

Treasury Committee

Oral evidence: [Tax after coronavirus](#), HC 664

Monday 18 January 2021

Ordered by the House of Commons to be published on 18 January 2021.

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Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Harriett Baldwin; Anthony Browne; Felicity Buchan; Dame Angela Eagle; Mike Hill; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 432 - 520

Witnesses

I: Rt Hon Jesse Norman MP, Financial Secretary to the Treasury, HM Treasury; Beth Russell, Director General, Tax and Welfare, HM Treasury; and Mike Williams, Director, Business and International Tax, HM Treasury.



Examination of Witnesses

Witnesses: Jesse Norman, Beth Russell and Mike Williams.

Q432 **Chair:** Good afternoon and welcome to the Treasury Select Committee evidence session on tax after the coronavirus. This is the last evidence session in the series that we have held on this subject. I am very pleased to be joined by a panel of three witnesses this afternoon. I am going to ask each of them to briefly introduce themselves to the Committee.

Beth Russell: I am Beth Russell. I am the director general for tax and welfare in the Treasury.

Mike Williams: I am Mike Williams. I am the director of business and international tax at the Treasury.

Jesse Norman: I am Jesse Norman. I am the Financial Secretary to the Treasury.

Q433 **Chair:** Thank you very much and welcome to all three of you. Thank you for appearing before the Committee. Most of the questions will be directed to Jesse, but if either Beth or Mike wishes to come in, please raise your hand at any point and I will be very pleased to bring you in at that stage.

Jesse, welcome to the Committee. In general terms, how is the Treasury going to go about sorting out the deficit and the debt in the medium to longer term?

Jesse Norman: Thank you very much indeed, Chairman, and thanks very much to colleagues. What a pleasure it is to appear in front of a Committee that I spent so many years on the other side of. Thank you for that, and thank you for the question.

Let me say, first of all, that this is a slightly unusual moment for two reasons. One is because we are in a moment of unprecedented change in our economy. Even the OBR's recent forecast came before the latest lockdown and restrictions, so this is not a moment at which we can be doing any really calibrated, long-term planning. That is the first point.

The second point is that, as you will appreciate, for all kinds of obvious reasons, I cannot comment on any aspect of our actual tax policy. I have to leave that to the Chancellor for the Budget. The broad picture is the one that he set out, which is that we are looking through a variety of means, which are not by any means all on the tax side, with an awful lot of spending to preserve the current fabric of our commercial society, to keep people in jobs and businesses afloat, and to support incomes. We are also making lots of investments on the infrastructure side to sustain the economy in the longer run.

On the tax side, we are very much watching to see what is happening as the fiscal situation plays out. That is not a way of ducking the question—there are some potentially serious questions that may arise—but even the



OBR had a very wide range in its different scenarios, which reflects the difficulty for them in making fiscal projections. Those same concerns about variability and change in the dynamic nature of the circumstances we are in apply to thinking about tax policy.

Q434 Chair: You are absolutely right that there is a huge degree of uncertainty and quite a range of outcomes that the OBR is forecasting. None the less, we can say with reasonable certainty that it is not going to be very pretty and that there is going to be a very significant increase in the deficit. Debt is going to be much higher than it has been for some time. You are also right that you cannot be specific about particular tax policies, particularly with the Budget coming up and so on, but, in general terms, are we not quite clearly in the territory of having to raise taxes at some point, not necessarily immediately, in order to help plug that deficit?

Jesse Norman: The Chancellor said that he is looking for the economy and the fiscal position to be a strong and sustainable one over the longer term. What is quite striking, if you look at the OBR's document between the optimistic, central and pessimistic scenarios, is that the optimistic scenario has us returning to the growth path that they had anticipated in March. It is not absolutely obvious, therefore, that there may be any future need for consolidation, depending on the view you take of taxes. I was struck, in looking at some of the testimony you have been given, by the remarks of some of the experts. Paul Johnson said that he was not absolutely sure that taxes need to rise, and that was quite an interesting external expert view.

Q435 Chair: Your view, in essence, would be that it is not at all certain that taxes will have to rise; it is quite possible, if we end up at the better end of expectations, that we can be absolved of any requirement to raise taxes at all.

Jesse Norman: Let us see where we get to. As I have said, the OBR's November forecast occurred before the latest lockdown. They will be doing another forecast before this next Budget, and we will have to see where they get to. Even after that, it will be quite difficult because, of course, we may end up with a somewhat delayed but nevertheless very pronounced bounce. There are features of the economy at the moment which suggest that that could be quite significant, if you look at the level of household savings, for example, and data like that.

Q436 Chair: On the triple lock, a lot of people have been asking whether the Conservative Government are going to maintain their manifesto commitment on that. If we ended up in, say, the downside scenario that the OBR is forecasting, which is not inconceivable, is it really tenable to be saying at this stage, under all circumstances, "We will maintain that manifesto commitment," given that two thirds of taxes, as you know, are raised through national insurance, income tax and VAT?

Jesse Norman: There are going to be increasingly delicate or indelicate ways to encourage me to make tax policy in the Committee. Mr



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Chairman, I am not going to do that; I am going to leave that for the Chancellor and the Prime Minister.

Q437 **Chair:** You cannot say at this stage, hand on heart, "There are no circumstances under which we will break that commitment"?

Jesse Norman: I am not even going to allow myself to be drawn into that, "Have you stopped beating your wife?" type of question and scenario. I do not want to be denying or affirming. The thing is what it is. The Chancellor writes the Budget, not the Financial Secretary, and we must let him do that.

Chair: I am conscious that I am running slightly out of time, having started a bit late, but let me ask you one final question.

Jesse Norman: I will try to be quicker.

Q438 **Chair:** No, you are answering perfectly correctly. On taxes, it is often said, particularly by the centre-right, "There are a number of taxes where, if you drop the tax rate, you will get a better yield"—the Laffer effect. Having responsibility for UK taxes as you do, have you identified any taxes where the current tax rate is not at the yield-maximising rate and where, if you dropped that tax rate a bit, you would get more revenue as a consequence? Have you identified any taxes that you think fall into that category currently?

Jesse Norman: The answer is that I am not, at the moment, aware of analysis that we have done for taxes as they presently are, conceivably with one or two exceptions, that would support that. The trouble is that there is a technical problem. The Laffer curve, as you know, is simple to understand—even Laffer himself would say it was not his own invention, although he gets the name—but it has this characteristic that it is very difficult to estimate where the peak of the curve is. It is a dynamic matter and, of course, you have to bear in mind that, even if you think you have a peak in the curve for one tax, you may not have taken into account, or it may be impossible to take into account, the interactions with other taxes, with thresholds or with some of the marginal bands.

It is a very easy idea. There has been one great example, as you will know, Chair, of where some really systematic work was done on this. This was the work that was done in 2012 by HMRC on the Exchequer effect of the 50% tax rate. That showed the underlying yield was much lower than was originally forecast—about 40% of what was originally expected—and so the effect of forestalling and other behavioural responses had hugely reduced the income that is possible. That was a very substantial piece of work on one tax ex post at one particular moment, at the top end, and so it is quite an unusual circumstance, but it does show that, if not a Laffer analysis, something like it can be done and that it can be quite educational.

Q439 **Chair:** You gave a slight glimpse there. You said, in passing, that with one or two exceptions there is a possibility. What did you have in mind?



Jesse Norman: I did not have in mind any particular ones. I was just wanting to be sure that I had not inadvertently failed to account for some piece of work that has been done recently in the bowels of the Treasury of which I may be unaware. The technical problems that arise in relation to the Laffer curve are what they are and, as you know, they are especially so under the current rather fluid circumstances.

Q440 **Chair:** Beth or Mike, is there anything you want to add to any of that, particularly thinking about Laffer curve effects?

Beth Russell: The only thing I would add is that, ultimately, it is for the Office for Budget Responsibility to certify and agree the costings for any tax cuts or tax rises, but, as the Minister said, we would not expect that any tax cuts would, in effect, pay for themselves. The OBR would be expecting tax cuts to cost money.

Q441 **Mr Baker:** I refer to my registered shareholding in Glint Pay. I want to turn to the level of debt, Minister. We have been looking at the long-term impact of coronavirus and demographic change on the public finances, as, of course, the OBR does. Both the OBR and outside experts have said that the Government's existing long-term spending commitments are far in excess of their long-term taxation commitments. Do you agree, and would you say that the situation is ultimately unsustainable?

Jesse Norman: We look to the OBR to tell us what the debt position is going to be and, of course, it is reflective of a set of policy assumptions, and those assumptions themselves may change. There is no doubt that the levels of debt and borrowing are sources of continuing concern and importance to Treasury officials, and certainly to Ministers.

Q442 **Mr Baker:** I remember picking up a paper by the Bank for International Settlements. It was in my hands as I came into Parliament, as you did, in 2010. It was Working Paper 400, about public debt prospects and implications. It was very clear where the public debt was going in the UK and elsewhere. It feels to me that we have known at least since then—more than 10 years ago—that we were on an unsustainable path for public spending. When are any Government going to face up to the need to get the public finances in order?

Jesse Norman: As I have already said, it slightly depends on what you mean by "get the public finances in order." A pretty sustained attempt was made by the last Government, after 2010, to try to take control of the deficit. That was successful in large part. Certainly, from the point of view of what we are focusing on at the moment in the Treasury, it is to stabilise the economy and to try to keep things moving forward before we can start thinking about the wider framework of policy, although, as I have said, the Chancellor expects to think in terms of strong and sustainable public finances.

