Treasury Committee

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

Wednesday 4 June 2025

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Watch the meeting

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

Questions 285 - 428

Witnesses

I: John-Paul (JP) Marks, First Permanent Secretary and CEO, HMRC; Angela MacDonald, Second Permanent Secretary and Deputy CEO, HMRC; Jonathan Athow, Director General, Customer Strategy and Tax Design, HMRC; Penny Ciniewicz, Director General, Customer Compliance Group, HMRC.

Examination of witnesses

Witnesses: John-Paul Marks, Angela MacDonald, Jonathan Athow and Penny Ciniewicz.

Q285 **Chair:** Welcome to the Treasury Select Committee on 4 June 2025. We are here today to look at the work of His Majesty's Revenue and Customs, which we will refer to as HMRC. We do not usually use initials, but that is a well-known one.

We are pleased to be joined by the top team at HMRC, and particularly by John-Paul Marks, who is the first permanent secretary and chief executive officer, who has been in the job for seven weeks. He took over from Jim Harra, who was a frequent visitor to these meetings. He is joined by Angela MacDonald, who is the second permanent secretary and deputy chief executive of HMRC, who has regularly attended these committees before; Jonathan Athow, who is the director-general for customer strategy and tax design; and Penny Ciniewicz, who is the director-general in the customer compliance group at HMRC. Welcome to you all.

I do not think anyone has any declarations of interest, so let me dive in. Before we go into the main session about your work, there has been a lot of speculation about what might happen with winter fuel payments, Mr Marks. The Prime Minister, in Prime Minister's questions a couple of weeks ago, indicated that there may be some movement on this. I am not asking you to speculate on unformed Government policy at this point, but one of the ways that this could be done is through the tax return. Child benefit is removed from high earners through the tax return. They pay back the child benefit that they have claimed. That is a possibility for people who put in tax returns who might also receive winter fuel payments. Would you be able to identify people who receive winter fuel payments and have a high income through the systems that you operate?

John-Paul Marks: Thank you, Chair. It is good to be here with your Committee. I look forward to working with you in the years ahead. As you say, the Prime Minister has set out his intent to Parliament. The Chancellor has said some more today, as has the Minister for Pensions, about the question of the means test, where it might ultimately rest and how it might be administered. It is right that I do not speculate on precisely what that outcome will be. It is a policy decision for Ministers to make and present to Parliament, and they have yet to do so.

On your point about child benefit, as you say, the high-income child benefit charge enables HMRC to recover the cost of child benefit as it moves up the income distribution. The only difference there, of course, is the difference between a household calculation and one that is based on an individual. DWP administers the winter fuel payment. They will be leading on policy development for their Ministers. I cannot speculate much more on what that decision will be until it is announced to Parliament. Jonathan could say a bit more about how it works with child benefit, if you like.

Q286 **Chair:** Mr Marks, perhaps I can send that point to Mr Athow. Have you been in discussions with DWP about how your systems might be able to work together to identify someone who has been paid the winter fuel payment and is, for example, a higher-rate taxpayer or who meets whatever threshold is drawn and could then pay that back through the tax system? Have you had those conversations?

Jonathan Athow: It might be easier if I draw some parallels with the high-income child benefit charge. In the current system, child benefit is paid to the household. It is paid to a person within the household who is nominated to be paid. That adds a degree of complexity in terms of the calculation. Looking through that, we are moving towards a system where we will not ask people to file a tax return because we will be able to address it through the PAYE system. That allows us to make it a smoother process, taking people out of self-assessment if they do not need to be there.

Q287 **Chair:** That is for child benefit.

Jonathan Athow: That is for the child benefit system. That just gives you a sense that there is some flexibility in the tax system.

Q288 **Chair:** I am puzzled, though. You say it is to the household. It used to be to the nominated parent or carer, usually a parent. With the tax one, taxpayers have to declare who is the highest earner in the household. If it went through PAYE, which person's PAYE would it be done through?

Jonathan Athow: Again, it would be done through the highest-earning taxpayer. We can put it into their PAYE code and therefore take it out without them having to file a self-assessment.

Q289 **Chair:** You would be able to match up two individual taxpayers from the same household.

Jonathan Athow: Again, we have information about child benefit, such as who is claiming it and the address on their claim. That will sometimes give us information on where people are receiving child benefit and who the taxpayers in that household are. They have to notify us. Again, notification does not have to be through a self-assessment return.

Q290 **Chair:** The incentive would be that you would notify to save yourself the tax return.

Jonathan Athow: Yes, exactly. That gives you a sense of how the tax system can be used to target financial support. If there were a desire to target winter fuel payments, whether that system would be administered by HMRC or DWP, there are choices to make about how you would do that and how information might need to flow between the two Departments.

Q291 **Chair:** Sometimes DWP systems and HMRC systems have difficulty talking to each other. Are you confident that there would be an easy read-through for the various options that Ministers might be considering?

Jonathan Athow: A few years ago we introduced the cost of living payments. These were payments made to households in receipt of either tax credits or universal credit. DWP sent us a data list of who had received payments. We could then make certain we did not pay people twice. Through the cost of living payments, we have experience of successfully working with DWP. That was a slightly different system, but, again, it was about matching data to make sure we did not pay people twice and that there was no overpayment of those cost of living payments. We think that worked very successfully.

We have confidence that we can work with DWP on those data exchanges, but, of course, all of this will depend on the nature of the policy parameters and the way in which Ministers would like any changes to operate, whether that is primarily administered by HMRC or primarily administered by DWP.

Q292 **Chair:** In summary, you are saying that it would not necessarily have to be through a tax return. There could be a method of doing this that is similar to the new child benefit rules.

Jonathan Athow: Yes. As I say, what we have done with the child benefit charge shows that there is that flexibility in the tax system. That particular policy does not require self-assessment.

Q293 **Chair:** How quickly could any changes be introduced?

