members of the board, I can bring that change and try to say, "Let us push this forward. What timeline are we working to? How can I add pace to this? How can I add external challenge to it?" To give you an example, we talked about my three priorities. One of them is, obviously, customer service.

Q181 **John Glen:** Close the tax gap, reform the tax system and improve customer service. They are your three.

James Murray: There you go. You know them as well as I do, John Glen. Thank you for endorsing those. The customer services one is a good example where you have people who work in customer services who



know their stuff inside out. When the organisation is trying to make sure they are hitting the key metrics at the moment in terms of answering the phone, satisfaction and so on, I feel that I can bring extra timetable, pace and challenge to ask, "How are we going to develop this digital transformation roadmap?"

I can also use my role to make sure we have input from people outside the organisation, so me going to private sector organisations that I know have really good customer services or a similar customer base to HMRC and learning from them. I can put on record how grateful I have been to private sector organisations being very open about it. They are not competitors with HMRC. They want HMRC to do better, so learning from them really helps.

Q182 John Glen: I know that it has only been seven months and I want to be realistic, but what do you think is going to be different to what you have seen from your predecessors, in terms of the actions that are going to be taken by the organisation with your hands-on approach, as specifically as you can, if possible?

James Murray: To start with customer service, it is a good one to be specific on. I want to see the number of people who are using the digital services and are confident to do so increase. We will be setting out plans for that in due course about what we expect to hit. Part of the process of making sure HMRC is and remains a digital-first organisation is changing the culture of how HMRC responds to challenges, so, rather than there being big programmes developed over years and years, and then implemented, and then you sit back for a few years while the next one comes along, being more iterative about this, looking at the opportunities, such as the AI offer, and doing that on a more test-and-learn basis.

Q183 Chair: You do not think that it has been iterative and on a test-and-learn basis.

James Murray: The pace has been on quite a long timescale. It tends to be quite a large programme.

Q184 Chair: It was the biggest digital transformation programme in Europe. I spent a decade looking at some of these things. There was some testing and learning going on on a number of the programmes that you are responsible for. "Too slow" is what you are saying.

James Murray: It is not necessarily too slow. Sorry, there are two different points to be made here. One is about speed of delivery. With any programme, you need to make sure it is being delivered at a good pace, and that is the case for large programmes as well, but I have also found that there are some more small changes. There are minor changes. There are improvements you can make incrementally. You can test out improvements and then spread them across the organisation. That kind of culture is one that we can get a lot of benefit from.



Q185 **John Glen:** Why would you not just say to the lead official for customer service that you are concerned that the rapidity of the transformation and the use of best practices that you are observing in the private sector are not being adopted quickly—"Could you write to me with a summary of what has happened and why we are doing it differently to elsewhere?"—and then urge them to act differently? It appears that you are saying that you are having insights that a vast, significant professional machine of delivery is incapable of providing you at request. I am struggling to see the rationale for your engagement at that level of detail.

James Murray: Maybe you and I have different styles of being Ministers, John Glen, but my preference in terms of delivering change is following through on making sure it is delivered throughout the organisation. I do not think that writing a letter and getting a response will cut it for me. I want to make sure that we are doing this change.

Q186 **Chair:** That is a bit of a mischaracterisation of what Mr Glen was saying. I spent a decade looking at not just HMRC but other Government Departments. The point is that you are saying very clearly that you are hands-on and you will follow through right down to the member of staff delivering on a project and try to change the big things that you have just talked about. There have been quite a lot of heads of customer service brought in from the private sector and other tax authorities around the world at HMRC. You are saying to us that you think you can do a better job than they have done so far.

James Murray: No, of course that is not what I am saying. I am saying that, as a Minister who wants to be involved in delivering that change, I want to work with the excellent people who are employed by HMRC to give my direction, provide my challenge, offer my support to push that change and work with people across the organisation to deliver that.

Q187 **John Glen:** I wanted to ask about international matters. One of your predecessors, the one who lasted a bit longer than six months over the last 14 years, was David Gauke. His priorities were looking at the tax system on its international competitiveness and rules on tax avoidance. What significance do you attach to international tax co-operation? We face the world's largest economy, with a new President, potentially having a different approach. I wonder whether you have given any thought to that area and how you would see the Government and HMRC responding to a new Trump presidency in terms of co-operation on tax.

James Murray: David Gauke is someone who I have met myself and spoken with. He has been very generous with his advice and I have a lot of respect for him. The importance of international tax co-operation has been surfaced through a lot of the OECD co-operation that we have seen in recent years. There are obviously big policy decisions there that we cannot take ourselves. They are in the context of what is happening around the world.



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With pillar two as part of the OECD project, that was begun under the last Government and we are making amendments in the current Finance Bill to improve that. Although, with a more politicised hat on, I might say that we pushed the previous Government to implement it, I recognise that the work to implement pillar two began under the previous Government and we are now making sure that it works in practice by keeping the legislation up to date. I see that international tax co-operation as being very important and it is something that we have talked about at length.

Q188 Rachel Blake: To your number one priority, closing the tax gap, it has gone from 7.4% in 2005-06 down to 4.8% in 2022-23. How much further can HMRC go in closing this gap?

James Murray: You are right to identify the fact that it is now 4.8%. It has been around 5% for the last, I think, five or six years. We want to go further than that. When we have the full details of the spending review and so on, we will set out all the metrics against which we can report.

It is important to understand that, from my point of view, if we look at what the components of the closing the tax gap package are, I see there as being three or four main categories. There is the big investment in compliance staff, investment in debt collection, investment in IT systems and infrastructure, and then policy change. All of those operate alongside one another to help close the tax gap.

Part of the issue as well about closing the tax gap is about some of the policy changes where we could reduce people making errors or failing to take reasonable care further upstream. If you look at the main components of the tax gap now, nearly half—I think that it is 45%-odd; I will check that number, but getting toward half of the tax gap—is down to error and failure to take reasonable care. If you can digitise the service and make it more automated wherever possible, that helps to reduce some of the tax gap in the first place.

Q189 Rachel Blake: We are going to come on to digitalisation, but I am really thrilled to hear you talk about metrics. When we spoke to the Perm Sec, Jim Harra, earlier on, I asked about progress towards closing the tax gap within this financial year, because there is £350 million additional to bring in. We did not get to the answer in the session and we asked for a written response. We were told, “We are confident that we will achieve the target of £275 million additional tax revenue for 2024-25”, but we do not know the progress towards that. Our last discussion was on 27 November. Another month has passed since then. Admittedly we have lost two weeks with the Christmas break, but we would be keen to know what progress towards the in-year tax gap closing has been made.

James Murray: Yes, sure. Let me explain how those numbers operate. I am obviously happy to write to you as well to put this in writing. The £275 million, which is the additional tax revenue in 2024-25, breaks



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down into two parts, which are £150 million and £125 million. I will explain what they mean.

The £150 million is the extra revenue that we expect to be collected in February and March this year. Some of the debt staff who are currently employed by HMRC were going to stop being employed at the end of this month. Through what we have done in the Budget, it means that they will now stay on. Rather than finishing their work at the end of this month, they carry on in February and March. The estimate, given their rate of collecting debt, is that they would then get that £150 million over the next two months. That extra £150 million is essentially all in February and March, because it is continuing the run trend now by maintaining those staff, rather than them stopping their work at the end of January.

The £125 million is slightly different, because there are further staff who are going to be retained from April 2025, so more staff who were going to leave, but they are being continued. I think that there are about 330 of them. The £125 million refers to some of the money that they are going to collect in 2025-26 and 2026-27, which is then reallocated to 2024-25. That is in line with the national accounts basis of accounting for debt-related Budget announcements. Essentially, some of the extra money that they raise in the following two years is then, because of the accounting rules, which are consistent across Government Departments, allocated back to this year. You take the £150 million rolled over in February and March, and the £125 million from future years.

Q190 Rachel Blake: On that basis, if they are not successful in bringing this forward—we will get a stocktake at the end of January and then again at the end of March; there is additional revenue of £815 million next year—will there be a consideration of their headcount? Is there complete confidence in this metric that these staff generate this additional income?

James Murray: This is based on what members of staff at that level would typically generate. You have to consider diminishing returns and so on. There is modelling to work out what revenue, in terms of debt or tax gap, compliance or debt staff can bring in. The core of the debt package is these 1,800 additional debt officials by 2029-30 and the 5,000 compliance staff to contribute towards, I think, £4.7 billion of the £6.5 billion overall.