I would also say one other thing, which is that what one considers sustainable is itself a function of the wider debt position that we are in. It is a tribute to the Debt Management Office that we have the maturities of



debt that we have at the moment. They have become slightly more sensitive to interest rate changes at the short end of the curve as a result of the changes that have been made through the Asset Purchase Facility, but the broad picture is that the debt we have is highly sustainable. The concern that you have to have—I have no doubt it is the concern that the Chancellor has—is whether that can be maintained over time and how we can ensure that it is maintained over time.

Q443 Mr Baker: I am looking here at the fiscal sustainability report from the OBR. You cannot immediately pick off the year for this, but it looks like, broadly speaking, towards the end of our lifetimes public debt is due to rise to 320%, to 520%, of GDP. Levels of debt of hundreds of percent of GDP cannot possibly be sustainable in anybody's judgment, can they?

Jesse Norman: No, of course not, Steve, but a Cobdenite like you would need no education on the nature of the dynamic economy that we live in. Of course, one of the things that has made a huge difference here has been increases in longevity and in working life. They have this very helpful characteristic from a public finance standpoint that every change is simultaneously a reduction in the amount of pension to be paid out and a gain in the number of working years. Since we are living, by and large, at least until recently, longer and healthier lives overall, and since our expectations about pensions are wildly greater, for all the best reasons, than they ever would have been 30, 40 or 50 years ago, in many ways that is a situation that may continue to evolve as healthcare improves and, hopefully, as our lives become safer and more secure.

Q444 Mr Baker: Of course, we all want to take a positive and optimistic approach to human society, and the long arc of human history is, of course, one of progress. I am a big fan of the HumanProgress website, which is a great source of optimism to me. Nevertheless, we have to face up to the numbers that are before us. Would you not agree that a great deal of this public spending that is forecast is on pensions and healthcare? It is age-related spending. Is it not the case that any really significant change to commitments on pensions and healthcare will be politically infeasible? If you do agree, on whose watch is this going to come home to roost?

Jesse Norman: I do not know that they are unfeasible. The facts have been well laid out according to those assumptions by the OBR. You have had some very good testimony in your previous hearings on the way in which healthcare spending tends to cost more, even though it delivers more value to you. I wrote about Baumol's cost disease 10 or 12 years ago: the difficulty of improving productivity in service areas, and that is before you get to the cost effects of medical technology. It is hard to predict.

What I will say, though, is that we know that some of the levers, if they are pulled, including the natural extension, as it were, of people's working lives, have pretty powerful effects. We have been in situations, under rather different circumstances, in which we have had very high levels of



debt in this country, and the traditional way out has been through inflation. No one in the Treasury—and certainly no Minister—wants us to have any inflationary get-out of the position that we are in, because that in itself would have all kinds of other negative consequences. The joy of having the OBR's forecasts now is that we have a 50-year planning basis on which to make an assessment of these policies and, ultimately, to hold Governments to account.

Q445 Mr Baker: That raises two issues. The fiscal rules have generally been fairly short term: about five years, tied into the election cycle. Following from what you raised, is there a case for a longer-term set of fiscal rules to try perhaps to aim at bringing down those long-term debt projections in the fiscal sustainability report? Should we have a long-term framework?

Jesse Norman: That is a very interesting idea. I would say a couple of things on fiscal rules. First of all, it is well understood—even the IFS and possibly the IMF have said so—that now is not the moment to be bringing in new fiscal rules. What I would say, though, is that you run up against the fundamental problem in our constitution, which is that no Parliament can bind its successors, so the key is to evolve a culture between parties and within our public administration—we already have a culture of this kind, but we need to build on it—that is frugal in regard to the long-term fiscal effects of policy. Everyone who wants sustainable and strong long-term finances is going to want to have a cultural aspect that can survive a change of Government, for precisely the reasons that you sketch.

Q446 Mr Baker: There is nothing I would like more than to have a change in the general culture of politics. The other point you raised was inflation, and I wonder whether the Treasury is aware of an essay written by the famous Alan Greenspan sometime before the Bretton Woods system ended. I am afraid I have to say the G word: the essay was called "Gold and Economic Freedom". In it, he described the phenomenon of ever more unaffordable spending pledges by Governments ultimately being funded by inflation. That was the central theme he foresaw decades ago. Is there any reason to believe that culture shift can seriously be achieved, when, for politicians, it is so tempting and so easy to make long-term spending pledges that they hope will come home to roost on somebody else's watch?

Jesse Norman: This is a perennial problem. This is a problem that was widely discussed when the franchise was being extended. It was a concern when the states' debts were being federalised by Hamilton at the turn of the 19th century. This is a completely understandable worry and, in a way, the miracle of it has been that democracies have been able to function as effectively as they have, despite some of these inbuilt tendencies. Whether anything has changed recently—with the advent of new technology and new cultures—I slightly tend to doubt, but what it does is to remind us of the value of having, first, long-term institutions of the kind that we have and, secondly, a representative system of government that does not allow the temporary concerns of a particular



group of people to dominate the long-term planning on which the country's finances rely.

Mr Baker: I have very nearly run out of time. I wanted to ask you about Adam Smith's errors on the objective theory of value, but we will have to save that for our next encounter.

Jesse Norman: Perhaps we can keep that for another time, Steve.

Q447 **Mr Baker:** I must just ask you about the limits of taxation. I wrote to the Chancellor about this matter and, subsequently, a Politeia paper has come out suggesting that we are about at the practical limit of taxation. Does the economy have very much to give at all if the Government seek to raise taxes?

Jesse Norman: All Ministers understand the potentially negative effects on economic activity of excessive taxation, of course, and they would not be in their jobs if they did not. At the same time, there is not the robust academic evidence base that you would want as to what the absorptive capacity of this economy is for taxation. We have been at different points in our history where we have had very high levels of taxation and played our way out of trouble, so I am not sure that the economic base exists for what you are describing.

There is also perilously little evidence of a direct link between economic growth and levels of taxation or, indeed, debt. Certainly, some of the old nostrums have been rather superseded in this area. We have two people on the call who would know much more about this than me, but I would just flag that as a concern about the premise of the argument that you are raising, although I understand and share much of its inspiration.

Q448 **Dame Angela Eagle:** I wonder, Minister, whether you worry about the erosion of the tax base, partially because of globalisation but also because of digitalisation and the rise of things like platform companies, which do their business in other places and yet give services within our tax jurisdiction. What could the Treasury be doing, perhaps in the area of new taxes, to try to capture some of that value?

Jesse Norman: Certainly internationally, as you will know, the UK has a tremendous record in many ways. We absolutely led on the whole base erosion and profit-shifting work. We are very active members of the OECD work that is being done in this area. HMRC is in receipt of more and better sources of information about corporate activity than ever before, but of course you are right.

I would also say that we have not been shy about seeking to innovate where we think there is a good public policy case to be made, which is what we have done with the digital services tax. That is somewhat underestimated by some people—not the Treasury Committee, of course. It has introduced a new basis for taxation: economic activity by UK users on online search engines, platforms, marketplaces and the like. There is a very active debate and, of course, any orthodox economist will tell you



that, ideally, taxes should be levied on as wide a base as possible, for many of the reasons that I am sure you are hinting at. There is good cause to be optimistic, first, about the work that has been done in the past and is being done now and, secondly, about the concern for the future.

When we thought about business rates, you may have noticed that, in the recent consultation, we touched on the idea of an online sales tax. We put that out there for discussion and evaluation, and we are still reflecting on that, but it does not show any lack of appetite to recognise some of the concerns that you are touching on.

Q449 Dame Angela Eagle: How about things that do not move, like land? Are you doing any work on land taxes?

Jesse Norman: As you will be aware, land taxes are famously attractive to economists and famously difficult. I am not going to comment on work that we may or may not be doing, but I will say that the well-known problems with land taxes historically are the problems of getting a valuation for all of the assets under concern. That, in and of itself, under the current circumstances, would be an enormous job. We do have some taxes, as you will know, that are geared in different ways to property and other forms of real assets, so it is a theoretically interesting case, but there are very clear problems associated with it as well.

Q450 Dame Angela Eagle: What about property taxes? There has been some commentary in the papers about what may or may not be happening to council tax. Whilst I will not ask you to spill the beans this minute on what the Treasury is doing, clearly it does not make an awful lot of sense to have a property tax when you have not updated the property values for 20-plus years.

Jesse Norman: We have property taxes of different kinds, as you will be aware. Council tax is just one form of property tax. I am not sure that I can go any further in discussing this, but it is certainly a matter that we continue to keep under review and it is a topic of increasingly live political interest.

Q451 Dame Angela Eagle: There has been nearly £300 billion of borrowing this year because of the problems with the pandemic. We are facing the deepest recession in 300 years. Is the best way of dealing with this to stimulate demand rather than to insist immediately on consolidation?

Jesse Norman: The Chancellor has outlined his strategy pretty clearly, if I may say so. He has said that he is looking to build strong and sustainable public finances over the longer term, when circumstances permit that. That seems to me to be a judicious recognition that some taxation could impede growth, damage our recovery and obstruct the transition from the extreme Covid circumstances that we are in at the moment back to something approaching normality, and that is a fair and proper recognition.