Jonathan Athow: I really do not want to speculate on what Ministers may announce about—

Q294 **Chair:** No, I am not asking about an announcement. How quickly can these systems work together? Furlough happened remarkably quickly. That was not universal, but data from businesses was fed in and that was turned around in a few weeks. You have talked a bit about the child benefit changes. How fast can your systems talk to each other to deliver this sort of thing? Just give us a ballpark figure.

Jonathan Athow: Part of the question is about how long the lead times for these data exchanges are. It is also about making changes to existing systems. With the furlough scheme, we were almost on a green field. You could build it pretty much from scratch. That provided additional flexibility. If changes were announced—the Chancellor said that anything would be announced shortly and that it would come in for this winter—exactly how you would target those would depend on the delivery mechanism. Again, we would need to understand what payments are being made before you can design any other system. Assuming that the payments would be this autumn, it would have to follow that period. My understanding is that winter fuel payments are made in the autumn. It would have to be sometime after that.

Q295 **Chair:** When would "sometime after that" be?

Jonathan Athow: We would need to work out how the system worked. If we were using the tax system to target that, it would need to follow those payments. It would therefore need to happen sometime next—

Q296 **Chair:** You would be planning ahead. If the Government were working on this behind the scenes prior to an announcement, one would hope that the Government would know before a firm announcement that this was going to happen. You would have some lead-in time for that. Are we talking weeks or months of lead-in time?

Jonathan Athow: You would probably be talking several months for such a change. The child benefit charge took us a little while to get from announcement into delivery. That took maybe a year or so. There was some complexity because there was a change in policy during that announcement, but you were basically looking at months after a decision is made.

Q297 **Chair:** That might be, of course, a decision made in Whitehall that is not yet public because you would have to have time to implement it.

Jonathan Athow: Yes. Again, we would need to think through exactly all the other changes that are going on in the tax system and the exact delivery mechanism. There are different options depending on whether the primary way that it is delivered is through DWP or HMRC. Again, each of those would require slightly different delivery lead times.

Q298 **Chair:** In summary, you could do this through HMRC's systems not just related to people who are earning enough or have a sufficiently complicated financial situation that they have to do a tax return.

Jonathan Athow: Yes. Essentially, at the end of every tax year we do a reconciliation. Again, you would need to have that reconciliation before you could take any action. We would have to get to the end of the tax year, at which point a payment had been made, to understand people's overall income. If that were the basis for making decisions, you would have to get to April next year before we knew somebody's income and we could then make any decisions about how that would be implemented.

Q299 **Chair:** A change of tax code could be used to recoup it.

Jonathan Athow: As I said, that is what our plan is for the child benefit charge. Again, that is one option that Ministers could choose.

Q300 **Chair:** I wanted to move on, if I could, to you, permanent secretary, as you have been in the job seven weeks. If I ask you how it is going, I am sure you will tell me what a fantastic team you have and how it is all going swimmingly.

The Public Accounts Committee was particularly critical, the last time your team was in front of them, about some of the performance issues. I really wanted to know the broad picture about your priorities as the new permanent secretary over the next three to five years. Coming in with a fresh set of eyes, are there things that jump out at you that need to change, improve or stay the same?

John-Paul Marks: There are a few things. In terms of challenge, if I take a view as an accounting officer, qualifications on accounts in terms of the risks on fraud, error and debt include tax credits, child benefits and R&D credits. Those are three issues right now where we know we need to reduce the risk.

There is also the general risk around security and resilience. A lot has been spoken about this over the last few months. For us in HMRC, we are always grappling with a level of threat. We have been handling that recently with regards to PAYE fraud. That has been an issue that we are working on at the moment.

In terms of the team, Chair, as you say, everybody has been very welcoming. I have appreciated meeting stakeholders. I saw you at the ICAEW event marking 20 years of policy partnership. There is a lot of good will to see us make progress.

If I think about the areas we are focused on, Penny can say a bit more on closing the tax gap. The OBR has scored the opportunity over the long term to reduce that. We want to bring that down by about 0.4 percentage points. That equates to £7.5 billion of additional yield per year by the end of the forecast period. There is a significant amount of work on the capacity and capability of compliance.

On customer service—Angela can say a bit more—we are on an improving trajectory. We need to maintain that and go further. There is more to do.

On modernisation and reform, we will publish a transformation road map shortly. We want to be very transparent with partners, stakeholders and Parliament on what we will do to transform our systems. There is a huge opportunity there around ECRM, case management, contact centres and improving our cyber-resilience.

The final thing I would emphasise as I come in, Chair, is around trust and engagement. Both those indicators can improve. Ultimately, we want to be a modern, trusted tax authority. We know trust is fundamental to good compliance, willingness to pay and confidence in the way we operate, but, for our teams, our engagement score is also lower than we would like. We need to give them the confidence and capabilities that they need to thrive in their roles. I have said a few things there on the opportunities and some challenges, too.

Q301 **Chair:** That is great. We are going to go into some of those areas in more detail. You are not a tax specialist. Jim Harra, your predecessor, was very much a tax specialist. He had been preceded by people who were not. What are the areas that you think you need to learn more about as someone who has come from the wider civil service and is heading up a very technical organisation?

John-Paul Marks: Yes, I went back to have a look at that. As you say, Dame Lesley Strathie was the former chief operating officer of Jobcentre Plus; Dame Lin Homer was the chief executive of Birmingham City Council; and Jon Thompson, who I know you know well, was formerly of Ofsted and a DG. I continue more in that vein as a new chief executive.

I ran Jobcentre Plus through the pandemic and recently was the permanent secretary to the Scottish Government. I have been working with HMRC on and off for 20 years doing income tax reform in Scotland, leading and delivering universal credit, tax credit migration and the implementation of real-time earnings. I have good relationships. Angela and I worked together at DWP. It is lovely to be working together again.

As you say, there is no doubt that the tax system has its particular complexities. We have a really good team. We have a very strong board. We have brought in more tax professionals and former members of the Office of Tax Simplification. We have people such as Bill Dodwell and Paul Aplin joining us. We will be continuing to develop the capability of the organisation to be successful.