Q191 Rachel Blake: This is really helpful information about the metrics. Do you think that we can get closer to 2% or 3% in closing the gap on this trajectory?

James Murray: I am probably not going to say that right now. We will make sure to keep you updated on the progress we are making.

Q192 Chair: Would you be willing to share those metrics with us as you are developing them and before they are firmed up? We could do it confidentially, on a reading room basis, which would be quite normal for Select Committees.



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James Murray: I will take that away and consider it.

Chair: I probably do not need to say, but, to be clear for the record, as a Committee we, of course, do not leak sensitive information. It would be very helpful to have access to that in order to do our job, so take that away.

James Murray: I will take that away.

Q193 **Yuan Yang:** Thank you, James Murray, for coming in. The amount that can be raised through additional debt and compliance staff seemed very impressive. Do you feel that HMRC has been under-resourced in terms of the amount of staff collecting tax to close the tax gap in the past? How far do you think we are from the optimal size of staffing of HMRC?

James Murray: It is a very interesting question. There are two parts to that question, so whether I think it has been understaffed and what the optimal size is. On the first question of whether they have been understaffed, given the fact that we can increase the staff by the level that we have set out and get this extra tax revenue coming in, it would seem that the previous Government were not doing that. It is something that we have chosen to do. There was definitely extra capacity there to bring in extra additional tax revenue and we can do that through these extra staff.

Your second point is very interesting around what the optimal size of the organisation is. You obviously have diminishing returns to investment in terms of extra staff at some point. One question that I am very keen to understand is around where that point kicks in. We set ourselves very ambitious targets of 5,000 extra compliance staff and 1,800 debt staff at the moment, but I am very keen to keep that under good review and see whether there are opportunities to consider whether that is the optimal number and what else can be done.

In terms of onboarding, bringing extra staff on board, there is sometimes a question about the rate, rather than just the absolute number. As you bring more people on board, that then takes existing staff away. You have to train them.

Q194 **Chair:** Indeed, Jim Harra outlined that very clearly to us.

James Murray: With any organisation, and I have found this in roles before, there is a rate question as well as a destination question, if you like.

Q195 **Chris Coghlan:** Thank you, Minister. More broadly on the Budget, given 30-year gilts hit the highest level since 1988 last week, how worried are you that increases in the tax yield from the changes in the Budget do not materialise and that you break fiscal rules? How are you monitoring this risk?

James Murray: The Chancellor has been clear that the fiscal rules are non-negotiable, so the fiscal rules will be met. My job is to make sure we



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are implementing the commitments the Chancellor has already made at the autumn Budget and that we deliver them. That goes partly to my point around why I am so keen to be hands-on with delivery at HMRC, rather than just say, "This is our target", and get periodic updates. I want to make sure we are delivering the changes, not just right now, this year and next year, but also the transformation over the next few years as part of the spending review.

Q196 Chris Coghlan: How do you measure that the changes in tax revenues are a result of changes that you are making at HMRC versus changes in economic growth leading to higher tax revenues?

James Murray: The £6.5 billion that we committed to at the Budget is additional tax revenue, so that assumes a compliance yield underneath that. Some of the work that HMRC has to do is just to keep up with expectations about the base compliance yield. That would obviously take into consideration changes in taxpayer population and so on. There is a base compliance yield and the additional tax revenue sits on top of that. That is why part of HMRC's job, and my job to oversee as Minister, is making sure it is hitting the basic compliance yield as well as delivering this additional tax revenue.

Dan York-Smith: HMRC measures its impact on tax for exactly this reason. It has a compliance target and that target is updated based on policy. It monitors that and reports on that in its annual report and accounts. Also, as part of looking at the impact of the measures, the OBR requests for HMRC to produce evaluation of their effects. There are different bits of the system attempting to measure exactly what is HMRC action versus what is wider economic trends.

Q197 Dr Sandher: Welcome, Minister. I want to speak through some of your decisions, but particularly around what that means for your philosophy of tax policy and what the relation is to growth. Can you start off talking us through your decision around national insurance at the Budget and particularly why you chose to, if you like, protect smaller businesses while levying it on larger businesses?

James Murray: Thanks very much for that question. The decision about employer's national insurance contributions in the Budget is one of the toughest decisions that we took as a Government. We recognised that there would be consequences of it, but it is crucial to underline why we took that decision. We knew that, if we did not fix the public finances, make sure that the Chancellor's fiscal rules are met and have that stability, it would undermine prospects for investment and growth in the future.

We took those difficult decisions up front, protecting the public finances, supporting public services and helping to support investment in the future. As I say, employer's national insurance contributions was one of the toughest decisions in the Budget, but it was one that is necessary to



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stabilise public finances, support public services and achieve that growth that we are aiming for.

Q198 Dr Sandher: You have lifted, I think, 250,000 businesses out of paying it. I think that 865,000 pay the same or less than before, especially the smallest businesses. Is the fact that those smallest businesses tend to hire low-paid workers part of the calculation as you were making those tax decisions?

James Murray: Part of the calculation was that we want to make sure that the smaller businesses have greater protection, because they might find it harder to respond to the changes that we are making. I know that businesses will have to make difficult decisions to respond to the changes in employer's national insurance contributions. We felt that the smallest businesses and charities needed the greatest protection in that regard, which is why we more than doubled the employment allowance from £5,000 to £10,500. That figure of £10,500 means that, as you said, if you are employing people on low wages, you can employ four workers on the national living wage without paying any national insurance. That is what it means in practice.

Q199 Dr Sandher: I suppose this is what I am trying to get towards: as you are making tax policy decisions, are you considering how to raise revenue in the most growth-friendly way possible? There are the other decisions around, for example, the non-dom tax changes. If you look at the distributional analysis that you have produced with the IFS, you see the tax change is levied on the very richest households and very little elsewhere in the distribution. Is the fact that higher-income households are consuming less of their income a consideration? Is there a growth consideration in your tax policy as you are making it?

James Murray: We wanted to make sure that any tax changes were as fair as possible, as well as being sustainable. With the non-dom example that you mentioned, we were very keen to make sure it was replaced with an internationally competitive residence regime, which is why what we are introducing now is internationally competitive and attractive for people coming to the UK. It will attract people with wealth and talent to work in the UK. We wanted to implement the non-dom changes to help fix the finances in as fair as possible a way, but remaining internationally competitive and having a new regime that is internationally competitive was crucial for us too.

Q200 Dr Sandher: Can I ask Mr York-Smith about the metrics you might be considering and the analysis you are giving to the Minister? Apart from the revenue being raised, are you also giving consideration to these other measures, so the other kinds of impacts it would have? I can appreciate that the GDP impact of any single tax measure is quite difficult, but there would be other measures, for example. What kind of analysis are you giving to the Minister?



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Dan York-Smith: We give a range of analysis, including, as you have talked about, distributional analysis, sectoral analysis and whether there is a particular regional angle. When it comes to assessing the growth impacts, a lot of that is done by the Office for Budget Responsibility. We can talk about some of the microeconomic impacts and the behaviours.

We work with HMRC, which holds all the taxpayer-specific data and a number of models about how changes would feed through in a microeconomic way. Then the OBR takes the judgment of whether a single change is large enough to affect one of the factors of the economy, for example fuel duty and its impact on inflation. It takes those judgments and has a framework, which I am sure it spoke to this Committee about a bit in the context of the Budget, which considers whether it affects investment or other parts of the supply side of the economy. Generally, those have to be quite large measures to have that sort of impact.

An example of a recent change is full expensing. That was one that it judged to have a significant impact on business investment, which would affect growth in the long term. For lots of other smaller tax measures, it is much more the microeconomic and behavioural responses that are captured because they are not of sufficient scale.

Q201 **Dr Sandher:** If I had 10 tax changes that were equivalent to one large tax change, would the impact of the 10 small ones be accounted for in the growth forecast by the OBR?

Dan York-Smith: It also looks at the totality of the changes. It looks at what a fiscal event does to the total level of tax, the total level of borrowing and so on. It has some so-called fiscal multipliers. It says that, if you cut tax by a certain amount, it generates a certain amount of additional economic activity, or, if you raise it, it reduces economic activity by a certain amount, and the same for different types of spending. It has different ways of accounting for capital spending, resource spending and AME. It will aggregate and look at the totality as well, even if the individual measure does not meet its threshold for having an economy-wide effect, if that makes sense.