Q452 **Dame Angela Eagle:** A reasonable summary would be that perhaps sometimes it is important to spend to save—in investment, for example, or demand stimulation—when one is in a situation like this.

Jesse Norman: Dame Angela—congratulations on your damehood—you sound like me. I spend my life having discussions with the Chief Secretary about the importance of spending to save inside Her Majesty's Revenue and Customs. There clearly are moments in the tax system when you can do that, and we are trying to do that with a rather important aspect that is often rather ill-recognised, which is the modernisation of the tax administration framework and the work that we are doing on digitalisation, making tax digital and the rest. There clearly are moments where you can invest to save, and that is an example of it.

Q453 **Dame Angela Eagle:** What about the idea that stimulating demand at a time like this, rather than consolidation, would perhaps help to kickstart the economy? Is that widely recognised, theoretically, as a reasonable approach in the Treasury at the moment?

Jesse Norman: This is one of those areas where it might be nice to bring in Beth and Mike. The interventions that we have made through the furlough scheme, the self-employed scheme and others are absolutely interventions that have the effect of maintaining not just the fabric of those businesses and jobs, or the support for those incomes, but of course the demand that comes out of that activity in the economy. We have put in place a vast number of interventions designed precisely to preserve the capacity of people to sustain commercial activity. That has been a huge stimulus even in and of itself. I am not a Keynesian and I am no great technical expert on the economics of this, but I have no doubt that an economist who was asked to separate out the demand/support effects of the Covid schemes and the wider structural effects would say that it is very hard to draw a distinction between them when both things were going on at the same time.

Q454 **Dame Angela Eagle:** Finally, the proposed cut to universal credit in April, which will take 4% of income away from some of the poorest people in our society, is the reverse of demand stimulation, especially when we realise that the poorest immediately spend the money that they have locally. What is the justification for doing that at the height of the pandemic?

Jesse Norman: We are miles away from tax policy. This is being debated in the House of Commons more or less as we speak, so I will leave it at that. I would say that we are not talking about a cut; there has been a Covid response, which was justified in the circumstances, among a vast array of other measures specifically targeted at the least well off and the most vulnerable, economically and socially. That is something that has been recognised widely as one of the most comprehensive and generous support packages put in place by any country. We should all be pleased about that.



Q455 **Mike Hill:** The Minister just mentioned modernisation and disruption from Covid. My bit here is about whether Parliament can improve its role in tax policymaking. I know the Minister has hinted at that. Beth and Mike, given your positions and experience, maybe you would like to make an observation on this question: do the Government have high-level objectives for the tax system? Beth, you have worked with lots of senior people and Prime Ministers, so maybe you have an observation on that.

Beth Russell: A lot of the objectives of the tax system are political and for Ministers to decide. As officials, we would be looking for a tax system that is as neutral as possible between different activities in order to minimise economic distortions as far as possible, but Ministers overlay their political priorities on top of that.

Mike Williams: I would emphasise the role that consultation has increasingly played, not just under this Government but under previous Governments. That can be a challenge. It takes time to consult and there may be circumstances, as with support through the pandemic, where you cannot take six months to consult people. Equally, in areas where you can consult, as was done with, say, the structures and buildings allowance, which was announced in 2018, you are going to get a better product. The challenge sometimes is building in the time so that you can consult, which we increasingly do.

Q456 **Mike Hill:** Minister, do the Government have high-level objectives for the tax system going forward?

Jesse Norman: Let me pick up on one quick thing that follows from what Mike just said. He is absolutely right that working together and consultation are very important. Certainly, as FST, I have very much tried to push what you might call the longer-term strategic approach towards thinking about the areas over which I have direct responsibility, such as HMRC and how it thinks. We have a quarterly performance review process in place with focus on the long-term thinking that it does. There is a 10-year tax administration strategy. That is very much part of it.

All tax policy starts, if you can bear my saying so, with Adam Smith. It starts with an ambition for the tax system to be what Beth has called neutral—that is a modern word—but what Smith would have called fair, certain, convenient and efficient in its operation. We have done things that have been designed to do that. It is quite pleasing that Charlotte Barbour, in her testimony to you, said that there had been far more constructive working together between the professions, taxpayers and HMRC. I am very pleased about that.

I would be interested in the Treasury Committee's view on this: we are thinking about looking at whether we might publish more of these consultation and other ancillary documents separately to the Budget, in a separate tax day, in order to give them more profile. It is sometimes suggested that the Budget has an effect like Mount Etna: it throws everything else into shadow and dominates everything else. We are



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trying to think about whether there is a way of responding to the need for Parliament and the general public to have as much sight of consultation documents and calls for evidence. That is something that we are experimenting with in our own minds at the moment.

As you know, we have L-Day for legislation. We have a Budget and a spring statement. There is an established framework. We try to stick to that as closely as we can. The Chair has written to me on occasion, when he or the Committee are concerned that we may be allowing those proper consultation and framework processes to drop away. I want to reassure you that we are thinking about that, and specifically about whether there may be a tax day or similar that we could have after the Budget, which would allow us to give some of these ancillary measures a bit more profile.

Q457 **Mike Hill:** That answers my next question, which is more or less about how you think Parliament can improve on scrutiny. You have talked at length about that, and I am sure the Chair and Committee will welcome the thoughts you have just indicated. If I can go back to Beth and Mike, on sharing that potential for better communication and scrutiny in the future, is there any way that Parliament can improve tax policy and scrutiny?

Mike Williams: Hearings like this are part of that. If we were to have a separate tax day, that might also help Parliament. As the Minister just said, the danger with the Budget is that a few headline-grabbing measures attract all the attention. If beer duty is cut by a penny a pint, you can almost guarantee that is the headline, but the more complex issues, which perhaps need more consideration over time, are slightly overlooked. That would be a way of handling it better.

Beth Russell: The only thing I would add is that we are trying to publish more to help Parliament scrutinise tax better. Earlier consultations are part of that, as are our tax impact notes. HMRC is publishing, for example, more costings on tax relief, so all of that can, hopefully, feed into some of this as well.

Q458 **Mike Hill:** Minister, Steve Baker alluded to the debt that will need to be gotten under control after coronavirus. It is recognised that some difficult economic decisions are going to be made as a result of coronavirus, including on taxation; otherwise, we are going to have problems further down the line. What role do the Government envisage for Parliament in these decisions going forward?

Jesse Norman: It is important not to overstate the issue about parliamentary scrutiny. I do not know whether the Chair, who had my job before me, feels the same way, but I certainly do not feel under-scrutinised by Parliament. I have done this Committee, three sessions of the Lords Economic Affairs Committee or its sub-committee, the Public Administration and Constitutional Affairs Committee, 31 hours of debate on the Finance Bill and over 1,000 PQs. There is plenty of scrutiny in



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different ways. It is not always the case that Parliament uses all the time that it has. In the last Bill that I did, I was very struck that some of the sessions, even on the Floor of the House, ran short. That did not suggest that parliamentarians were chomping at the bit to exercise more scrutiny. It may be that parliamentarians think the scrutiny is okay, even though that is perhaps not always the impression one gets from looking at the press headlines.

One of the things that the Institute for Government report said was that the Treasury Committee might want to do more on tax. I would certainly welcome that. It is a very helpful thing to have these conversations. I always learn a huge amount from them. I realise that you have a very wide spectrum of things to do; nothing has changed in that regard from when I was on the Committee. In a way, I wish the zeal was more widely shared by some of our colleagues. The Lords has a very active committee in this area. As I said, I have spent three sessions with them in the last few months; I can tell you that has been quite an interesting experience.

Q459 **Mike Hill:** Finally, would you be in favour of the Finance Bill Committee taking evidence from experts?

Jesse Norman: The situation is that there is every opportunity for Parliament to take different forms of advice and input. When we have a Public Bill Committee stage, we invite all stakeholders to get involved. Certainly, as when my party was in opposition, the Opposition in place now is being very heavily briefed by stakeholders, so there is really no absence of input. Of course, I am always happy to respond to parliamentary initiatives, but it is really a matter for Parliament as to whether it wishes to adopt a further measure of that kind.

Q460 **Chair:** Thanks for those answers, Jesse, which are very helpful. I concur with your view—and it is only a personal view—that, when it comes to scrutiny of your role, there is plenty of that, but there is this point about flagging up changes in taxation. It is interesting that you should mention a separate tax day, as well as a few other points that you raised. It may be useful if you could drop the Committee a line to update us on where the Treasury is on that kind of thinking.

Jesse Norman: It is at an early stage, I should say, and the reason I mention it now is because I thought it would help the Committee and because I thought you might have some early responses. It may be that the right time, with your permission, would be to write to you further down the track, when we are more settled in our mind as to what we think ought to be happening. The concern I described—to try to give more measures a bit more profile—is not going to go away.

Q461 **Chair:** In that case, perhaps I could change the request to write to the Committee just to let us know the kind of timing around the development of the thinking that you touched on.

Jesse Norman: I would be delighted to do that. I just want to be sure that we give you as concrete and helpful an answer as possible.



Q462 **Julie Marson:** I apologise for coming to the meeting slightly late. I have just come from the Chamber. I would like to follow up with the Minister on the same theme, if I may, about tax policy consultations and announcements. Last year, we did see some tax policy announcements made outside the Budget. There were written statements, for example, in July and November. Would you agree that these announcements should, ideally, be made at the Budget?