Penny has just implemented a new Tax Customs and Compliance Academy. As we bring in 5,500 more compliance officers, making sure they are being trained, consolidated and given the capabilities that they need to be successful is a fundamental challenge for us. If we do it well, it gives us a legacy opportunity to make sure the authority is fit for the future.

Q302 **Chair:** As you highlighted, we had the 20th anniversary of the merger that formed HMRC. I remember being there when Minister Liam Byrne established this; that seems like a long time ago. You have customs as well as tax. We tend to focus a lot on tax. I know other Committees will talk to you about customs. Is there anything you want to say about the challenges? Before your arrival, Brexit put a lot of strain on the customs side of things. It has been announced that we will have various trade deals coming in. That is going to change the customs landscape. How is HMRC coping with that? What are the areas of risk and worry for you in that part of the business?

John-Paul Marks: The team is coping very well. Genuinely, the feedback for Carol Bristow, who is the DG on our customs group, is very good across Whitehall. The team worked very hard on the winter framework. We went live recently with the new arrangements for that. They have worked very well. CDS, the operating system, has a good level of digital take-up, which is encouraging. As you say, the recent India trade deal is another example where the team worked very well across Government to support that.

In terms of the challenges ahead, for us to realise the opportunities that I mentioned, we want to make sure we continue to be safe and secure at the border in terms of our customs checks and our relationship with the Home Office. We need to get that right so we can minimise any losses at the border and we are maintaining high performance there. That is an area of focus at the moment. The team is working closely with the Home Office on that.

Q303 **Chair:** You want to work with the Home Office and you want to make it secure at the border. Are there areas that you worry about that are not secure?

John-Paul Marks: We want to maintain the quality, targeting and volume of checks at the border. We want to enable the smooth flow of trade. We want that to be as proportionate as possible to support the economy, but, at the same time, we absolutely need to be risk-based and targeted to ensure that we are protecting the taxpayer. Government at the border is an area of constant work. We need to join things up across Home Office, Defra, HMRC and us and then DBT on the trade policy side. That collaboration works well, but it is a thing to keep working on.

The final thing, of course, is the single trade window and our digital capabilities on our platforms. Ultimately, we want to be increasingly cloud-hosted, with software as a service, and confidently secure in our platform strategy. Customs is included in that. We are continuing to work through what that means over the longer term for Government at the border as well.

Q304 **Chair:** You inherited some very big IT programmes, some of the biggest public sector IT programmes in Europe, as Ms MacDonald will remember from our previous conversations about this. How are you leaning into that? Let us face it. Government IT projects are fraught with failures. It is a field full of failures. How is that going? Are you confident that those programmes will deliver across the various areas that you are working on?

John-Paul Marks: As you know, the Chancellor will announce the spending review next week. We have been working flat out over the last few months to try to ensure that we accelerate the transformation of HMRC. This is the Exchequer Secretary's priority around modernisation and reform. We want to accelerate the transformation of HMRC, as you say, to realise the benefits of technology, but, of course, we need to do that in a safe and secure way. We do not want it to overrun and we want to get it done quicker. Creating an enabling environment for the organisation to execute transformation is something that I will—

Q305 **Chair:** You are basically asking for more money from the Treasury to do this.

John-Paul Marks: We are asking to go faster with a transformation that was previously planned for many years. We are going to try to do it quicker. We need help with that. Angela may be able to say a bit about this because she has been leading a lot of this work on the enabling environment. I have high confidence in the quality of the team. The CDIO and CTO are excellent. The platform strategy is good.

Q306 **Chair:** Are they still one step outside the Department? At one point there was a separate body dealing with some of this.

John-Paul Marks: No, they are a fully integrated part of the organisation.

Q307 **Chair:** The cap on salaries has not been a problem.

John-Paul Marks: Not since I have been here, no. Historically, there have been challenges around recruitment and retention of staff with the quality that we want, but I am very happy with the quality of my CDIO and my chief technology officer. The platform strategy is good.

When it comes to ECRM, CCaaS and moving our legacy data centres to a hyperscaler, these are big transformations, as you say. There is a level of risk, but we do not want to be part of that legacy that you referenced. We would like to demonstrate that we can accelerate transformation in our public sector and deliver better outcomes for less cost, but Angela can say a bit more on the portfolio, if you are interested.

Q308 **Chair:** Ms MacDonald and I have been across this table a number of times on different issues, but digital transformation has been part of that. Is it all going swimmingly, Ms MacDonald? It is going to be wonderful.

Angela MacDonald: We have 1,136 live operational services in our IT estate, from enormous with millions of customers to really quite small and niche. The scale of the IT landscape is immense.

Before you even get to services to the citizen, the challenge is around cyber and getting ourselves out of old-fashioned data centres. That is a journey. Cyber is ongoing. If I think about some of the kinds of things that we have been doing in the last SR period, we have been putting in new firewalls, intrusion detection, data encryption and access controls and looking at things such as IT patching and updates. There is the stuff that nobody gets excited about, but we get very excited about. That is very important.

The data centre exit is an incredibly key part of that. We are about two thirds through. In the last three years, we have taken 372 services, of the 545 critical ones, out of the data centre. JP talks about going faster. Those are some of our areas where there is most risk. Therefore, we are really focused on accelerating out into the cloud because the advantage of cloud is you get a whole load of native security controls, which are part of that environment.

We have had some incredibly constructive conversations with Treasury. They have been very open, interested and clear about the issues of risk. XST, as the chair of the board, is very focused on this as a topic. In fact, one of the very first conversations he had with JP was on this. The Minister has been pushing us to go harder and faster.

We stand on firm foundations. When we are delivering new services for customers—when we get time later, I can tell you about all the lovely gadgets that we have been delivering—those have to be stood on firm and secure foundations. We will aim to finish as much of that as we can in the next SR period.

Q309 **Chair:** We will come on to that in a bit more detail. Before I pass over to Mr John Grady MP, Mr Marks, Ms MacDonald mentioned that the Exchequer Secretary has taken a very hands-on role—as he described it to us when he was in front of us—at HMRC as chair of the board, which is an unusual step. We were quite interested in this. You are an experienced permanent secretary who has been in a role before. Who is in charge at HMRC?