Q202 **Dr Sandher:** Can I ask a final question on that particular point? It is okay if you do not know the answer. This might be one for the OBR, so feel free to say so. The extension of the energy profits levy should have theoretically had no impact on growth because it is a windfall tax on a natural resource. If I am understanding you correctly, if the OBR did not take that out of the tax multiplier, it would have put a negative impact on GDP that should not be there. Do you know whether that happened?

Dan York-Smith: We should probably write to you. I think that the way its framework would work is that it would be in the tax total, but I do not know for certain.

Chair: The OBR's modelling is quite well established, so we can pursue



that elsewhere.

Q203 **Chris Coghlan:** Minister or Mr York-Smith, are you able to give me specific examples of where you will reform the tax code to boost economic growth, rather than to raise revenue?

James Murray: One key thing that I was really keen on publishing at the same time as the Budget was our corporate tax roadmap. One thing that businesses said to me when we were in opposition as well as in government is that having stability, certainty and predictability is crucial for investment decisions. Although we recognise the difficulty of the fiscal context, we are giving that certainty to businesses, saying, "We are going to cap corporation tax at 25%, maintain full expensing and maintain the annual investment allowance at £1 million. Here are some aspects of the corporation tax regime that we want to consult on", making sure we are flagging that up and signalling that to businesses ahead of schedule. That stability brings a lot of benefit to businesses taking investment decisions.

Q204 **Chris Coghlan:** Do you think that the private sector will prefer lower rates of tax or that stability? Which you think is more important to the private sector?

James Murray: The tax burden is high in this country. I am sure businesses would want it to be lower and we want it to be lower on working people. Overall, the tax burden should not go any higher than it needs to. In the context of a difficult fiscal situation, where it was very difficult and difficult decisions had to be taken, providing that stability is a benefit to businesses taking investment decisions.

Q205 **Chris Coghlan:** One specific tax reform that I have been reading about from London Business School research is allowing full expensing of intellectual property transactions, non-R&D ones, because that incentivises companies to import existing innovation and has a faster pay-off than R&D. Is that something that you have considered or should be looking at?

James Murray: No. It is an interesting point. Obviously we keep all elements of tax policy under review. You would expect me to say that the Chancellor makes any announcements at fiscal events in the normal way. Anything we can do to support businesses to make investment is something that is central to our growth agenda. If we could bring taxes down for businesses, that would be great. Given the fiscal situation, the fact that we can offer stability and certainty, and work out what targeted interventions we can do, is really important to help them invest.

Q206 **Chair:** One thing that was useful in the Budget was the initial measures on registering those providing tax advice. This has been quite a concern for a number of years. There were three potential options that were originally consulted on. Do you have a personal preference on the approach between the three options, which, just to remind anyone who might be tuning in, are a government regulator, a professional body membership approach, or a hybrid approach?



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James Murray: We are still considering the medium and long-term approach to the tax advice market. The first thing that we need to do, which we have committed to doing and I think is a good first step, is to make sure there is a mandatory registration of tax advisers who interact with HMRC. That is very much a floor in terms of what standards they meet.

Q207 **Chair:** How burdensome will that registration be? How would that be approached? You could have a digital approach with self-referral.

James Murray: Any tax advisers who interact with HMRC will have to be registered.

Q208 **Chair:** How would they register? What process will they have to go through?

James Murray: It starts in April 2026, so that will be set out ahead of then. I very much expect it to be digital.

Q209 **Chair:** Can we perhaps get a flavour for how you envisage it? Will it be a 30-page document, or will it be an online quick form? If they are already a registered chartered accountant or something, will that make it easier? What are you thinking about?

James Murray: It is not online. There will be some questions to answer. We can assume that it will be a digitally-led process for registration, but I can update the Committee in due course about what we are considering in terms of minimising the burden, while also making sure it is an effective process.

Q210 **Chair:** It would be helpful if you could set out the roadmap when you have it, if you do not have it. Could you write to us with that? One issue here is that, if something goes wrong or someone has done something wrong, you will apply sanctions. What kinds of sanctions are you considering? Let me quote you. This is the consultation outcome paper on tax advice. You noted, "HMRC will shortly consult on options for stronger sanctions against practitioners who behave in ways which enable their clients to pay the wrong amount of tax". If they do that, what is in your range of options and where are you settling?

James Murray: That will all be in a consultation, which will be published—shall I say in the spring?—in early 2025.

Q211 **Chair:** Okay, sometime in the next six months, roughly.

James Murray: I hope that it will be earlier than that.

Q212 **Chair:** We will take spring in the way that the civil service usually means spring. It is quite a long period of time. Can you share with us any thoughts about what sanctions? You can have sanctions in theory and you can have sanctions in practice. Sometimes the ideal is difficult to actually deliver in terms of sanctions. What are you thinking? What is in your toolbox?



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James Murray: I do not want to pre-empt the consultation being published, but there is work ongoing on that and the consultation will set out the options.

Q213 **Chair:** How will you find people who do not register, rogue practitioners who think that is just not worthwhile and try to fly below the radar?

James Murray: Any practitioner who engages with HMRC will have to be registered. It will be mandatory for anyone engaging with HMRC.

Q214 **Chair:** Basically, they will not be able to get across your threshold.

James Murray: They will not be able to interact with HMRC without having that registration, yes.

Q215 **Lola McEvoy:** Thank you, Minister. Generally, people feel that HMRC is very quick to take away their taxes and take money from their pay packets, but, when it comes to getting that money back from HMRC, it is a very difficult and cumbersome process. Jim Harra said in 2024, in regards to the helpline service, "We are giving a service to customers that is well below the standard that we want". I think that my constituents in Darlington would agree with that.

I want to give you a quick overview of an example that comes up quite a lot, which is of back pay. When somebody has been chronically underpaid, as often happens to low-paid workers where they miss out on wages, they can work really hard to get that money back and work with their employer. They get back paid in a lump sum and that is taxed accordingly, but it is often taxed at a very high rate.

When they then go to interact with HMRC to get that money back, they are told that it is as normal and that that is just the way it is, or that they may get a rebate later in the year. That is often very difficult for people on low wages. It is deeply frustrating and I suppose I am concerned about the poor customer service that people across the country are receiving. I wanted to know what your plans are to rectify that.

James Murray: It is a really important point. It is not sharing any secrets to say that customer service has not been at the place that it should be. The customer service metrics recently have ticked up. I am not claiming credit for that, but HMRC has managed to improve some of the metrics around answering the phones recently.

There is a more long-term issue here about making sure that the demand that is avoidable for customer services is reduced by improving the digital offer, which then frees up the time of the people who work in customer services to help people with more complicated cases. For instance, a lot of people call up to find out their national insurance number. You can very easily find out your national insurance number in the HMRC app. You can download the app. Actually, I might ask, Chair. Who has downloaded the HMRC app? I see a few hands not going up.

Chair: Good one, Minister.



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James Murray: Next time you summon me, I will ask that question again and I hope we will see a metric of improvement on that.

Q216 **Chair:** Not all MPs now have to return a tax return. There is an exemption.

James Murray: It does not matter. You can check your PAYE. You can check how much is being downloaded month by month. You can check your national insurance number.

Chair: There we go. Good advert, Minister.

James Murray: National insurance is a good example. On the app, you can check your national insurance number. You can download it into your Google Wallet so you have it there if you cannot remember it. It is a really good service.

There should not be so many people calling up, taking up advisers' time, trying to get their national insurance number. If we can make finding it online as easy as possible, make sure that that is the default for people, that reduces the caller demand. It means that those people who are working on the phonelines can then answer people who have more complicated questions but really need that help, whether that is just a complex query or, in some cases, someone who is vulnerable or not good online and that kind of thing. We can really help with digital exclusion and so on. Making that capacity without just putting more and more money in relies on this digital transformation, which is why it is such a high priority for me.

Q217 **Lola McEvoy:** Thank you, Minister, for that answer and I will download the app. I am glad that you mentioned digital exclusion. It is a big issue facing many people across the country. The House of Lords in January 2024 published a report on digital exclusion that said that 5 million employed people cannot complete essential digital work tasks. They modelled that they think that basic digital skills are set to be one of the UK's biggest skill gaps by 2030. Are you concerned about this digital-first approach and how it is going to affect those people? How are they going to get access to what is often their money?