Jesse Norman: I would certainly say that the preferred approach is that Parliament should not be, as it were, subject to an unstructured dribble of announcements. We are in a situation with Covid at the moment where we have had to put an enormous amount of change through. Some of that has been change in relation to tax and some has had a knock-on effect on other things that we have been planning, so it has not been a perfect environment in which to operate in terms of obeying the perfections of the consultative process.

What I am keen to do, though, is to have a structure that allows us to do all of the consultation that we want to do, that you, as a Committee, would want us to do, and that certainly our stakeholders would want us to do, but not to do it in a way that is unscheduled. When people know that stuff is coming—it may not be published right then and there, but they know it is coming—they can prepare themselves for it and, therefore, it does not come out of the blue, it is not something that they have not been able to plan for and it is not suddenly, as it were, throwing them into a need for resources that they were not expecting.

I suppose the point about a tax day—it is an evolving idea, which is why I am putting it in this rather inchoate form in front of you, because it is useful to discuss it—is that we would publish some consultation documents. There might be some that would not be ready yet, or where we would say, “We are not ready to publish this yet, but we think it would be important to publish a further consultation or call for evidence in this area. It is our intention to do that.” That is useful for stakeholders and the general public. They know something is coming and it adds certainty and structure, which is, generally, helpful in the tax world.

Q463 **Julie Marson:** Am I right in saying that it is your intention and that the ways you are outlining are designed to ensure that coronavirus and the reactive nature of some of the aspects of the pandemic are not going to have a lasting impact on how we make and announce decisions?

Jesse Norman: Our hope would always be to announce decisions in a structured and well-flagged way. I am sure that I can speak for officials in that. It is not always possible. When it is not possible, we would expect to explain why that is the case and, as it were, to continue to take other measures which would restore a degree of stability and predictability to the system. That is the overall approach.

I would also say one thing—and it is appropriate to use this moment to say it—which is that I have been staggered by how much ancillary work



officials, both in HMT and in HMRC, have been able to do, even while they and we have been rolling out these incredibly large interventions for Covid and to support people in the face of Covid. It is as though someone had said, "Take your normal business and double or treble the amount of workflow that is going to go through it, but, by the way, we still expect you to do the normal business," and, by and large, they have. There are some things that are running slightly slower than one would like, but, otherwise, it has been remarkable.

There are some areas where we have been able to use the virus to accelerate the pace of reform, the classic example being the tax administration strategy and the digitalisation process. I have been pressing for this to be recognised as an absolutely central aspect of what we are doing on tax, precisely so that we are better prepared next time round and we can better support HMRC.

If you will excuse me, one more point would be to say this: it is not quite appreciated how much HMRC has had to evolve itself, so that it is no longer just a tax authority in a traditional way but is also an astonishing resilience and economic support agency. We have to think about whether that it is something that it is going to be in the longer term. In due course, it may be, as we get more digitalisation of the tax system, a productivity enhancement agency, because there are so many long-tier businesses that are relatively low in productivity but that would benefit from the boost that comes from having to take part in a digitalised tax system. There are some really interesting other elements that go beyond what you might call the traditional conception of HMRC.

Q464 Julie Marson: Moving on to the consultation framework, there has been criticism of the Government on some of their consultations. I am thinking of duty free and some tax treatment by large business. Would you say that the criticism has been fair and that the framework will be kept in place in the future? If not, should we be setting out very clear reasons why it is not being kept to?

Jesse Norman: The VAT RES consultation is a very rare case. If you recall, there was a consultation. I think I am right in saying that the High Court dismissed the claim that the Government had failed to consider the impact of the changes that have been made. Not only that, but the judge's position was that this was not even arguable. The problem was that people had some expectations, and stakeholders and other people had prepped the people around them in a certain way, and then the basis of the decision was a different one.

Of course, that is what happens with consultations: you do not always know in advance what the outcome is that you are going to be reaching, and there may be other ancillary factors that make an all-things-considered judgment somewhat different. In general, the point that I made stands, which is that we certainly want to have predictability to the extent that we can put it into the system. We would like to enhance it. The tax day idea is one idea that we have put forward to try to match the



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flow of new consultations while preserving a degree of stability and predictability. Those improvements that were made three, four and 11 years ago have shown their value.

Q465 Siobhain McDonagh: I would like to ask some questions about international taxation and the OECD base erosion and profit-shifting project. The OECD's BEPS process to tackle cross-border profit shifting has been ongoing since 2012. What has directly changed because of the Government's action since 2012?

Jesse Norman: That is quite a technical question in some of its details, and I certainly would not profess to be a specific expert, but there is not much doubt that the flow of information is much improved. An important constraint has been placed on the ability of multinationals to move profits out of jurisdictions, the frameworks have been laid for longer-term work that the OECD has under way at the moment, and I would like to think that more tax has been paid as a result. I do not know of any evidence—it may be that Beth or Mike can help in that area—but I have no doubt that the OECD and others sitting at the centre of this process would be able to give you quite specific chapter and verse on it.

Q466 Siobhain McDonagh: Mike, would you agree that it is not Government action but companies like Starbucks, Boots or Dyson in response to consumer protest? Is it not even worse that they have not changed more, given the amount of coronavirus support that some of those companies have had in the form of furlough, business loans or business rates protection?

Jesse Norman: Before Mike comes in, I must say that I do not agree with that. There have been some really important changes that Government have made. The corporate interest restriction rules that we have introduced raise £1 billion a year. The hybrid mismatch rules raise almost £1 billion a year. The country-by-country reporting rules that we have at the moment, although not public, have been extremely helpful. There has been an overall increase in the coherence and transparency of the system. I did not mean to interrupt Mike.

Mike Williams: The BEPS project finished in 2015. Certainly, the UK was then quite quick to implement the main recommendations. Some other countries are still in the process, but most have now finished the process. It has led large businesses to be much more concerned about the substance of their activities. You do not create a real structure, with some sort of artificial tax avoidance arrangement done somewhere else. You do not have some shell company in a very low-tax area that purports to do the activities that are actually done, say, in the UK or in some other country with a normal tax system. That has been quite a significant shift.

It has made businesses quite anxious about activities that looked as though they took place where, realistically, there probably was not the infrastructure to carry them out. I would not underestimate that. Inevitably, some businesses will be more attuned to these sorts of



developments and will have changed their behaviour more. Equally, some businesses may have been reporting quite a lot of information publicly, so they will not have felt the same need to do more. You could argue that this stress on substance helps the businesses that always thought they had to have proper substance, by making sure that the competition cannot get away with, say, putting profits into a tax haven instead.

Q467 Siobhain McDonagh: The introduction of the digital services tax is welcome, but it is due to raise only £400 million within four to five years. The reality is that the biggest global digital brands, like Google and Amazon, are finding ways to avoid it. When will Britain become a better player on the international stage to achieve fairer tax by these global digital brands?

Jesse Norman: You will appreciate that I cannot discuss specific companies.

Siobhain McDonagh: Go on.

Jesse Norman: Thank you for that kind invitation. This is not to say that HMRC does not spend a lot of time interrogating or thinking about its tax affairs. Of course, I am not privy to that, because we have very strict rules that rightly prevent politicians from having anything to do with individual taxpayers. I would defend the digital services tax on several grounds. First, it is highly innovative. There are not many of them around. Ours is a very good one by comparison to others. It is well designed. It has not been intended to raise a huge amount of tax. It is, by design, introduced to insert a wedge of taxation in an important new area, preliminary to a wider settlement that is under way with the OECD. It is very easy to downplay that, but there are good reasons to think that the OECD will continue to make progress in this area.

As you know, there are two sides to the OECD's plans, and this is just one side of them. There are also minimum tax policies being developed by them, and both of those are very interesting potential developments. Once that international agreement is in place, we will be able to move towards that and the DST will drop out of the picture. In terms of getting on with it, formulating a new basis of tax and bringing it into operation is quite a good thing and an important thing.

Q468 Siobhain McDonagh: My final question is related to UK offshore financial centres used to avoid corporate taxes across the world. I welcome the Government's U-turn on introducing a public register of beneficial ownership in the Crown dependencies and overseas territories, so that we know who owns the companies registered in those locations, but when is it going to come into effect? Do you agree that it will be in effect by January 2023?

Jesse Norman: I do not know what the timing of that is, and it may be that Beth and Mike can assist. What I would say is that, too, has been an initiative that we pioneered. It takes a while, because do not forget that these other countries may have radically different circumstances and



need to accommodate themselves to that, but it is a rather important initiative. We are all on the same page. We all want to see more transparency and less avoidance and evasion, so any measures in that area are going to be of interest to us. This is an important part of a wider picture, several aspects of which you have already touched on.

Mike Williams: It is worth saying that the move for businesses to be more concerned about substance has helped here as well. You can have substantial activities in a dependency, but equally there will be circumstances where that is not feasible. The dependencies have moved quite considerably to exchange information on people's bank accounts. Often, the obstacle to pursuing people who have evaded tax is not knowing that they have done it, so that has helped significantly in the fight against evasion.

Q469 **Siobhain McDonagh:** When will we personally be able to check and know? It is one thing for HMRC to know. If I have a constituency problem and I want to find out who owns a property, I can find out, but I do not know who these companies are that are registering in these territories.