John-Paul Marks: I am absolutely in charge, as chief executive, of the operational day-to-day running of HMRC. As you know, the commissioners Act creates a set of legal duties on commissioners to take decisions with regard to the tax system. That underpins our commitment to taxpayers' confidentiality, which is where that non-ministerial boundary has historically been drawn. I would emphasise to the Committee that the legal duties of that Act are very clearly understood by us. We are absolutely committed to protecting taxpayer confidentiality at all times. That framework is very stable and secure.

At the same time, Members who have been in Government will know there has always been significant ministerial leadership of the tax system.

Q310 **Chair:** Not ever before the chair of the board.

John-Paul Marks: I agree. The chair of the board is a new thing for HMRC. For me personally, when I was in DWP, I think back to Thérèse Coffey, the Secretary of State, chairing the board. That was a very normal thing.

Q311 **Chair:** She was chairing the Department's board at DWP. That is a bit different to a Minister from the Treasury chairing the board of HMRC, which is a non-ministerial Department. They are not equivalents, are they?

John-Paul Marks: I agree. The legal structure that I just described is different for HMRC, and hence the legal duties on us are different as commissioners. It is important that we continue to emphasise that boundary around taxpayer confidentiality and day-to-day operations.

At the same time, the Exchequer Secretary is bringing strong leadership of the policy partnership as chair of the board. The board provides strategic oversight, assurance, challenge and scrutiny.

Q312 **Chair:** What is he doing differently that, if he were not chair of the board, he would not achieve as Exchequer Secretary in the old system? What is different? Can you give us a tangible example of where the Exchequer Secretary chairing the board has made a different decision or done something differently to how it would have been done?

John-Paul Marks: We have just stepped through a board effectiveness review to make sure the board impact is optimal. The Exchequer Secretary is able, every other month at each board meeting, to listen to the conversations with our non-executives around risk, mitigation, concerns, escalations and all of that. I would have to ask somebody like David Gauke or others whether they felt they had had that visibility in the past. I did not lead the organisation in the old regime when that was not the case.

All I would say is that I am really happy with the quality of the board. I have got great non-executives. The Exchequer Secretary is bringing very clear priorities to the organisation about closing the tax gap, improving customer service and modernising and reforming the UK tax system.

Q313 **Chair:** Dare I say it, I have heard those three priorities from about every Minister in that job and everyone in your position over the last 20 years.

John-Paul Marks: You will be pleased to hear that I can emphasise them too, but they are hardwired through our business case. We agree with them. We want to close the tax gap; we want to improve customer service; and we absolutely want to accelerate modernisation and reform.

The policy partnership is working. Jonathan's policy teams are working very upstream on measures such as the ones you started the session on to ensure that HMRC can bring our admin data and our understanding to policy development.

Q314 **Chair:** He is chairing the board and hearing the interesting discussions among top-level non-executives. This is not a criticism of the current Minister, but politicians are usually less qualified than non-executives on these committees. My colleagues will hopefully agree that I can make that blanket statement because that is generally the case. What is the difference in having him? If there were a clash between what the chair of the board wanted you to achieve and what you felt your responsibilities were as accounting officer and permanent secretary, where does that get resolved?

John-Paul Marks: To your last point on what would happen if there was a disagreement between me as accounting officer and the Minister, under the commissioners Act there is scope for Ministers to give us a general plan for direction. We could ask for that. In terms of public money more generally, as an accounting officer, if Ministers asked me to do something that I thought was improper, irregular or not value for money, they could do so—they are entitled to—but I would seek a direction to proceed. All that infrastructure remains stable, but this Government's judgment has been that it wants to ensure that the accountability for and delivery of public service reform and a modern agile state is led by elected representatives.

Ultimately, as civil servants, we serve the Government of the day. I am very used to that, whether it is the Secretary of State for Work and Pensions or the First Minister in Scotland, the civil service serves the Government of the day. In HMRC, we are developing our corporate governance to accelerate our delivery. As I say, Jayne-Anne Gadhia and I are interviewing new non-executives tomorrow. We have some great non-executives already.

Q315 **Chair:** The chair is not interviewing the non-executives.

John-Paul Marks: The lead non-executive, Jayne-Anne Gadhia, and I are doing that. We will be selecting the very best people that we can.

Q316 **Chair:** The Minister, as chair of the board, is not involved in at that point. He is not interviewing them.

John-Paul Marks: No.

Q317 **John Glen:** I do not want to labour the point, but we are quite interested in what is meaningfully different. As you have said, you have worked in other Departments previously. You will have had a lot of interaction with Ministers who, at very short notice, can bring in a permanent secretary or senior DG to address a specific concern, be it around customer service, a failing programme, et cetera. You have set out, of course, that you are keen to serve and be accountable to whoever is in office.

I do not think we have got to the point, rather than a somewhat superficial headline, about what is meaningfully different. That interaction was happening all the time under all previous Governments in all Departments. You say he leads the policy partnership. Of course, we would expect all Ministers to lead the policy area for which they are responsible.

I am still struggling to understand what is distinctive in this new model, where the current Exchequer Secretary is chairing this board. It seems to me that you have explained the constraints that all Ministers are under with respect to managing public money et cetera. There is not really a difference at all, is there?

John-Paul Marks: HMRC is operating in a political environment, as you know so well. Ministers are entitled to want to be confident that the organisation is delivering their priorities and that those priorities are being regularly discussed and discharged through corporate governance, business plans and delivery and in the way that we are constantly leading the organisation. Coming new to it, that is very clear. Penny and Jonathan are co-sponsors of the closing the tax gap sub-committee. There is a huge amount of focus on achieving progress there, and similarly on customer service and modernisation and reform.

The Exchequer Secretary and I are meeting every week to talk about this, to make sure the relationship and the way that we are working is good, healthy and challenging.

Q318 **John Glen:** His predecessors would have done the same.