James Murray: Any digital-first strategy has to be mindful of digital exclusion, because we are not like another company where someone can go to an alternative company. People have to interact with HMRC to pay their taxes. We are a public service. We have to make sure we are accessible.

Having said that, while we need to make sure the services are there for people who are digitally excluded, we also need to make sure that we are shifting more people online. That might be people who are very willing to, but just do not know how to, or find the service not good enough or something like that, but it might be people who are just not keen to. We need to work out what the barriers to getting them online are and how we can help to get them online.



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For instance, there are people who call up after submitting their self-assessment return online. A lot of that is to do with the worried well. It is people just checking that they have got it right. What is a way digitally that we can reassure people: "It has been received. This is how much you owe; maybe you have even paid it and that is registered"? How can we give people that confidence so that we reduce that demand? By reducing that demand, it then means that the resource is there for people who really cannot get online.

I do not think we should ease off the push though. If some people are a bit reluctant to go online, we should push a bit. We should say, "Okay, what are the barriers there? How can we get you online? How can we make sure we have a really good offer and how can you make sure you use the digital services that are available?" For those who are genuinely excluded, who really cannot use it for whatever reason, we need to make sure that the services are there.

Q218 Lola McEvoy: Thank you for that. There is another element to this, which is that, when they are dealing with their money and very precious personal data, people are really concerned about fraud and scams. A lot of people are falling prey to them. It is very difficult to get that money back. We hear story after story across the country about this being an appalling way that people are being treated. With that, do you think that people are going to be more concerned about something that is so precious to them, such as their national insurance number, or giving away that sort of information online? Do you have any concerns or work that you have been doing on that?

James Murray: People's view of data, data privacy and data sharing changes over the years as more and more stuff is done online. We all know that our supermarket has a lot of information about us as well as the Government. It is one reason why making sure we are investing in the IT foundations of HMRC to protect against things such as cyber-attacks and data breaches is so important, as well as the more front-facing services that we have been talking about so far. It is obviously important that the app is easy to use, online services are easy to use and we use AI in how people interact with HMRC when they have a question. At the same time, getting the foundational infrastructure there to protect people's data is critical as well, because trust in the tax system is vital for people feeling confident to share that information.

Q219 Dame Harriett Baldwin: How many more people are going to become, quote-unquote, "customers" of HMRC in this Parliament?

James Murray: I do not have the number in front of me, Dame Harriett. I can write to you with that. There is the freeze in thresholds until April 2028, which will mean more people will pay tax. There are two parts to your question. If you disaggregate it, there are two sections to it. One is about the number of people paying tax and then one is the number of people who need to interact with HMRC. We know that, because of the threshold freezes introduced under the previous Government, the number



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of people paying tax will increase. At the same time, how do we make sure that people who are customers of HMRC, if you like, who are paying tax, do not need to call up to resolve their tax affairs? How can they be sorted online or automatically?

Q220 **Dame Harriett Baldwin:** You will follow up with the numbers, because I think that it is over a million certainly.

James Murray: Can I just check so that I write to you with the right information? By number of customers, you mean number of people paying tax?

Q221 **Dame Harriett Baldwin:** I mean the number of additional people who will have to have some sort of interaction with HMRC that is not just PAYE automatic. Then how many of them are pensioners? That would also be interesting, because the state pension is likely to get caught above the tax-free threshold in the next few years.

James Murray: I will write to you with the information.

Q222 **Dame Harriett Baldwin:** Okay, brilliant. You mentioned that the helpline response rate is improving. I wondered whether you could share with us how much it has improved by, because I think your metric is that you want it to get to 85% where customers who want to speak to an adviser get to speak to an adviser. It does not sound like an incredibly ambitious target. I wondered how close you had got to that now.

James Murray: The metrics that we are currently working towards are ones that we inherited from the previous Government. We will be looking, as part of our work to improve and modernise the tax system, at what metrics are appropriate going forward. I think that we have the stats here. I might ask Dan to update you.

Dan York-Smith: HMRC publishes them with, I think, a two-month delay, so the most recent two months were October and November that were published at the end of last year. When it comes to telephony, as you say, the target is 85% of attempts handled. In October it was 85.4% and in November it was 84.7%, so essentially at target on telephony for October and November. Obviously, there is then a peak in demand. We will be working with HMRC on how it is doing in handling that peak in demand, which comes as people have to file their self-assessment returns.

Q223 **Dame Harriett Baldwin:** I think I heard the Minister say that you may look at that metric and think that that is not ambitious enough at 85%, and that you might look to increase that. How many people have downloaded the app now?

James Murray: Sorry, can I just say, on that point around the metrics, that that was not exactly what I said? We will be looking at what metrics are appropriate. If we are going to be a digital-first organisation, we should consider metrics in that context.



Q224 **Dame Harriett Baldwin:** If you need to speak to someone, 85% means that 15% do not get to speak to someone.

James Murray: I take your point entirely. I was just clarifying that, for me, looking at the metrics, it is not simply about accepting what is being measured and changing the number associated with it. It is also about making sure we are measuring the right things.

Q225 **Dame Harriett Baldwin:** How many people have downloaded the app by now?

James Murray: We have those stats here. I do not want to recite them. Dan can flick through our pack.

Q226 **Dame Harriett Baldwin:** Last time we asked Jim Harra, something like 250,000 people had downloaded the app and he was promising us a publicity campaign. I wondered whether you had made some big progress on it since we met with him.

James Murray: We definitely have those numbers because I read them last night, but I want to make sure I get them right by getting them for you rather than trying to estimate them.

Dan York-Smith: I have them.

James Murray: There you go. Dan is quicker at looking up than I am.

Dan York-Smith: I trust these are right and we will correct ourselves if they are not. I have a variety of stats. It has been used 112 million times by over 5 million unique users over the last 12 months, which is an increase of 43% in terms of the amount of usage in the last 12 months. I take it from that that there are at least 5 million people who have downloaded it because they have used it in the last 12 months. There is a 435,000 number, but that I think was about the self-assessment payments rather than about the app.

Q227 **Dame Harriett Baldwin:** Minister, do you accept that pensioners who may need to interact with HMRC as customers are less likely to be willing adopters of the app and that the helpline is always going to be a very important part of what you do? You are not planning to turn the helpline off again in this Parliament, are you?

James Murray: We are certainly not planning to turn the helpline off. I think that some pensioners will want to phone up. Others will be happy to do it online.

Q228 **Dame Harriett Baldwin:** It is not just pensioners.

James Murray: You asked about pensioners, so I am responding to your question. There will be different people who feel comfortable with different things. It depends on how complicated people's tax affairs are. Some of this comes round to, as I said earlier, the worried well and the element of reassurance to see whether we can get to a position where people, whether pensioners, as you said, or anyone else indeed, do not



need to call to reassure themselves. Where possible, if they can be reassured more automatically, without having to make that phone call, that is a better position for them to be in and for us in terms of HMRC.

Q229 Dame Harriett Baldwin: Last March, when the helpline was turned off and then turned on again, we were told in his evidence at the time by Jim Harra that the turning off had been because there was a plan to reduce the number of helpline staff by 5,000. Then some additional money was given to prevent that happening, but I am getting confused with all the 5,000s that are involved here. In your autumn Budget detail, you also have the 5,000 additional compliance staff. Can you help the Committee out by explaining whether the helpline staff are still going down but by less or whether it is an increasing number now?

James Murray: I will speak to what I can say and I might ask Dan to come in because some of this was under the previous Administration. That decision that Ministers at the time oversaw to close the helpline then led to an urgent question being tabled by someone not a million miles from here. The decision was then reversed, which, as I understand it, then led to that money that you referred to.

Q230 Dame Harriett Baldwin: Is that to not get rid of the 5,000?

James Murray: This is where I am going to bring Dan in, because I was not there.

Dan York-Smith: HMRC was given an additional £51 million this year to deliver its service standards, which is the 85% that we have just talked about and that HMRC is now achieving. I could not tell you exactly the current level of staffing of the customer services group within HMRC. Like everywhere, it is seeking to become more efficient. I do not know what the answer is on the 5,000, but it was given the money to deliver the service standard and that is what it has currently achieved.

Q231 Dame Harriett Baldwin: Brilliant. Could you kindly follow up with that information and what the forecast is for the period ahead since the numbers have been clarified for the debt management and the HMRC compliance stuff? Lastly, can you tell us how you are using artificial intelligence to deliver a better service level for taxpayers?