Mike Williams: I would be happier with HMRC pursuing people who may have evaded tax, rather than trying to do it myself. The real answer is to get the information to tax administrations that have the tools to police this. If they get information, they can also ask questions of people who have filed tax returns, which you or I would not be able to do.

Siobhain McDonagh: Will it be by January 2023?

Jesse Norman: I do not know the date, but we will write to you.

Q470 **Felicity Buchan:** Good afternoon, everyone. My questions are on employment taxes and the three-person problem, if I can call it that. Clearly, over time, we have seen a long-term shift away from income tax towards national insurance. At the same time, we have seen a reduction in corporation tax, so you could argue that this is incentivising people to be self-employed or to operate through a limited company structure. Jesse, is it fair that people who could be doing exactly the same job end up paying different amounts of tax depending upon their employment status?

Jesse Norman: Certainly, the Treasury's position, which is a fair one, is that, in point of tax, if people are doing the same or roughly the same work, they should be taxed in the same or a similar way.

Q471 **Felicity Buchan:** When the Chancellor announced the self-employed support scheme, he seemed to imply that people were making different contributions for the same effective job and hinted at a realignment. Is my reading of that correct? Do you agree with that, or am I reading too much into what was said?

Jesse Norman: You are tempting me into indiscretion in relation to policy on this area. The Chancellor's words will speak for themselves, but



what he did point out and what your experts have pointed out in other testimony is the divergence in taxation. Also, their consensus has been that there is no principled basis for this, so that concern is one that does not sit just inside the Treasury but sits much more widely and would include some of the academic experts as well as some of the policy experts.

Q472 Felicity Buchan: A couple of years ago, the Government commissioned Matthew Taylor to look into different employment statuses, and he recommended an alignment of employment status with tax status. What has happened to that review? Is that now on the backburner or is it ongoing work in progress?

Jesse Norman: It is very important to realise that the Taylor review is something that the Government took and continue to take seriously. It is a long-term process and there is no doubt that it has been delayed by events of the last 12 months. There were a series of recommendations that he made, several of which were implemented relatively quickly, including stronger protections on agency workers, rights to written statements for workers and things like that, closing various loopholes.

There is a wider agenda that is extremely complex and requires a series of much bigger issues to be considered and evaluated. Those are work issues and employment issues that largely sit in BEIS rather than in the Treasury, but there is no reason to think that they are not focused on or interested in them. I think I am right in saying that it has a Bill on employment coming out at some point. If that is the case, then it would be included. The Government said in the manifesto that they will bring forward measures to establish an employment framework that is fit for purpose and keeps pace with the needs of the workplace, and that includes a number of Taylor review recommendations.

Q473 Felicity Buchan: Is Treasury working with BEIS at the moment?

Jesse Norman: Yes. I may be wrong about there being some legislative basis for this, but the Government's commitment to work on the area, as in their manifesto, is plain and stated. Officials will want to comment but we certainly work very closely to make sure that we are sighted on work that BEIS is doing in this area.

Beth Russell: It is something that we have been working on with BEIS over time. On the specific issue of aligning the statuses for tax and rights, it is a very complicated area. If you are moving from a position where it is based on case law to a statutory test, you have to understand the nature of the test—who will be affected and how—and there are quite a lot of issues to think about, in terms of the cost for employers particularly, if you are shifting the boundary in any way. It is something that we continue to look at but it is very complicated, and our priorities in the last few months particularly have not been on this but on the Covid response.



Q474 **Felicity Buchan:** Jesse, would it be an accurate summary that the direction of travel, led by BEIS but in conjunction with Treasury, would be for an alignment, but that this is a complicated subject and we do not have a timeframe at this stage?

Jesse Norman: We should not overstate this. BEIS is looking at the question of what to do about the workers' rights issue. There are many people in the gig economy who would benefit from this. It raises some very tricky issues and some extremely fiddly legal issues of the kind that Beth has just touched on. We can see the benefits of certain kinds of outcomes, but it would not be quite right to say that we are working towards an alignment. It would be fairer to say that we are working collectively and trying to make workplaces fairer, more flexible and better supportive of the needs of both employers and workers. That is, in a way, a more complicated agenda.

Q475 **Rushanara Ali:** Good afternoon, Minister. I want to come back to tax avoidance and the Government's strategy. The Government have done a great deal, as you have said, to clamp down on tax avoidance. From your answers to Siobhain's questions, it is clear that there is a lot more to do; I hope that you would agree with that.

In terms of some of the recent changes, the Government have decided not to stay with the EU-wide avoidance disclosure rules—directive DAC6. Many would argue, including those working in the sector, that that has weakened the ability of HMRC to tackle tax avoidance. Why was that done? From our checks through Clerks on this Committee, the parliamentary lawyers have said that it is not down to the FTA. There are no grounds for coming out of it based on the trade agreement that has been made. Can you explain why this has happened?

Jesse Norman: It is important to be clear about what is happening here. Nothing has changed in our commitment to international transparency. We are absolutely as committed to it as we have ever been, if not more so. It is vital if we are going to get hold of issues of avoidance and evasion across borders. I am perfectly clear about that.

The second thing is that DAC6 is an EU directive that requires tax authorities to collect and exchange information. We have left the EU. We are therefore not in a world in which it applies to the UK. What we are doing instead is implementing the OECD equivalent, which is called the mandatory disclosure rules, as soon as we can. That was agreed in the FTA and it has the effect that it orients us towards a global standard rather than an EU standard, which, in a way, is appropriate because we are no longer part of the EU. There is no reason to think it is a less stringent standard. It is a somewhat different standard but there is no reason to think that, where it applies, it is a less stringent standard.

Q476 **Rushanara Ali:** You do not think there will be any barriers to Britain being a leader? Some would argue that it will damage our leadership role in relation to this agenda, but you do not agree. Can we count on you



and your colleagues at HMRC to do more than is happening already and to be better?

Jesse Norman: The way that the OECD rules work is that they focus on evasion. They are narrower than the EU rules, but they are global in their scope, whereas the EU rules apply only to reporting EU arrangements. You have a situation in which we are stepping into a global framework. The point I would make is that that fits very well alongside some of the core work that we are doing at the moment, notably the existing reporting regime that we have, called DOTAS—the disclosure of tax avoidance schemes. In a way, those two things dovetail together.

What is ultimately going to make the difference in this area is a continued, resolute focus on avoidance and evasion. You will have seen that we have put in place or announced a huge amount of work, including work on promoters and work on avoidance itself. That is quite a lot of domestic activity that we are working on, irrespective of what is happening on the OECD side.

Q477 **Rushanara Ali:** Minister, I have a few more questions, so I would appreciate some quickfire answers. Coming back to the domestic front, the NCA estimates that about £100 billion is laundered through Britain annually. The recent FinCEN leaks named 3,267 UK-incorporated shell companies and nearly £70 billion that flowed from Russia into the UK's overseas territories. I appreciate all the things you are saying, and this Committee has looked at, through previous inquiries, some of the work that has been done, but this is clearly still a big problem. Do we need to do more in terms of introducing criminal offences, such as those proposed by Dame Margaret Hodge along with Andrew Mitchell and other cross-party efforts, to try to do more around this agenda? It seems to me that, while some progress has been made, these numbers are pretty staggering, are they not? Unlike the US, for instance, we do not do enough on the criminal prosecution dimension.

Jesse Norman: First of all, in general, there is no doubt that tax avoidance and evasion continue to evolve, and there is always stuff that we need to do to try to rein it in. The point I am making is that we have been extremely active historically, and we continue to be extremely active.

On the point that you raise about the suggestion that Margaret Hodge and Andrew Mitchell put forward, I did a public meeting with them to go through their proposals and discuss them in detail. Expert testimony was taken to that, as well as ministerial input. It was clear that those proposals do not work as they presently stand. There is a general problem with these ideas, which is a classic problem in politics: it feels wonderful in principle but it turns out to be very hard, if not impossible, to implement. Let me just explain the problem. The problem is that, when you are proposing to apply a criminal standard, you are applying a standard that is much higher than the one you would find—



Q478 **Rushanara Ali:** Minister, with respect, can you just explain how the Americans manage to do it and we fail to? Let us leave the European Union to one side for a moment. You have explained your reasons why we cannot follow the Europeans on this. Why is it that we do not manage to prosecute in the way the US manages to? Why are we behind? What can we do to improve, so that we can address this £100 billion NCA number that I am talking about? If the Hodge-Mitchell amendment and efforts are not good enough, what are you going to do to bear down on and address these numbers?

Jesse Norman: I do not know the £100 billion number, but let us leave that for the time being.

Rushanara Ali: It is from the NCA.

Jesse Norman: There is no doubt that there is a problem here. We are already doing a lot. We have more work under way. If you look at the amount of work that has been done over the last 18 months on tax avoidance and promoters, it is a vast acceleration in a direction that we were already heading in, which is good. Let me just say one thing: I cannot comment on the US legal system, and there are many aspects of the US legal system that many people would think are not ones that this country ought to be following. When it comes to the rule of law, this country invented it, and I do not think it has anything to learn from any other countries. I am not saying that we cannot learn—we could learn in many ways—but, in general, this is the place where people tend to go for high-quality, consistent legal judgments.

Rushanara Ali: We should be open to ideas and learning from many different countries.