John-Paul Marks: Yes, absolutely as his predecessors would have done. Chairing the board does send a signal that Ministers care about the leadership of this organisation. You mentioned some of the challenges earlier around things such as customer service. From my perspective, it is welcome for Ministers to care about and be interested deeply in the underlying reasons why customer service is struggling, what the problem is and what we can do to help. Quite a lot of the conclusions that we will come to will include policy options for reform. The Minister has been out to meet the team. He has been meeting stakeholders. He is taking a deep interest.

John Glen: Having sat in the office next to about five of his predecessor HMRC Ministers, I saw them do exactly the same. I do not think that chairing the board would have made a meaningful difference to whether they were able to do the job.

Q319 **Chair:** Can I ask a simple question, Mr Marks? Is HMRC still a non-ministerial Department, now the Minister chairs the board?

John-Paul Marks: If I go back to my original answer—you are quite right—HMRC is very different to DWP, where I previously worked, because of its legal construct. Commissioners are appointed by the Crown.

Q320 **Chair:** You have given that answer. I heard that loud and clear. It was very clearly expressed. Is it still a non-ministerial Department if the Minister chairs the board?

John-Paul Marks: Its legal constitution demonstrates that the legal duties sit with commissioners, not Ministers. In that regard, it is non-ministerial.

Having said all that, as I have also articulated, the engagement with the Exchequer Secretary is very regular. We are sending submissions; we are meeting with him every week. In that regard, the leadership of the policy partnership, the UK tax system, and the interest in our work to accelerate transformation reform and deliver those priorities is very high. That element is not non-ministerial.

That phrase has historically been used around the legislation for the Department to articulate to the public that HMRC will protect taxpayer information, that confidentiality matters and that there is a set of legal duties on people such as us to ensure that remains the case.

Q321 **Chair:** The Minister chairs the board. Those three ambitions that you laid out, which he has also laid out to us, are really for him to live or die by now.

John-Paul Marks: They are his three priorities. He has absolutely articulated them consistently. As an elected representative, that is quite right. He is accountable to the Prime Minister, the Chancellor and Parliament for the delivery of those. I can reassure you that they are also hardwired through our business plan. We share those objectives and we are organised and increasingly organising to ensure that we deliver them.

Q322 **Chair:** All our constituents will want to see progress on those areas, which I have been examining over a decade now. They have not always progressed as fast as Ministers or Permanent Secretaries have wanted.

John-Paul Marks: That is the advantage of the arrangement. Those objectives are what your constituents want to see done. They want taxes collected to power our public services. They want customer services to improve. They would like it to be digital, online and self-serving.

Q323 **Chair:** My point is that those have not changed massively over the last decade.

John-Paul Marks: No, but maybe HMRC's opportunity to deliver them is improved by having a level of ministerial and political commitment to achieving them that is as strong as it is.

Q324 **Chair:** You think that by chairing the board the Minister will help those be delivered. He will be personally responsible for getting those delivered.

John-Paul Marks: I think he can help, yes.

Chair: That is interesting.

Q325 **John Grady:** Just briefly on this, Mr Marks, you mentioned the board effectiveness review. Is that something that you could share with the Committee?

John-Paul Marks: It is a Cabinet Office process that all boards undertake. If that is something that the Committee wants, we can write to you with where we have got to with that process and the steps that we have taken as a result.

Q326 **John Grady:** That would be very helpful. Moving on to a different topic, there has been a lot of discussion in Scotland about full fiscal autonomy. I was wondering whether the Scottish Government and HMRC have worked through any of the practical, technical, IT and other implications of such a proposal.

John-Paul Marks: In short, the answer to that is no, because for that to happen there would need to be a sanctioning of the civil service to undertake impacting for fiscal autonomy. Certainly, when I was permanent secretary of the Scottish Government, that was not happening because there is no current referendum planned. Ministers were always clear that it would require a section 30 order under the Scotland Act and the transfer of powers for a lawful referendum to occur. Civil servants were not being deployed to undertake impacting on a scenario that was not likely at that time.

It may be that, many years back, with the Edinburgh agreement in 2014 and all the rest of it, it was done. I do not know whether Jonathan remembers anything.

Q327 **John Grady:** In a nutshell, we do not understand the practical, technical and IT implications of full fiscal autonomy at present.

John-Paul Marks: The civil service has not done that work, no.

Q328 **John Grady:** We would not understand the cost of it either.

John-Paul Marks: Until we do the impacting, we would not be able to give an estimate of what it would be.

Q329 **John Grady:** If I were to ask for a realistic assessment of how much additional revenue would go to Scotland, assuming that the tax rules stay the same and assuming that the Scottish Government do not alter tax rates, would that be available at all?

John-Paul Marks: The Scottish Government already have devolved competence for certain taxes, particularly on income tax. If you look at the analysis that is already published by the Scottish Fiscal Commission and Revenue Scotland, that will already provide you with the data on the revenues that Scotland raises because of the different choices that it has made under devolution with regard to income tax. If I recall, it raises additional revenues of £1 billion to £1.5 billion per year, which enables, for example, the Scottish Government to invest in the Scottish child payment and social security benefits that are not available in the rest of the UK. That is also devolved. There are quite a lot of features of fiscal autonomy that are already part of the devolution settlement. A lot of that data is already in the public domain.

For what it's worth, my usual rule of thumb for that which was not devolved was about one in 10. That is obviously not OBR-proof, but normally, when there was an announcement by the UK Government for which there would be a Barnett consequential, Wales would get about 5% of it and Scotland would get about 10% of it.

Q330 **John Grady:** Have I understood the numbers correctly from the Scottish Fiscal Commission and others that, if we were move to full fiscal autonomy in Scotland, there would be a fairly significant public spending deficit?

John-Paul Marks: I do not have any analysis before me. I suspect Mr Glen could give you more detail on that argument.

The Barnett formula is well established and understood. Clearly, in the event of fiscal autonomy and there being a referendum and a lawful route to that, there would be a transition process and a discussion about the unwinding of all that, from which there would be risks and opportunities for Scotland. I do not have a number for you.