James Murray: In terms of customer service, there is a big role for AI to play and some of this relies on us modernising the IT infrastructure that HMRC has. One good opportunity that we could look at in the future is around, for instance, call summarisation, so having AI to give call summaries so that, when people call up and have a call, it is recorded through an automatic summary and then, when they call back, it is easier for the call operative to remind themselves what they last discussed. That kind of thing can be hugely helpful and I have seen organisations in the private sector that use this routinely. There are also opportunities for using AI for developing, potentially, even some simple correspondence or subsequent actions to help assist individual operatives to do that.



There is also the separate point—I know that this was not entirely your question, but it is worth flagging—about what we can do to support AI growth in the private sector. There is the use of AI within HMRC, but there is also what HMRC can do to support the growth of AI in the private sector to do with data and what we can do to provide a good environment for AI developers to interact with HMRC systems. There are a huge set of benefits there from AI internally at HMRC and how we can support wider growth of AI in the economy.

Q232 Bobby Dean: I have a quick couple of follow-ups on some data points, and maybe it is best that we get these in writing. You said that often people call for an NI number or to clarify that their self-assessment has been submitted. Do we have data on the subject of phone calls and could we see a breakdown of what proportion of them are simple inquiries like this versus people tearing their hair out on gov.uk?

Dan York-Smith: We would have to get that from HMRC. I know that it has lots of data.

Q233 Bobby Dean: It is so that we can see the potential of what the shift would do.

Dan York-Smith: It tries to capture what it calls failure demand, where people call back or they are asking a simple query.

Chair: It would be helpful if we could get that data. It would give us an idea of the trajectory that the Minister was outlining.

Q234 Bobby Dean: The other point speaks to Dame Harriett Baldwin's points about how many people will be newly interacting with HMRC. We mentioned, potentially, pensioners, but I believe that there might also be an increase in people who have child benefit and want to do tax returns. Could we get the full breakdown of who we anticipate to be coming newly on to HMRC as well?

Dan York-Smith: HMRC will have that as well. It is a bit complicated. There are things about people moving up the different income tax bandings, but actually there is no longer an income threshold at which you have to complete a self-assessment return. There used to be and that was changed during the previous Parliament. Now, in terms of having to interact with HMRC via self-assessment, it is whether you yourself know you have income that has not been taxed at source, so the onus is on you. It is slightly complicated. Changing a tax band does not necessarily change the amount of interaction you have to have with HMRC. It just means that you are moving up.

Q235 Chair: The interaction with child benefit is quite interesting.

Dan York-Smith: There is the interaction with child benefit and HMRC has been working on that particular service for those subject to the high-income child benefit charge to try to improve the administration. We can definitely give you those numbers.



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Q236 **Chair:** There is often not enough early warning for that, so people who just did not submit a tax return have to because their income hits a certain level, which means that the child benefit triggers it. Is there any way of data matching so that those people get notification that that might happen? Is that something in your minds?

Dan York-Smith: I know that HMRC has been working on how to improve the administration of this. I think that it has moved to a more digital service. We will give you some more detail.

Q237 **Chair:** Perhaps you could write to us on that.

Dan York-Smith: Sorry, I do not have the full detail.

Chair: We will have the Minister and HMRC in front of us very frequently, I am sure.

Q238 **John Grady:** Coming back to Making Tax Digital and digital confidence, you will be aware that one of the things you have inherited is Making Tax Digital. The National Audit Office looked at it in 2023, reporting in June 2023. One aspect that is being canvassed as a benefit for Making Tax Digital is that it will enable customers better to self-serve in some sort of meaningful sense and get off the phonelines. The report mentions that, in 2018, HMRC closed the earlier programme, which was targeted at digital services so people could help themselves. Para 3.21 says that, effectively, Making Tax Digital will not achieve efficiencies and improve current poor service levels. At most, "It may enable greater self-service in the long run". Do you see enabling self-service as a key benefit of Making Tax Digital, or would you share the National Audit Office's view?

James Murray: It is one benefit of Making Tax Digital. If you look at the next milestone that we are heading to with MTD, which is for self-assessment in April 2026 for income tax for small businesses, landlords and so on, that is really important in terms of not just helping people to serve themselves online and interact with HMRC, but also improving the quality of record keeping. It has a benefit in terms of the tax gap, making sure that people are keeping the digital records on a quarterly basis. It helps people to manage how much tax they owe and when they are paying it, to make sure that they are keeping on top of their tax affairs. It is a really important foundational part of moving over to a much more digitised system of HMRC.

Q239 **John Grady:** I take from that that the focus is more on making it easy to report your tax and pay tax, and better tax records, so cutting out those mistakes you mentioned earlier on tax.

James Murray: It is a really important part for me. As we have spoken about today, closing the tax gap is one of my three priorities. The April 2026 and April 2027 mandates for MTD have additional tax revenue associated with them because they are measures that will increase the tax collection.

Q240 **John Grady:** On that, paragraph 2.17 of the same report notes that the



initial new VAT registration service did not require people to prove their address, which of course, among other things, led to thousands of people getting letters to companies at their addresses that did not exist. I do not want to appear facetious, but, if I wanted to open up a bank account for my son, I would have to prove his address. The software for that sort of thing has been in existence for a long time. As a new Minister—you have not even been in post seven months—how confident are you that front and centre of the Making Tax Digital programme are the simple sorts of steps that can prevent tax evasion and fraud, such as proof of identity?

James Murray: Making sure people are paying the tax that they owe and discouraging and preventing fraud is a crucial part of not just Making Tax Digital but the wider agenda. One of the processes that I have been through over the last six months, in terms of talking with the people responsible for the Making Tax Digital programme, is to really interrogate their plans for delivering this service for April 2026.

For instance, one of the important components of delivering it for April 2026 was having a free software option so that particularly people who were not earning that much had a free option alongside the more premium ones people might buy. One agreement that I brokered with Sage, one of the big producers of the software, was to agree that free software to the timetable for delivery. I am very grateful to Sage. I can put on record how grateful I am for its agreement on that. That helps to give delivery confidence around the MTD programme.

Q241 **Chair:** Is that product required to be forever free? Have you stitched it in so that it is forever a free product from Sage?

James Murray: The commitment we have from Sage is to launch the free product ahead of the April 2026 mandation.

Q242 **John Grady:** On that, I think that there are bands of businesses, are there not? This next stage does not apply to businesses with a turnover of under £30,000. Do I have that right?

James Murray: It is £50,000 and then £30,000. There are two stages, yes.

Dan York-Smith: We committed to lowering it to £20,000. We have not said at what point it would lower to £20,000, but that is the direction of travel.

Q243 **John Grady:** I have a couple of crisp follow-ups from that. Another theme in the National Audit Office report is properly taking into account the burdens on businesses of introducing a digital requirement. In simple terms, the National Audit Office found that HMRC had not, in its cost-benefit analysis, properly accounted for that and that this is something that it needed to do moving forward. As you move into the smaller business universe, under £50,000 and under £30,000, going to £20,000, how confident are you, Minister, that those costs to business have been taken into account?



James Murray: The cost of software is relevant to the point we were just talking to around free software being available. One reason why we have chosen to start with a £50,000 mandate, then to go to £30,000, and not to set a date right now for £20,000 but to see where we are, is exactly so we can learn as we go along from this, as well as being confident about the first stages. We will make sure that we are taking feedback from businesses that are required to engage with MTD, so that the later stages can be improved based on earlier people's experiences.

Q244 **John Grady:** That is very helpful, because you see, Minister, the NAO report also talks about the cohort of businesses. Once you get below £30,000, you are talking about genuinely small businesses that maybe will need additional support. At 3.31, the report said that HMRC expects there will be an increase in additional needs, but HMRC has not estimated how many business taxpayers will need support. It does not have specific plans for providing additional support, other than the digitally exempt. Leaving aside the detail of that analysis, how confident are you, Minister, that HMRC has properly understood the additional support that those smaller businesses will need?

James Murray: Part of the programme ahead of the April 2026 introduction of the £50,000 threshold is to focus on what support businesses need to get ready for it. That will take consideration of some businesses and some individual taxpayers doing it without much difficulty and others requiring more support, help or guidance to make sure that they are ready for that introduction. It is certainly something that is on my radar. As I said, as we progressively decrease the threshold, it is something we need to keep a watching brief on.