Jesse Norman: I do not disagree with that at all.

Rushanara Ali: That could be the European Union or the global south. It is arrogant not to try to learn.

Jesse Norman: Hold on a second. I am not suggesting that we should not try to learn. I am saying that we should be conscious of the historical achievement of the UK as a rule-of-law society.

Q479 **Rushanara Ali:** I started my questions by acknowledging the work that the Government have done on this, and there is absolutely no question but that your Department and your colleagues have done some considerable work. That said, there are some outstanding areas that we need to focus on.

Moving on, as I suspect we are not going to get much further on this, in relation to Covid we know from some of the recent numbers that there has been about £3.5 billion of fraud and error in payments identified by HMRC. Would you be able to give us an update on what has happened with that, how much has been recovered and what steps your Department, working with HMRC, will take to recover, hopefully, most of that money?



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Jesse Norman: HMRC publishes and will continue to publish updates as to the level of fraud that it estimates there may be in the system and the level of recoveries that it has made. Do not forget that much of this may not be fraud but may be error, with people inadvertently applying for things that they did not intend to or where they did not realise that the rules made it impossible, et cetera. We have some further rules. I can inquire if HMRC, which is an independent and autonomous institution, can update you on that area.

I would say that HMRC has fraud and error guidelines for the existing schemes, and those are ones within which, as far as I am aware, the schemes are operating. It is testimony to HMRC's effectiveness that it has been able to get these schemes out, and that those schemes have been as effective and large-scale as they have been, while keeping the fraud and error within known and manageable limits.

Beth Russell: I am not sure that I recognise the £3.5 billion. It may be that that is the extrapolation of HMRC's planning assumption for fraud in the furlough scheme, which is 5% to 10%. I just want to emphasise that that is a planning assumption; it is not the amount of fraud that it has identified. It is its assumption for what, based on the policy and what it knows, it thinks the amount of fraud might be, and it is planning its work around that. That is not the amount of fraud that it has identified at this point.

Q480 **Rushanara Ali:** It would be great to get an update on all this. Minister, thank you very much for offering to come to this Committee regularly. We are not sensing the same enthusiasm from the Chancellor, so could you have a word with him, because this Committee is feeling rather neglected by the lack of attention from the Chancellor? I hope he can come. I am sure you are aware of the Chair writing to the Chancellor.

Jesse Norman: I have not been aware of that, but you have made your point.

Q481 **Anthony Browne:** My questions are going to focus on complexity and simplification. George Osborne, when he was shadow Chancellor, used to rail about how the previous Labour Government had made the tax system a lot more complex. In fact, when I was director of Policy Exchange, I hosted a speech where he announced that he was going to set up the Office of Tax Simplification if the Conservatives won the 2010 election. They did and he became Chancellor. He set up the Office of Tax Simplification with the objective of simplifying the tax system, but there has been wide consensus among the people who we have evidence from that, since 2010, the tax system has become not simpler but more complicated. I could cite various examples of that. I have a question for the Minister first, and then I want to ask officials as well. Has the Office of Tax Simplification made any difference? Can you cite any differences that it has made?



Jesse Norman: The OTS has been a very helpful and useful institution. It is important to be clear about what its role has been. It is not an invigilator of tax policy, and it is not clear that there should be such an institution. After all, Parliament should be the institution that holds Government to account for tax policy, and that is a function that Parliament has historically jealously guarded to itself. Just look at the work they have done recently on capital gains tax, inheritance tax or income tax. They brought in the cash basis of taxation for small businesses, which has been very helpful. They have tended to be technical in their brief. They have the capacity to investigate things in their own right, as well as to take a political lead, so they have quite a high degree of independence, and that is how they have defined it. They have been very helpful. I do not know what officials would say, but I think that is the general consensus.

Q482 **Anthony Browne:** Before I come to the officials, I assume you would agree that a simpler tax system is preferable to a more complicated one. The economy is complicated, so tax has to be complicated to a certain degree, but we have a far more complicated tax system than almost any other country in the world.

Jesse Norman: Everyone would like to have a simpler tax system, but there is a little caveat. When you ask people the second question, which is, "That is very interesting. You want more simplicity. What do you recommend?", very few people can come up with a sensible simplification that does not turn out to be wildly inequitable.

Q483 **Anthony Browne:** Yes, it is easier to come up with problems than solutions, but the UK has one of the most complicated tax systems in the world. That is widely acknowledged. Why is that the case, and why has the tax system been getting more and more complicated?

Jesse Norman: There is a whole series of reasons why the tax system is complicated.

Anthony Browne: It is compared to other countries.

Jesse Norman: We do not have a Napoleonic approach to our law. We are not a Roman law jurisdiction; we are a common law jurisdiction in which tax has evolved through property transactions going back hundreds of years on different bases. Over time, that has mutated into a different basis of tax, which HMRC has accommodated. In the old days, Revenue and Customs were separate institutions; they have now been brought together. On the tax admin side, we are trying to consolidate even further that quality of view. When you get to tax heads, every one of these things has a lobby and a democratic voice sitting behind it. In part, it is a function of the way in which our democracy has evolved that these voices have manifested themselves in the tax code. Of course, the effect of social media is to magnify the minority voices that may sit behind a particular tax wheeze, however mad or incoherent it is.

Q484 **Anthony Browne:** As somebody who supports simpler taxes, is there



anything more that could be done to ensure simplification of the tax system, which is what the OTS was set up to do?

Jesse Norman: The way in which the tax system works is that it tends to become more complicated over time. Every generation, there will be a great clear-out and the thing is moved on to a new basis. At that point, there is some simplification, after which further encrustations occur on the new system. We happen to be quite late in the cycle of one of these. There was a famous one that everyone goes back to with Nigel Lawson in 1988, but that itself was a drastic simplification that existed after a whole period of greater complexification.

Q485 **Anthony Browne:** Could anything be done to the OTS to make it more effective? Could it be given greater powers? It is just an advisory body at the moment.

Jesse Norman: The OTS has a five-year review cycle, which we are just coming up to, so we are thinking at the moment about whether the OTS could be made more effective and, if so, how.

Q486 **Anthony Browne:** Do you have any suggestions at the moment?

Jesse Norman: I do not want to anticipate what the review will say, but the pattern of its work over the last few years gives you a sense of areas in which it has been effective and helpful. It has certainly established itself as an independent expert voice. There are lots of ways in which it has been helpful that have not been just about the studies that it has done. I am sure that officials will want to comment.

Q487 **Anthony Browne:** I have one last question to you before coming to the officials. There has been some criticism of the OTS for floating ideas that are about rates and policy, which are not really part of its core remit. You mentioned the capital gains tax proposal, for example, and it also has a review on the reform of inheritance tax. Is it being used to float ideas at arm's length from the Treasury? That is how it is being perceived in many quarters.

Jesse Norman: That may not be irrelevant to the interests of the people who are raising the topic. The OTS had looked at income tax and at IHT. Last summer, it looked at capital gains tax. It was a large tax head that it got to, so one should not read a huge amount into that, but one question that you might want to ask is that one cannot have it both ways. You cannot have people say that the OTS is exceeding its brief by looking at things like capital gains tax, while also saying that the OTS should be made a separate, fully enfranchised invigilator of Government policy, in a way that potentially cuts against the prerogatives of Parliament.

Q488 **Anthony Browne:** It certainly should not cut across the prerogatives of Parliament. I want to come to the officials now. As officials in charge of tax policy, presumably you support simpler tax rather than more complicated tax, but tax does keep getting more and more complex. What can be done to help make tax become simpler?



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Beth Russell: We have talked about the OTS, which plays a really important role in inputting into our policy thinking. On the OTS specifically, I would mention not just short-term specific changes that it has recommended and that we have taken on but also, increasingly over recent years, its role in thinking about some of the longer-term issues facing the tax system. The OTS is also perhaps able to engage with different stakeholders in a way that the Treasury or HMRC are not always able to do. For example, it had a massive level of engagement with its recent inheritance tax report, which was really interesting and helpful.

The other thing I would mention on tax policymaking is that one of the reasons we introduced the single fiscal event was precisely because the feedback was that having too many fiscal events in a year was something that encouraged churn in tax policymaking. As the Minister said earlier, although there might be reasons why we announce some things outside a Budget, generally keeping the idea of one Budget a year is something that I, as an official, personally think is really important in this area going forward.

Simplification is something that we think about and give advice on whenever we are giving advice on tax policy.

Q489 **Anthony Browne:** Do you think more could be done to ensure simplification? As an outside observer, it does not seem as though tax is becoming simpler. There is consensus that it is becoming more complex. Is there something you could do within the Treasury, or indeed with the OTS, to ensure that simplification is prioritised?

Beth Russell: The other thing I would mention that we are already doing, but we are strengthening, is around tax reliefs. We have quite a large number of reliefs in our tax system, and there are lots of good reasons for that, but it is also something that often drives complexity. Partly in response to recommendations from the Public Accounts Committee, we have been improving the way that we think about bringing together advice on tax reliefs and having a clearer framework for policymaking on tax reliefs that makes sure that officials, as we are giving advice on reliefs, are thinking about things like having sunset clauses and about the way that we monitor and evaluate reliefs, which I think could help.

Q490 **Anthony Browne:** Mike, is there anything you would like to add on tax simplification? What could be done to ensure it is given a greater priority?