Q331 **John Grady:** I would add one point of detail. I am not sure you necessarily need a referendum for full fiscal autonomy. You would for full independence, of course. I will move on, but, presumably, if you were to abolish the Barnett formula as well, practical implications would have to be considered as well. That has been suggested this week.

John-Paul Marks: It is a brilliant set of questions, for which I do not have any briefing.

Chair: Let us not start a debate about the Barnett formula.

John-Paul Marks: The Chief Secretary would be able to answer all your questions.

Chair: Joel Barnett, who of course it was named after, later Lord Barnett—he is no longer with us; he has passed away—was always embarrassed that it was called the Barnett formula. It was only supposed to be a temporary fix, but it is still with us now.

John-Paul Marks: For what it is worth, I have no suggestion that there is any suggestion of changing the Barnett formula. It has been well established for many years.

Q332 **John Grady:** All I really wanted to understand is what work has been done to understand the practical implications of full fiscal autonomy. The answer is, "Not a lot at the minute".

John-Paul Marks: Yes.

Q333 **Chair:** You were permanent secretary of the Scottish Government and now you are the head of HMRC. Where are you based?

John-Paul Marks: I am based in Edinburgh, but I am in London this week. This is month two. Angela is based in Leeds. We are representing all four nations of the UK, as HMRC does quite rightly. We are very committed to Places for Growth.

Chair: I am going to pause you there. I am going to Ms McEvoy and I can anticipate her first question. We have Edinburgh and Leeds.

John-Paul Marks: We have two Londoners as well.

Q334 **Lola McEvoy:** In keeping with all of our other Committee panels, I must ask you whether any of you are based in Darlington, my constituency. Are you considering spending more time in Darlington?

John-Paul Marks: More time, yes. More than half of the senior tax team for the Treasury are based in Darlington now, which is fabulous. We are going to Darlington next month with Beth and the team. What the Treasury has done in Darlington is fabulous. We really support Places for Growth. We hope to do seminars and engagements on tax policy development regularly in Darlington.

Chair: Mr Marks has been well briefed to answer Ms McEvoy on that point.

Q335 **Lola McEvoy:** I want to move on to customer service, which we touched upon in some of your earlier answers. I hope you do not mind me saying, but it might come as a bit of a surprise to our constituents—my constituents in Darlington regularly complain about the customer service at the DWP—to hear that two of the most senior people in HMRC, in which there is also very poor customer service, have been part of the DWP leadership team. Can you explain to the Committee what you have learned from DWP and the customer service challenges there? How are you going to use that to improve the really poor customer service that people get interacting with HMRC?

John-Paul Marks: Where customer service is not good enough, we apologise. That frustrates us as much as anyone. We want to improve it. That was true in DWP too. You are right. In DWP, I ended up leading Jobcentre Plus, jobseeker’s allowance, employment support allowance, income support, PIP, child DLA and a whole bunch of complex service products.

Q336 **Dame Siobhain McDonagh:** Have you ever worked in a jobcentre?

John-Paul Marks: I have been to lots of jobcentres.

Q337 **Dame Siobhain McDonagh:** Have you ever done any work in them?

John-Paul Marks: I have, yes.

Q338 **Dame Siobhain McDonagh:** Have you ever sat at reception?

John-Paul Marks: I have, yes. Have you?

Q339 **Dame Siobhain McDonagh:** Yes. It was my first job on leaving university.

John-Paul Marks: I have been to hundreds of jobcentres. I led the organisation through the pandemic and used to spend a lot of my time in jobcentres talking to customers with our frontline.

Q340 **Lola McEvoy:** Just on that point, it will not be a surprise to anybody that the customer service that people receive from DWP is not good enough. People really struggle to get what they are entitled to. The general consensus on HMRC and DWP is that they are really good at taking your money away and really bad at giving it back. The recent PAC report that came out said that in 2023-24 66% of calls were answered. That has now moved up to 73%. I cannot fathom how that has been allowed to happen. That figure of 73% is with the new improvements, the new funding model and Minister Murray in his position. What do you envisage?

You are new to the role so I am not holding you responsible. I am hoping you are going to give us some inspiration and hope about how we are going to deliver the change that we need so that 100% of calls are answered. I feel like that is right, if people are ringing to get advice about their own money.

John-Paul Marks: We need to improve it. Angela can give you some of the latest data, if that is helpful. My sense is that it is possible to improve. Clearly, at the end of the last spending review, in the final year the team were struggling with the level of demand, which was up significantly, and the constraints on supply, given the funding settlement.

This comes back to the point I was making earlier about shifting the channel, enabling more people to self-serve through the app and making that as easy as possible, and ensuring that those who do need to contact us are increasingly able to get through. There is high demand, and we need to manage it carefully. Angela, do you want to say a bit about the latest data?

Q341 **Lola McEvoy:** Just before we move to Ms MacDonald for the positive story, the PAC report also said that 44,000 people waited 70 minutes on hold for HMRC and then their phones went dead without any warning. Can you appreciate how enraging it would be for a member of the public to wait 70 minutes of their day and then for their phone to go dead? It did not just happen to 10 or 20 people. It happened to 44,000 people. That is flabbergasting to me. We know that the pandemic was a huge problem for everybody. Every service suffered because of that. Can you just elaborate a bit on what you think the real cause of these kinds of errors are?

John-Paul Marks: On the point around 70 minutes, it is a function of two problems. First, it a function of demand versus supply. There were insufficient numbers of people to answer the phones at that point in time. Secondly, it is a function of the limitation of the system to cope with that volume. You have that 70-minute cut-off point. Angela has the latest numbers. It is a small number as a proportion of the total, but none the less it is too high.

We ultimately want to re-platform to a new contact centre and design out that risk completely, where we can, such that there would not be a cut-off and the system capacity would be improved such that it would not happen. We also want to shift the demand so it aligns with the supply, so people are getting through in more like 10 or 12 minutes instead of those long waits. Angela, do you want to talk about the latest data?

Q342 **Lola McEvoy:** I will come to Angela. Finally, on the point about why people waited so long, there was a massive surge in demand. Is that the same surge that happens every year when people do their tax returns? What happened to incur this huge surge on this occasion? Is it an annual surge? Has it always been this bad, as was discovered in this report, or is this a one-off terrible year?