Q245 **John Grady:** I have two brief questions, if I may, following that. Presumably any simplification of the tax code makes the implementation of Making Tax Digital easier. The simpler it is, the less work there is in devising the IT to support it.

James Murray: I suppose it depends what you mean. Actual changes to the tax code have implications for the design of Making Tax Digital, because if you want to change the tax code you then have to change the MTD infrastructure and the IT architecture. The actual change itself can cause an impact on MTD in terms of developing the MTD software and how the system operates. Changes to the tax code have to be then reflected in MTD. That will be easier once MTD is in and live, but it is something to be mindful of.

Q246 **John Grady:** Finally, in June 2023, paragraph 21 of the NAO report says, "Each announcement"—this is on MTD—"has set an ambitious timeframe for delivery, with several aspects of the MTD programme to be delivered in parallel". It goes on to say "The repeated delays and rephasing of MTD has undermined its credibility and increased its costs". As a generality, how confident are you, Minister, about the current plans, the costings and the current cost-benefit of the programme? What steps have you taken to satisfy yourself that the programme is on track?



James Murray: My questions over that are why, when we came into office, I did not immediately say, "Yes, we are behind this April 2026 deadline", because I wanted to interrogate it myself before I was happy to stand behind it. A lot of the work that I have been doing with the people directly delivering the programme and overseeing its delivery has been crucial to understanding what contingencies there are, what we are doing, what things we need the software community to do to make sure it is deliverable and what the fallbacks are if there are unexpected hurdles along the way.

To understand all of that was crucial for me to get that confidence. Over the summer, having those conversations with the MTD delivery teams enabled me to get enough confidence not to say that it is an easy target or it is going to be a plain sail to get to April 2026, but that it is deliverable and there is enough built in, in terms of contingency, to make sure that we hit that.

Q247 **Dame Siobhain McDonagh:** How concerned are you about the risk of HMRC being taken down by a cyber-attack? Sir Jim Harra gave evidence to the Committee on cyber-attacks. He talked about people trying to hack individual accounts. In your role as chair of the HMRC board, do you think HMRC is sufficiently prepared for a cyber-attack, which might take down the entire website for weeks on end? You will be aware that a similar thing happened to Transport for London. People made all sorts of applications for disabled parking passes and freedom passes, and were unable to get an outcome in months. What would happen to HMRC in those circumstances?

James Murray: Making sure that we have the right protection in terms of cyber-security is absolutely crucial for the trust in the system that we mentioned earlier and, as you mentioned, Dame Siobhain, in terms of making sure that the basic service is there and that people can get that. One thing that the modernisation and reform sub-committee of the board is overseeing is around making sure that the IT infrastructure is updated with cybersecurity in mind. I wanted to make sure that that sub-committee of the board, as well as me, with my ministerial hat on, was making sure that there is the right investment and the right improvements are being made to the existing systems and to new systems to protect against cyber-attacks.

Q248 **Dame Siobhain McDonagh:** How many public sector systems actually achieve that level, given the amount of ingenuity and dexterity of the hackers? Could you put your hand on your heart now and say that it will not happen to HMRC?

James Murray: I do not think that anyone in the world can put their hand on their heart and say that it will never happen. I can say that the efforts that we are making are to do everything possible to protect HMRC's data and the system, to make sure people have trust in it. It is something that, as I say, I value very highly, with my ministerial hat on. I wanted the board to keep a watching brief on that as well with people



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from outside, people who have worked in private sector organisations and people who have worked in cybersecurity, to give their input to it, because I know how important it is. All public services are crucial. If TfL's website goes down, that creates the problems that you described. With HMRC, it feels particularly acute because of people's data and their finances that you are dealing with.

Q249 Dame Siobhain McDonagh: Does HMRC have access to the funds to ensure it has a premier system that holds out against the hackers?

James Murray: It is a key part of the spending conversations that we are having. It is not something that we will let slip, because we need to focus on that basic, foundational IT infrastructure.

Q250 Bobby Dean: I am going to move on to business rates. I am trying to get to the bottom of what might be a semantic issue, but you will be able to clarify that for me. The Labour manifesto talked about replacing business rates and then the transformation paper talks more about reform.

Has there been a change since you have got into office about your attitude towards that, or could the scope still be large enough to signal a complete replacement of the current system? Are we just talking about rates adjustments and changes to reliefs, or are we talking about fundamentally introducing a new system that is better suited for businesses?

James Murray: I am sure you have read the *Transforming Business Rates* discussion paper. You have it there, excellent. You will see what the scope of our ambition is in terms of reforming business rates and making sure there is a new system that is fit for the 21st century.

Now, as you say, there is obviously some stuff which we have done more rapidly around the lower multipliers for retail, hospitality and leisure premises below £500,000 rateable value. That is stuff that we are implementing now. In fact, the legislation might be going through the House of Commons Chamber as we speak.

That will be really important for giving that permanent discount for retail, hospitality and leisure. What we want to do beyond that is set out in the discussion paper. It ranges from quite targeted interventions around, let us say, looking at how small business rates relief, which is really important to small businesses, and we know how important that is, sometimes weighs into consideration if people are opening a second premises because they do not get the relief from the second premises and it expires after a year for the first one. If we could look at something there, could that help small businesses to expand, along with other more targeted interventions?

Then in the discussion paper as well there are the bigger picture changes around revenue neutrality, around the structure of the system, which are



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not changes you want to make overnight or without full support of the business community, but they show the scope of our ambition.

Q251 **Bobby Dean:** There are three broad areas that you seek to address. Just as a smaller point, first of all, if you can clarify, it did say the consultation is going to run until March. Is that still accurate? Is the progress with the consultation going well? Do you still plan to finish by March?

James Murray: Yes.

Q252 **Bobby Dean:** Then, consequently, when would you expect to come back with what your proposal would be?

James Murray: Yes, the consultation is happening right now. There was a deadline of people registering for the intense consultation process, if you like. That deadline was in November. That was where people who had a particular interest needed to let us know so that we can build them into a very structured process of engagement with Treasury officials.

We would accept written evidence throughout. If anyone did not register for the formal engagement process, they are still very welcome to send in written contributions now through until the end of the consultation period in March, and then we will set out our update to that in due course.

Q253 **Bobby Dean:** Is that this year?

James Murray: It is in due course.

Q254 **Bobby Dean:** There is a Labour manifesto commitment to replace. You are talking about reform. Is it going to happen this Parliament? Are you going to have a new system this Parliament?

James Murray: Certainly our ambition is to keep reforming the system over the course of this Parliament.

Q255 **Bobby Dean:** Is it going to be iterative? We could see smaller changes. We could see another rate change, another relief in each fiscal event, whatever a major fiscal event is.

James Murray: You are tempting me to give a very specific timetable here.

Q256 **Bobby Dean:** The point was separate actually. Are we going to see iterative changes as each Budget comes along, or are you going to unveil a major package of reform at some point?

James Murray: I do not want to prejudge the outcome of the consultation. Some of what we will say next in terms of our next steps will depend on the consultation. It is a meaningful consultation to talk to the business community about what would make the biggest impact for them in terms of what we set out and, indeed, see if they have any other views that we should take into consideration.

Q257 **Bobby Dean:** If you are being that open-minded in the consultation,



what if businesses and, indeed, local authorities take the view that we do need to replace the business rate system and maybe we need something closer to a commercial land value tax. That is a complete change of direction, but some people have suggested that could be a good way to tackle that disincentive in productive investment, which would shift the burden on to commercial landowners instead of businesses themselves. Would that sort of thing be considered as part of the consultation or is that too far?

James Murray: The fundamental principle of having a property tax for businesses is one that we will maintain. The idea is not to get rid of property-based tax for businesses and have something entirely separate. That is actually a steer that businesses gave us directly.

Q258 **Bobby Dean:** Businesses prefer to be taxed rather than their landowners.

James Murray: No. This is anecdotal, but what I felt they were less keen on is us tearing up the system and starting something totally different. They would prefer to see step-by-step change that they were involved with, and that is really the way that we are approaching it.

Q259 **Bobby Dean:** I am not sure that I agree with that. I hear from businesses sometimes that they think that this system is slightly archaic and might be targeting the wrong people, but let us go into another element of it, which is around the valuations and the revaluations.

Would it be an ambition of Government to get to a place where you did not really have to keep going through the process of valuing and revaluing? Is it possible, do you think, that you could create a new business rate system that does not rely so heavily on having to do iterative revaluations?