Mike Williams: I have a couple of points. First of all, given the OTS's job of trying to reduce complexity and make things simpler, in the nature of things, it is going to have to put forward ideas to do that. Equally, some people are not going to like those ideas and will then criticise. If it does not put forward ideas, we are unlikely to simplify.

In terms of reducing complexity, when the Financial Secretary was responding to Ms McDonagh's questions, he mentioned the corporate



interest restriction, which was one of the things that we introduced in response to the OECD's BEPS project on base erosion and profit shifting. The rules are, in the nature of them, complex because they deal with quite complicated multinational avoidance, but we quite carefully made sure that they do not apply to the great bulk of businesses that operate in corporate form, because they only apply if you deduct more than £2 million-worth of interest a year. Obviously, most businesses do not deduct anywhere near £2 million-worth of interest a year.

We can keep some of the complexity away from most businesses. If you are going to tackle that sort of avoidance, it is going to be complicated. The answer is to target and focus that sort of complicated rule in a proportionate way, and therefore not involve smaller businesses in that sort of rule. Equally, you see that in VAT, where people below the VAT threshold do not get involved with VAT. It is not just about having simpler rules; it is also about making sure that, where you do have rules, you apply them in a proportionate way.

Q491 Anthony Browne: One form of simplification that George Osborne initiated when he was Chancellor was a review into merging national insurance with income tax. It is something that is discussed on a regular basis, and often very little is done about it. Is that something you would like to see move ahead?

Jesse Norman: I am going to take the fifth on that one, Anthony, thank you. It is certainly a perennial topic of discussion, I am sure in your building, if not in mine. George was right to flag the anomalies involved, but addressing them is a completely different matter. It is important to say that some progress has been made in that direction already, but there is no doubt that, if more is going to be taken, that will be a very big job.

Q492 Harriett Baldwin: I am going to move on to Brexit issues, VAT and rules of origin. Financial Secretary, can I start by asking if the tampon tax has been abolished in Northern Ireland?

Jesse Norman: Northern Ireland, as you know, operates under the European Union customs code. I think the arrangement is that we apply European Union rules but with a protection mechanism for those who may be negatively affected by them.

Q493 Harriett Baldwin: Mike, is that your understanding?

Mike Williams: On the VAT side, yes. The zero rating of tampons applies in Northern Ireland as in Great Britain.

Q494 Harriett Baldwin: That is the only VAT change I am aware of since 1 January. I want to talk about some of these rules-of-origin impacts on Northern Ireland. The chief executive of Marks & Spencer said that "tariff-free does not feel like tariff-free when you read the fine print" in Northern Ireland. Would you accept that there is now an international border between Northern Ireland and Great Britain?



Jesse Norman: No, I absolutely would not accept that. The Government have made it perfectly clear all the way through that there is not such a border. That includes both in and around the protocol and in relation to the command paper.

Q495 **Harriett Baldwin:** In terms of the impact on people who do business in both Great Britain and Northern Ireland, would you accept that there seem to be different impacts for Northern Ireland at the moment?

Jesse Norman: My impression is that trade in Northern Ireland has been going remarkably smoothly, and certainly more smoothly than many people had projected before the beginning of the year. There is no doubt that it is a system that needs to continue to bed down in terms of its actual practice, even though HMRC has done an astonishingly good job of putting the different operational systems in place.

Q496 **Harriett Baldwin:** Due to the rule-of-origin requirements, many goods that are being moved from Great Britain to Northern Ireland now face tariffs. Was this something that was apparent to the Government and HMRC before the publication of the agreement?

Jesse Norman: This is a fantastically technical and complex area on which it would be wrong of me to opine too much further. It would be right to bring in Mike or to write to you. There is not much doubt that there was an awareness that the scale of change that we were introducing with the new tariff arrangements might lead to some unexpected consequences. The commitments that have been made in relation to Northern Ireland are that those should be mitigated as far as possible.

Q497 **Harriett Baldwin:** At the moment, the consequences that are being observed are unintended and you are committed to rectifying them?

Jesse Norman: I cannot say that. Where they are unintended, that would be the case. I am just not aware of what particular changes or consequences you are talking about, Harriett. It does not make sense for me to offer a blanket view.

Q498 **Harriett Baldwin:** Mike, do you think it is fair to describe the trade deal for people in Northern Ireland as being zero tariff, zero quota?

Mike Williams: Looked at in general, yes. The Minister is right. When we look at rules of origin, we have to tread very carefully because it is complicated in terms of trade law and the WTO rules. I would not want to get into the detail of that, which very much depends on specifics. If you wanted to get into that detail, we could. It would make sense to write, if you would like us to, because we need to define our terms and look at it all very carefully.

Q499 **Harriett Baldwin:** I am just going on published media reports on some of the impact that it is having for consumers in Northern Ireland. It was raised in an Urgent Question by a Member of Parliament from Northern



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Ireland last week. The Committee may want to follow up on what HMRC is able to do in terms of mitigating the impact, as the Financial Secretary put it.

Beth Russell: As the Minister said, disruption is perhaps not at as high a level as we might have worried about. There are instances in which traders and businesses are not quite clear about what they need to be doing. HMRC is doing a lot, particularly with the largest businesses, to hold their hands through all that. There are also customs procedures. We clearly have the trader authorisation scheme that allows people to move goods into Northern Ireland that are not at risk of moving on into the EU, which is now up and running. We can write to you and get HMRC to write to you on some of those issues.

Q500 **Harriett Baldwin:** Can I ask about VAT specifically, again getting into some of the nitty-gritty detail? Why did HMRC decide not to apply its existing rules for non-EU mail orders to EU countries, which require VAT to be added when goods enter the UK?

Mike Williams: You can best look at that in the context of changes that were already under way. There have been various difficulties with low-value consignments being moved into the UK.

Harriett Baldwin: Jersey, the Channel Islands and so on.

Mike Williams: Yes, exactly. You can see it from the perspective of small businesses selling the equivalent thing in the UK. Why should they have to apply VAT when they sell, whereas it is not applied if you bought them abroad? There was already work under way to address this issue. Interestingly, the availability of what was called low-value consignment relief, the thing that was linked to CDs coming from the Channel Islands, is being abolished within the EU also, but from 1 July 2021. It is partly that technology has enabled us to move away from that.

Q501 **Harriett Baldwin:** Have you had adequate resources to deal with the huge increase in parcels that now need to be checked upon entering the UK?

Mike Williams: We have worked quite closely with the parcels businesses to deal with this, yes. Of course, they have also had to deal with a similar issue arising in relation to the EU. Equally, many of them have experience of parcels coming in from not just the EU, but from the rest of the world as well.

It is not easy collecting VAT on small parcels, as you will appreciate. We are getting to a better system, and crucially to a system that does not distort the playing field. It makes sure that everyone pays. In the case where the overseas seller is selling things on an internet platform, as will often be the case, it may be that the platform accounts for the VAT. It is quite an efficient way of making sure that the VAT is paid.

Q502 **Harriett Baldwin:** You are not worried that a lot of companies are going



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to be able to evade VAT?

Mike Williams: No. This system will make it harder overall to evade VAT in this area.

Q503 **Harriett Baldwin:** Companies have decided not to sell to the UK for the time being, because it seems to them to be a new barrier that they have not encountered before and it is complicated. It has been reported that it now takes two months for a company in the EU to complete its VAT registration with HMRC. Is that a factual situation report, or are you much quicker than has been reported?

Mike Williams: It is worth factoring in that many online sellers, and many people selling materials from outside the UK into the UK, have already been registered for VAT.

Q504 **Harriett Baldwin:** For the ones that have not, how long would it take?

Mike Williams: HMRC is working very closely with those that have not to ensure that they comply with the changes. Where they are selling over an internet platform, the internet platform provider will often help them as well. There are circumstances in which the platform can take on the VAT responsibility.

Q505 **Harriett Baldwin:** How are you going to catch people who do not sign up for VAT and keep on sending stuff over?

Mike Williams: We will need to check, and the parcel providers will need to check, that VAT has been accounted for. The old system was by no means perfect. This does move us to a better system. The fact that many of these goods are sold through an internet provider is, in a sense, a challenge. On the other hand, it provides an opportunity as well. It is clear that those transactions are taking place and it is possible then to test, "Has VAT been paid?"

Q506 **Harriett Baldwin:** How will we as a Committee be able to check how well this is going and how well you are doing your job on this?

Mike Williams: I do not doubt that it is the sort of area that the National Audit Office will want to look at in relation to HMRC, but not particularly this area. The NAO often looks at areas where there has been a change of practice. It is obviously for it to decide whether to or not.

Q507 **Chair:** Thank you for agreeing to write to the Committee on the rules-of-origin issue. Can I just clarify so I am absolutely clear? Are we saying at this stage that you are not currently in a position to say anything in front of this Committee about what kinds of goods are being affected or the extent of the problem for those goods that can be moved from London to Scotland or Wales, for example, but on being moved to Northern Ireland fall foul of the rules-of-origin requirements and therefore attract a tariff? Is that correct?

Beth Russell: It is an issue that HMRC is very aware of and is working on. I just wanted to add, as I mentioned earlier, that there are some



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specific customs procedures that can help businesses if they are falling foul of that. Return goods relief is one example. They should be in contact with HMRC and talking to them about that.