John-Paul Marks: There is definitely seasonal demand. The same happened in DWP. There would be seasonal demand. It would tend to reduce in the summer. For PAYE, there is particularly a surge in the new year. Quarter 4 is difficult. There are things that we can do to smooth supply over the year, which we are looking at, so we can hedge for that risk—as you say, it is a known risk—more than we currently do.

There is also the fact that in that year, as I say, we had frozen thresholds and increasing demand. The supply was not high enough to cope.

Q343 **Lola McEvoy:** Is that due to a loss of a lot of staff? Had you lost a lot of staff? Can you give us a bit more information about what happened?

Angela MacDonald: To give you a sense of the numbers, in 2021, there were 31.7 million individual customers. In 2024-25, there were 37.7 million. You can see the scale of the increase in the volume of customers that are interacting into the tax system in the round. To give you a sense of where that is going, by 2029-30 there will be 41.1 million. The volume of customers—this is just individual customers—who are interacting with the tax system is exponentially increasing.

Q344 **Lola McEvoy:** When you say "customers", do you mean people entering the workforce or people using a service?

Angela MacDonald: It is the overall number of individual citizens who are taxpayers and who are therefore our customer base, if you see what I mean.

Q345 **Chair:** A lot of that would be people doing tax returns because the thresholds were frozen.

Angela MacDonald: Yes, the frozen thresholds mean you have more people in pay as you earn. That means there are more people wanting to have questions about their tax codes. It is all those things.

This year, due to the threshold on individual savings, we issued 3 million more P800s, which is the annual tax bill, which says, "You owe us some cash". We issued 3 million more this year based on tax due on savings and investments. You are seeing that there are more people are in the tax system, so there is massive upward pressure.

We are aiming to tackle that by trying to offer multi-channel support. We need to make sure more and more people are accessing support digitally, which is what most citizens want, and therefore making sure that the telephony system is available for those people who we do not have a service for or who genuinely are digitally excluded.

We are making real progress on digital. Some 76% of our interactions are online. It is going up at a massive rate. For instance, we now have 5.9 million unique users on the app, including hopefully everybody in this room. That was up 2.7 million in 2024-25. We might think that that is just young people. We are seeing a big uptake in the over-65s, which is also incredibly encouraging. Our digital is really driving forward.

We are on a journey and we must deliver a good-quality service when it comes to telephony and post. I have sat before Dame Meg a number of times—times when I have been able to tell her really good news and times when the service has been nowhere near good enough. It is not acceptable that we do not hit our targets.

The last time that I was here we had a conversation about hitting our targets. We have been given some more funding by the Minister. Our aim was that we were going to hit our target in the second half of the year. We have made good progress. In quarter 3, we hit our target for telephony. Our target is 85% of people; we achieved 85.1%. In quarter 4, it was 75.2%. As JP said, quarter 4 is always a challenge. If I take you into where we are now, in April, the month before last—it is June, is it not?—it was 83.6%, which compares to 53.5% the year before. In May it was 84.6%, which compares to 60.4% the year before.

What I am saying is that our ambition—we are funded to do this in 2025-26—is that we will deliver our service targets fully on phones and post for 2025-26. We are working on the same ambition for the rest of the SR. Although we are driving loads of things on the digital side, we must deliver good-quality service. Sadly, we are not funded for 100% service. We are funded for a good service; we are not funded for an excellent service.

Q346 **Chair:** Who set those targets? Was it the Minister and the board, or was it you?

Angela MacDonald: The Minister and the board set those targets.

Q347 **Lola McEvoy:** Just on that point, if we see a surge in people using the app and the app works, you will hopefully see a drop in people using the phone. With the same amount of money, you should be able to answer the phones 100% of the time. When we are looking at this 85%, I understand that we are on a journey. I am really pleased to hear that we are going to hit the targets. That is music to all of our ears, but I find it hard to believe that, in a public function that takes away your money or gives it back, you cannot commit to 100% of phones being answered.

Angela MacDonald: The reality is that phone traffic in is not flat. If I had 100 people, and the call volume that came in was dead flat the entire time, 100 people could answer 1,000 calls. In my example, I have 100 people, but call volumes are up and down. We have small volumes at one time of the day and massive volumes at another time of the day. In reality, if I have to resource to answer 100% of the calls, we are then over capacity and I will have a whole load of people sat twiddling their thumbs for the up and the down.

Q348 **Lola McEvoy:** With respect, it is the auto cut-off at 70 minutes. I have worked in a call centre before. That would be the difference.

Angela MacDonald: Forgive me. If I may, the 70 minutes is a current limitation for our current IT.

Lola McEvoy: It is a system problem.

Angela MacDonald: Last week, we announced a multimillion-pound procurement for a new contact centre platform. That is what JP mentioned as CCaaS—contact centre as a service. We put that out into procurement last week. When we get that procurement, it will allow us to remove the 70-minute cut-off. It just will not be an issue any more. It will also allow us to be able to do far better call routing and tell customers how long their wait is in real time. At the moment, our current machinery is very limited in its ability to do that. You are not making a judgment as a customer in real time. What we can currently tell you is how long people waited yesterday. That is better but nowhere near enough. We are absolutely committed to this. As I say, the procurement announced last week will solve that problem.

Q349 **Lola McEvoy:** That is great. There is one final question from me. This Government are committed to getting things done in the best interests of our constituents as quickly as possible. That is what we were elected to do. People want fundamental change in how they experience public services. Should DWP and HMRC be working more closely together? Does it make sense to you that we are tendering a contract for your call centre—I am sure it is multimillion pounds—and a completely different one for DWP? Should that not be the same call centre? It could be the same person calling two different lines. I just want your professional opinion.

Angela MacDonald: We work very closely with DWP and, in fact, the other large operational Departments. We are absolutely active, all of the time, in talking with each other about procurements, approaches to IT and the work of our technology teams. The challenge is a historical one, in reality. We are all sat on quite different legacy IT. Although we are working towards something common, you have to take steps to get yourselves there.