James Murray: The valuation of properties is really the foundation of how business rates are calculated. You have to have some kind of valuation there. The process of revaluation and any changes to that depend on, again, investment in the IT infrastructure and the systems of the Valuation Office Agency. We have to invest there as well to make sure we have the right IT systems there, but focusing on improving the process of revaluation would bring big benefits to business, because at the moment there are challenges, appeals and so on.

There is also a question of making sure the IT infrastructure allows us to do things more efficiently in the future, so working with the VOA on that is crucial as well. Actually, to go right back to the very first point, that is one reason why the VOA board has now been merged with the HMRC board, to make sure that we have more oversight of it, because you had HMRC arm's length and then VOA arm's length to arm's length, which was a barrier to effective oversight.

Q260 **Bobby Dean:** Again, would it be an ambition of the Government to ensure that whatever new system you come up with remains revenue



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neutral? You mentioned in the paper just how reliant local authorities are on the income. Are you going to ensure that it remains revenue neutral?

James Murray: Certainly, if you look at what we are debating right now in the House of Commons Chamber, the principle behind that is for it to wash its face. The cuts for retail, hospitality and leisure are paid for by the provision to increase the multipliers on properties with a rateable value of £500,000 or above. That is entirely self-contained and revenue neutral.

There are other broader questions that we spoke about earlier in the *Transforming Business Rates* paper about more ambitious reforms further down the line, but, if you look at what we have committed to and what we are implementing, that does not alter the overall tax take from business rates. It just shifts the burden within.

Q261 **Bobby Dean:** Finally on the first steps that you have already taken, I have had some people report to me that the way in which the relief is going to be phased out, the cap is abolished, and then the lower rates are introduced for retail and hospitality in particular, could mean that some of the larger chain stores stand to benefit from this change in relative terms, more than the small businesses. Say a huge Starbucks chain that occupy lots of smaller units versus a small coffee chain.

Is that a concern that has come across your desk already? Are you looking into that potentially unintended consequence of the change?

James Murray: Let us be clear what the intended consequence is. The intended consequence is to support high streets, and small independent businesses are a crucial part of the high street, but so are anchor stores, which can sometimes be part of a larger chain. A successful high street has a mix of both.

I am sure all of us in our constituencies and local high streets want to see small independent businesses flourishing. I know from my point of view, and for many other MPs I have spoken to, that we also want to see our high streets supported with some of the larger stores as well—the chains and the anchor stores that help drive footfall.

Bobby Dean: I would not dispute that, but smaller businesses are likely to only have the option of these smaller premises and there could be an impact where these larger chain stores want to take on more of the smaller premises in order to get the tax benefit and it squeezes out the opportunity for smaller businesses to exist on the high street. Is that something you have looked into?

James Murray: No, but, if you look at the way that it has been structured, the threshold for having the RHL discount is £500,000, so that will cover the vast majority of premises on high streets, even pretty big ones. There is then the small business rate below £51,000, which is obviously much, much lower, but that really is for the very smallest premises.



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Where we have pitched the £500,000, you have some pretty large stores there. I will not name individual brands, but I can think of some supermarket chains who would be easily below that £500,000, so it is high enough that it covers the vast majority of premises on high streets.

Q262 Yuan Yang: I want to briefly move on to residential property. Sometimes when I am knocking on doors around my constituency of Earley and Woodley, a resident will come out of their house and point to their house, then point to their neighbour's house and ask me, "Why is my property in a certain council tax band but my neighbours' are not?" It is a particularly complex issue, as you know, because the valuations were set by the Valuation Office Agency based on 1991 prices and a significant portion of my constituency was built after that date.

Sometimes residents in that conversation will bring up issues of perceived fairness or inequality and certainly questions around the need for updating these valuations. I was wondering if you might have any sympathies for those kinds of views and, if so, what you think might be the main issues with the system as it is right now.

James Murray: It is worth me being very direct and saying there are no plans to reform council tax, but there is a challenge process for individuals. If someone is a neighbour and they think they are in the wrong band versus a neighbour or someone on the same street with a similar property, there are existing processes where people can challenge that. I know those processes can be successful in some cases.

We are not looking at changing how the system operates but, on individual cases, there is already provision for people to challenge what band their property is in if they think it is unfair in comparison to a neighbouring one.

Q263 Yuan Yang: Leaving aside the political difficulties of reform in this area, I was wondering if there are major administrative or bureaucratic issues with reform in this area and if you could outline any of those, perhaps you or Mr York-Smith.

James Murray: To be honest, because we do not have any plans for it, it is not really on my radar.

Chair: He says with great relief. Every Minister so far has dodged that since it was introduced.

Q264 Rachel Blake: Thanks, Minister. Priority one is closing the tax gap. Priority two is reforming the system. Priority three is improving customer service. Where does anti-money laundering supervision come in?

James Murray: That is a good point. As we know, HMRC is a statutory supervisor within the regulations. It supervises around 36,000 businesses. It has quite a significant role to play there. One of the questions for me is making sure that HMRC continues to regularly check the resourcing levels for its role in anti-money laundering to make sure it



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is effective in that role, but it plays its role alongside the other bodies in the space.

Q265 **Rachel Blake:** Really key sectors, particularly in terms of how this affects the housing market, are estate agency businesses and letting agency businesses, which are part of the statutory responsibilities. You have referenced how well it is resourced. We have heard previously about the range of government bodies responsible for investigating money laundering cases. Are you confident that the resourcing and the balance is correct at the moment within HMRC?

Dan York-Smith: The funding is ringfenced because it is fee funded. HMRC collects fees from those that are regulated and HMRC cannot spend that money on anything else. Equally it does not move money from tax collection into anti-money laundering. If HMRC were to identify there was a shortfall, I would expect it to advise the Minister about that and then for Ministers to take a decision about whether they wanted to respond to that in terms of fee levels and so on.

There is a connection particularly to the tax gap in terms of the potential for tax avoidance and evasion to be connected with failure to maintain these regulatory standards. There is a benefit to HMRC doing this role, but it is statutorily separate from its other responsibilities just because of the nature of the funding model.

Q266 **Rachel Blake:** You have to protect the businesses so that they know what they are supposed to be declaring, and then support them and consider sanctioning. What assessment have you made of the potential money laundering gap—you talked to the tax gap—so how many people you might not be observing breaching the rules?

James Murray: Shall I discuss it with HMRC and come back to you on that? I do not want to get any stats wrong on that.

Q267 **Lola McEvoy:** This was prompted by what Mr York-Smith said then. It is ringfenced spend. How much is it?

Dan York-Smith: I am going to get this number wrong. I want to say it is something like £300 million, but I should see if I can find the correct number.

Chair: If you can correct it in session, then we will take that.

Rachel Blake: It is in the ballpark of £300 million.

Dan York-Smith: That might be too high.

Chair: It is in the three-figure millions. We will take that for a minute.

Q268 **Rachel Blake:** Is it ringfenced to spend annually?

Dan York-Smith: Yes.

Q269 **Rachel Blake:** Is it spent every year?



Dan York-Smith: I would have to check with HMRC, but I assume, because it will be about employing people who are delivering this, that it is not generally an expenditure that varies by year. I would assume they are fully spending it.

Q270 **Chair:** Does it roll over? If it is underspent, can it roll over for future years?

Dan York-Smith: That I do not know.

Chair: This is obviously an HMRC question. It would be helpful if we could get those answers.

Q271 **Yuan Yang:** I have some final questions around data gathering of HMRC, more from a research and cost projection point of view rather than from an individual privacy point of view.

The Committee met with Sir Jim Harra in November, and we had a discussion about the recent review of HMRC's data-gathering powers. One issue that he brought up was the ability of HMRC to get data promptly, for example on self-employment, but also in order to assess the efficiency of different business reliefs and the productivity of those measures.

I was wondering, on the point of promptness of data collection, whether there were any more plans in this regard to empower HMRC to get the data it needs quickly.

James Murray: HMRC, it is probably worth saying, has a tremendous amount of data. In conversations I have with other Government Departments, there is a great desire to use HMRC data for other goals. There are protocols about what data you can share. There are legal gateways about what basis you can share it on, but I very strongly support the use of data where appropriate and with the right safeguards to achieve other goals. There is a huge benefit we can have in terms of using data efficiently.