Q508 Chair: Do you not have some sense of what kinds of goods are being impacted by this effect of attracting tariffs when they go from GB over to Northern Ireland?

Beth Russell: I am not an expert on this, but my understanding is that it is all about goods that come in from the EU, do not have processing that happens here, and then move into Northern Ireland. I would not want to get into the detail of it, because I am not the expert on it. It would be for HMRC.

Chair: Percy Pigs are affected on that basis. Some of the ingredients come from Germany, do they not? Let us move on from Percy Pigs.

Q509 Alison Thewliss: I have some questions around business taxation, and also on those excluded from the support schemes. First, obviously businesses would prefer to have certainty about tax. I wondered whether the Minister could tell us if the Government have any intention to launch another roadmap similar to the 2010 corporation tax roadmap.

Jesse Norman: Thank you for the question. The answer is that I am not in a position to comment on specifics, but I would say that we have a recognition of the value of giving direction where we can. We have been seeking to do that in other areas. For example, the work that has been done on net zero is an attempt to indicate a direction of travel.

We have done the same thing with tax administration. We are doing the same thing with business rates and the review process that is under way. For reasons that I touched on earlier, there is a recognition that, even in a time of extreme flux, at a time when the fiscal aggregates are all over the place and even the OBR has a very wide range of scenarios, there is value in trying, where we can, to give some sense of direction and guidance to the taxpayer and the wider economy.

Q510 Alison Thewliss: Given that many sound and profitable businesses have been forced to close due to coronavirus and have suffered financially, do you think there is merit in the Government bringing in a three-year loss carry-back similar to those in 1991 and 2010?

Jesse Norman: Alison, you will have to excuse me, but that is a plain policy matter that I am sure my colleagues will note for input in relation to their thinking on the Budget, but which I certainly cannot comment on.

Q511 Alison Thewliss: You cannot even comment on the principle of it?

Jesse Norman: No, not even on the principle. What happens with these things is that, very quickly, it is a very short step from a Minister's undying belief in the principle or against the principle of something to a discussion about the policy. I had better leave it there, I am afraid.



Q512 **Alison Thewliss:** That may well mean that you are going to dodge the next one as well. There have been some calls for windfall taxes, particularly on companies that have made greater than normal profits as a result of the pandemic. Do you think there is merit in doing something of that kind?

Jesse Norman: In my defence, it is not a question of dodging. It is a question of what the well-accepted norms and rules are—for very good reasons, including forestalling and the rest of it—for why Ministers do not comment on policy ahead of a Budget. If you had wanted to, we could have had this conversation after the Budget, and then I would have been happy to explain the basis on which the Chancellor had reached the decisions he reached.

I can say something in a related area; some would call it a related area. You have taken quite a lot of testimony on the issue of a wealth tax. I was struck, reading that and thinking about it, by just how hostile that expert opinion has been on it in relation to unfairness, the experience of other countries, the ability to pay and all the rest of it. It is also quite interesting that, even outside your Committee, I noticed a piece in the *Financial Times* the other day suggesting that it was not necessary because it is a tax that would only be required, if at all, if one had a need to reduce public debts quickly in the face of a high interest rate, which is not a position we are in at the moment. Those were interesting insights that I certainly noted.

Q513 **Alison Thewliss:** That is useful. Moving on to the coronavirus support schemes. In a great feat of multitasking, I had a parliamentary answer from you during the Committee. I am quite keen to find out whether people who have submitted tax returns from 2019-20 will be able to apply for the self-employment income support scheme from 31 January. There is a bit of a non-answer that the Government continue to look at the matter carefully and are working with stakeholders. I just wondered if there is anything more you could tell me on that. Lots of people are depending on being able to apply for that scheme.

Jesse Norman: How right I was. I admire your multitasking in pulling together two sources of data, but I do not think I should diverge from an answer I have given on that in Parliament. It is clearly an issue on which we are being pressed. We are keenly aware of that. It is an issue that presents some technical difficulties and other issues. The Chancellor is reflecting on that.

Q514 **Alison Thewliss:** Is there a timescale for the Chancellor's reflection on that?

Jesse Norman: "In the fullness of time" is always an accurate description. I am not being flippant. It is a very serious issue, and the Chancellor will come back to it. I do not think I can put a timescale on it, but he will come back to it when he can.

Q515 **Alison Thewliss:** Are there any particular administrative difficulties in



opening up the scheme to a new tranche of people who would have been, at this time last year, newly self-employed, but now have a lot more information that they can present to HMRC?

Jesse Norman: We do not have their information; that is one administrative difficulty.

Alison Thewliss: They are submitting the returns with further information that might help you out on that front.

Jesse Norman: It is hard to comment. We do not know what the position will be, and it would be inappropriate for me to discuss it further.

Q516 **Alison Thewliss:** Is there information within a 2019-20 tax return that could be helpful to you in making the scheme more targeted, or perhaps fairer to people?

Jesse Norman: Tax returns are what they are. The problem has always been, as you know, that we have been locked into a system of tax administration that has evolved over time without any conception of a pandemic or the need to turn HMRC on its head and make it into a resilience organisation. That continues to be the problem. It is one, as I have said, that we are very seriously engaging with as we think about how, through digitalisation and other means, we can make it more resilient and more responsive to people's needs. The Covid schemes are the perfect case in point to illustrate that.

Q517 **Alison Thewliss:** The Scottish Government have tried to address this issue of the newly self-employed to some extent by providing grants through local authorities. Is this an approach that might be replicated in other parts of the UK?

Jesse Norman: I would be very interested to see how the Scottish scheme works, whether it is effective, what its deadweight costs are and what its fraud and error rates are. As you will be aware, the Government have provided significant funding to local authorities in this country and in Barnett consequential to support local authorities in a whole variety of different areas, including in areas of hardship need. Of course, this goes very much beyond that, because these people would not, I presume, be applying in virtue of hardship. They would be applying in virtue of, in some sense, not qualifying for one of the current schemes.

Q518 **Alison Thewliss:** Lots of groups have been in touch with the Treasury about proposals for helping those who have been missed out from schemes. Limited company directors have proposed the directors' income support scheme. Do you have any views on the scheme and how that could be implemented?

Jesse Norman: We take this extremely seriously, as I have said. You know that the Treasury and HMRC always welcome constructive contributions of that kind. That has been a very constructive contribution. It is a clear set of proposals. We have met the group in question and



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there are some concerns about how it would work. They are reflecting on that at the moment. We remain very much up for a further conversation and discussion to see if they can be addressed.

Q519 Alison Thewliss: That is useful. Looking at the months ahead and sectors that will continue to struggle as a result of the pandemic without going back to full strength any time soon, would you envisage a continuation of the coronavirus job support scheme, or perhaps targeting it to the worst-hit sectors?

Jesse Norman: I am not going to go beyond what has already been announced, as you might imagine, for similar reasons to commenting on tax policy. The scheme that is in place at the moment will last for a couple of months yet and is a very generous one. I have no doubt the Chancellor will want to think about things as the course of the pandemic continues. We are all very hopeful that, as the vaccination process continues, we will be in a position to start planning more optimistically for the future.

Q520 Alison Thewliss: Finally, do you appreciate why the people who are within the groups that have fallen through these gaps in support will have had almost no financial support for almost a year by the time the Budget comes around? Do you feel this is acceptable?

Jesse Norman: I very much understand the concerns of people who are in that position. I would say that it is a very diverse group. There are people who will have very high profits from self-employment, over £50,000. There will be people who are not earning any income at all. There will be directors and other people who feel that they have been excluded by the policy. In fact, there has been no attempt to exclude anyone. The attempt has been to try to focus support as comprehensively as we possibly can without risking unfeasible levels of fraud and evasion, and to do it in a way that is very quickly responsive to the overwhelming majority of need.

That is the situation. We have been able to make changes as the schemes have developed, and improve them. We continue to look at ways in which we can do that, and we are very grateful for the input that different organisations have given us. We always learn from it, even if we are not always able to solve the problems concerned.

Chair: That brings us to the end of this session. Could I thank you, Jesse, Beth and Mike, very much indeed for taking the time to appear before us today? Jesse, we certainly respect and recognise the fact that you cannot comment on all aspects of the questions that you have been asked, particularly those around specific tax measures, not least with the Budget not far away.

None the less, there are a number of interesting points that you have delivered to us. One of those, in fact, was in my opening questions around the likelihood or otherwise of tax rises. I take away from this that



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it is not a done deal that there will be tax rises. There are possibilities out there in terms of our recovery that might see us avoid what a lot of people are probably expecting. That remains to be seen, but thank you very much for those comments and also your comments around the interesting ideas on raising the profile and transparency around possible tax changes in the future, and the potential for perhaps a tax day. It was a very interesting exchange of views that we had on that, and we look forward very much to the letter that you will send to the Committee.

Jesse, partway through the session today, you made the very important point about the immense amount of work that the Treasury and, indeed, HMRC have been carrying out. This is not just their business-as-usual work, but a phenomenal amount of work under very difficult circumstances, often coming forward with and operationalising some very creative and unusual approaches, given the unusual situation that we are in. This Committee does not believe that the Treasury has got everything right, and we will often say when we think they have not done so, but we do recognise the extraordinary amount of work that you, your colleagues and the officials, both in the Treasury and HMRC, are doing at the present time. We would be grateful if you passed our thanks on to them from this Committee.