As you say, there can be time lags in terms of what data HMRC receives, so for instance, if someone is on PAYE, they will have much more contemporaneous data about their earnings than if they are self-assessment, when there would be a large delay. Some of the changes that are being made, for instance with Making Tax Digital, will mean that some data for those people who are mandated will be available sooner.

It is an evolving process about having that data coming in more regularly and then working out, within the legal gateways and with the right protections for people's privacy, we can use it to help achieve other policy outcomes as well.

Q272 **Yuan Yang:** As part of that review, Sir Jim mentioned that it resulted in what he called a modest increase in HMRC's data-gathering abilities. I was wondering if you could describe a bit what that means and if that



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requires investment to really shore up the ability of HMRC to gather and to analyse its data.

James Murray: This review might have been before my time.

Dan York-Smith: We might have to write to you, I am afraid. I do not know the detail.

Q273 **Yuan Yang:** Sure. As a separate point of principle on this issue, as we know, from the Tax Management Act 1970, the ability of HMRC to collect data is ringfenced based on what the current tax regime is. Previous Ministers have spoken publicly about the fact that it was not possible to cost the non-doms reform in light of that, because non-doms were not being taxed in the previous tax regime, and therefore there not only no reason but no mandate for HMRC to collect data that would be relevant to producing such a costing.

We now know that the OBR says that reform will give £30 billion over the next five years, which is a significant increase, but the lack of data beforehand is something that does concern me, at least. I was wondering if there is any reflection on your part on the need for data gathering within not just the current legislative regime, but future regimes, and how that might change for HMRC.

James Murray: That is an interesting point. Certainly, in terms of any new systems or new ways we are interacting with taxpayers, part of the process is to digitalise what exists already. Anything new would be digital by default. That data collection would be expected to be at the best possible level.

We need to think about what data HMRC collects, because, as you say, we are bound by the legal provisions. HMRC is not a data-gathering organisation. It is a tax organisation and has to collect data for that purpose.

That is one health warning or the caveat I put on what I said earlier about supporting other government aims, in that we are a tax administration organisation. Therefore, that dictates why we collect data and what it is for. That then means you have to have very specific legal gateways about what you can do in terms of sharing it for other purposes.

Q274 **Chair:** Thank you very much. That does rather open up the issue of farm tax and inheritance tax, and the data that was available to you when that decision was made. Do you think there were gaps in the Treasury's data? HMRC told us, and Jim Harra was very clear, that it could not collect the information, because it was not related to tax collection, on the size of farms and the impact of a potential inheritance tax.

We are particularly talking here about hobby farms and people who have property. As a crystallisation, there is a million-pound property in London. Someone buys a farmhouse with a bit of land and they are inheritance



tax free, where they would have been paying inheritance tax in London, but you would not be able to disaggregate that from the figures. Is there any information that you would have liked when you were making that decision that you did not think you had?

James Murray: The crucial bit of data in that decision was about claims. When I am discussing this in other debates in the Commons, there is a point to be made about the difference between the value of farms and the value of claims. That is where some of the confusion has arisen in terms of people thinking there is data that says different things. The reason it says different things is that it does actually refer to different things. Claims refer to the claims that people make. They do not refer to the overall value of the farm.

If you have a farm owned by two people in equal shares, the person who is making a claim might only make it against half of the value of the farm. The overall value of the farm does not tell you anything about the overall spread of claims, because you would need to know all sorts of other data around ownership, around debt, around all sorts of other aspects of it. The only data that tells you about claims is data on claims. That was the crucial bit to understand, and that was the data referred to in the Chancellor's letter.

Q275 **Chair:** That was quite complicated to unpick. These are big decisions that have been made. They have affected people very much and caused a lot of upset in many rural communities. Do you think that there would be data outside HMRC, perhaps, because you cover tax, where you just need the information, that the Treasury would have liked to have? As a new Minister coming in only seven months into the job, was there data you expected to be available in Government that was not? Is there anything you can do about that for any future decisions?

James Murray: The crucial data was available around the claims, the distribution of claims in different value bands and understanding that.

Q276 **Chair:** For example, there is the point I raised about hobby farmers, who can be exempt, but big working farms with a small turnover can then be hit with a bill. Were you aware of those differentials? We all agree there might have been data gaps. You have come in new to the Department, dealing with tax, so what data would you have liked to have? Is there anything that the Treasury can do for future decisions to make sure that Ministers are equipped with that information?

James Murray: Just to be really clear in terms of the very specific question around inheritance tax, what is relevant there is HMRC data on claims. All the other features of the farm or the business that sits behind the inheritance tax claim do not tell you the ultimate question, which is around the value of the claim, because that is what then determines design aspects of the system around thresholds and so on. It was the claims data that was so important there.

Q277 **Chair:** Are you confident you had everything you needed to make this



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decision as fairly as you wanted to?

James Murray: To take the decision that we took, we had the information that we needed.

Q278 **Chair:** I will leave that there for now. Can I move on to the appointment of the new Permanent Secretary at HMRC? Sir Jim Harra is moving on. He has agreed to stay on a bit longer to cover the post-election period. How is that progressing and what is your involvement in that appointment?

James Murray: The process for recruiting a new Permanent Secretary involves a thing called a fireside chat. There is no fireside as far as I can tell; it is just a chat where I as Minister will chat to potential applicants. There is a commissioner watching as well to make sure it is all recorded and done in a very fair, recorded way.

I chose to ask the different candidates basically the same questions to make sure I was comparing them within my own mind on a level playing field, and then I fed back my reactions to the civil service commissioner.

Q279 **Chair:** Baroness Gisela Stuart.

James Murray: Yes, but there was a different person in one of them. I would feed back my thoughts on the candidates and maybe any areas I thought would be worth focusing on in the interviews. That was the end of my involvement at that stage. Then it went over into the formal process, and they came back with recommendations and so on.

Q280 **Chair:** You will make the ultimate decision on the recommendations. Have you done that yet?

James Murray: He has been appointed.

Q281 **Chair:** But it was you ultimately. I am just making sure. Given that you are chair of the board I just want to be clear about the positions.

James Murray: It was not with my chair of the board hat on. It was a ministerial consultation, but when that decision went public and everyone around this table knew about it my involvement was in the past. As soon as it is public, it is all signed off by everyone including the PM.

Dan York-Smith: For Permanent Secretaries, the Prime Minister is the ultimate decision maker.

Q282 **Chair:** Previously, when there was a separate chair of the board, they must have had an involvement in this process.

James Murray: I do not know, because I have only been there with both hats on.

Dan York-Smith: I was not in this post at the point that Jim was appointed.

Chair: It is just that it might have been two people having those fireside chats and it is now one person because it is only the Minister. We will



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leave that.

James Murray: There is an efficiency gain we have made already.

Chair: There you go. That is going to solve any challenges in the public sector.

Dan York-Smith: Can I correct myself? I apologise; I was in the right order of magnitude about the number of people but not about the cost. There are 388 staff. I should have realised that £300 million would be a lot in the context of HMRC's £6.7 billion. It is in the double-digit millions.

Q283 **Chair:** It is £23 million, we believe.

Dan York-Smith: There you go. You have corrected me already. Apologies about that.

Q284 **Chair:** Given, Minister, that we were talking about £300 million, and I appreciate you are correcting the record, Mr York-Smith, is £23 million enough to deal with the money laundering?

James Murray: That is a conversation we are going to have to have with HMRC. I can definitely discuss it and write to you about that.

Chair: Tempting the Minister to make a bid for more money in his own Department perhaps is a bit unfair.

Can I thank the Minister and Mr York-Smith very much indeed for coming along? Minister, we heard today that you appointed yourself to the HMRC board because you felt that the ministerial culture between the Treasury and HMRC had become too distant and hands-off, and you wanted to be more involved day to day.

You were not clear about the publicised status of HMRC on its website, but on the website it does say it is a non-ministerial Department and that may no longer be accurate, so that is something we would like clarity on.

You were very clear, as your colleagues the Chancellor and the Chief Secretary have been this last week, that the fiscal rules will be met, irrespective of the extent to which the tax gap is closed, in response to Ms Blake's questions.

You have been very clear to us that HMRC phonelines will not close in this Parliament. We do like clear statements of intent from Ministers.

We look forward to seeing you quite regularly now you are chairing the board. You perhaps did not realise, when you took on the board, that that means a few more regular sessions in front of this Committee, but I thank you very much indeed for your time and thanks to our colleagues at Hansard. The transcript of this session will be available on the website, uncorrected, in the next couple of days.