We are collaborating on, for instance, new approaches to AI. Both of us are doing some really interesting things on call summarisation, for example. That might sound not very exciting, but there is 30 to 45 seconds per call where the call agent is summarising what has gone on, as you will know. When you add that up over millions of calls, it makes a big difference. That area is less about core procurement and more about how you exploit IT and how we change how our agents work.

Last year, we did a board-to-board with the DWP leadership team, at which we looked at where we were going to work together. We have just agreed the next one under the new permanent secretary

. HMRC and DWP will be able to do that because we will both have our SR plans at that point and therefore we will be able to say, "We are doing this and you are doing that. Where can we collaborate?" It is not only DWP. We are doing the same with the other big Departments.

Q350 **Dame Siobhain McDonagh:** Ms MacDonald, in your answer you talked about "genuinely" digitally excluded people. Who is not genuinely digitally excluded or disingenuously digitally excluded?

Angela MacDonald: There is a difference between "I do not want to" and "I cannot". For instance, from talking to our customers and doing research, we know that we have customers who are very capable and in all other aspects of their life do what they need to do digitally, but when it comes to us they want to ring.

The money that you give to HMRC to answer the phone you are not giving to schools, hospitals or wherever else. You are having to make difficult public sector choices. It is a really interesting challenge. It is a philosophical one. You could say, "We should be funded for customers to have free choice. They should go through whatever channel they want. If they all want to ring us, they should be allowed to and we should have a contact centre capable of doing that". Alternatively, you could say, "In an environment of challenging finances, if you are able to go online, you should. What we should be doing is preserving our telephony services for those people who cannot be served by our digital service or who are digitally excluded".

Q351 **Dame Siobhain McDonagh:** When it comes to HMRC, there is no suggestion of choice. The taxpayer is told how to access the service that collects their money.

Angela MacDonald: Right now, we do not prescribe choice. We want to make our digital services good enough that what you choose to do is go online. For 75% of our interactions, that is exactly what is happening.

To answer your quite specific question—you asked me what the difference was—I am trying to say that we should make sure we are delivering phone services where customers are unable to go online for one reason or another. We may reach the point where we have to have a different conversation. We are not there yet.

Jonathan Athow: If I could just come in, one of the things that we find is a lot of people are comfortable using our services in theory, but, if they are worried about tax consequences, they often want reassurance.

Lola McEvoy: Yes, rightly so.

Jonathan Athow: We need to think about how we build reassurance into our service. With our child benefit service, we now have a system where, when you put a claim in, we send you a text message saying, "We have received your claim". Therefore, people have more confidence. They are reassured that we are dealing with their services. Some of this is not about people not wanting to do something. Sometimes they require a little bit of extra reassurance.

We are trying to design digital services that have that reassurance in mind and that take away some of the complexity. If we can get to that position, the number of people who are genuinely digitally excluded, in the sense that they have no access to the internet, is quite small. It may only be 1% or 2% of people. There is a large number of people who have access to the internet, but we need to give them confidence to deal with us online. Some of that goes back to the design of our services.

That is one of the things that we are focusing on: understanding what the barriers to people using our services are, even if they have the technical capability in terms of internet access or those sorts of things. What is stopping them? Is it reassurance? Is it fear? What can we do as HMRC to design our services in a way that gives people confidence? As I say, child benefit is one example where we have really put in extra protections to make people—

Q352 **Dame Siobhain McDonagh:** Your journey is not unique. We interview banks, building societies and insurance companies that have all been on this journey before you. We talk to them about people choosing. We talk about the fear of using digital services and the problems with scams and so much else.

While I completely understand the point that you make about making your system as accommodating as possible to discourage people from using the phone, unless you can do something that no other human organisation has ever managed until this date, you are going to get people calling you who have digital access; they are not excluded but they still want to call you.

Jonathan Athow: We will have that. There are times when phone and post are good channels for talking to people. What we want to do is make certain that we have the time and that our limited number of advisers, which we have talked about, are focused on the people who have the greatest need.

Some of the calls that we get—we have made progress on this—are people calling to find out their national insurance number. There are many ways that people can access their national insurance number. We had a significant number. We have really reduced that now. Instead of making those calls, we want to encourage people to go online for those much more straightforward purposes. That is our overall strategy.

Q353 **Dame Siobhain McDonagh:** That is great, and well done, but if people do not know their national insurance number and need to know it, and are not able to find out by the other routes that you have provided, they are going to call you. It is called public service, is it not?

Angela MacDonald: Just to be clear, the phone services are there in order to provide that. We are not having a conversation about closing phone lines. We are trying to support as many people as we can to be confident to use our digital services. It is available 24/7 and it is faster. Hopefully, they are going to get what they need. Our job is to help customers get what they need. Where customers need to speak to us on the phone, we will be there to do that.

John-Paul Marks: Just to emphasise that point—I totally agree—we need to provide a better telephony service and it needs to always be there for those who need it. That might include someone who could go online but wants to ring anyway. We recognise that the point being made that 75% or 80% is not good enough yet. We need to get to that 85% standard and then see whether we can improve it.

If you look at something like the passport service, to Jonathan's point about reassurance, they have done a really good job—nudge, nudge, nudge, and then it drops on your doormat. You do not need to chase them because you know where it is in the journey. We need to get more of that capability into our customer service, so that people know that we have what they need. They can see it in the app; they are confident they have done the right thing; and they do not need to call. If they want to call, however, they can.

Q354 **Dame Siobhain McDonagh:** That is a very different tone from His Majesty's Passport Office saying, "Do not phone us up because you are not digitally excluded. Just get on with it". That is the tone I was getting from you.

Angela MacDonald: My apologies. That was not my intent. I was trying to answer your very specific question, which was about my definition of "digitally excluded".

Q355 **Dame Siobhain McDonagh:** If it is a service just for the digitally excluded or what anyone imagines they need, it will be a very poor service.

John-Paul Marks: Yes. We do not want that. We want the service to improve.

Q356 **Dame Siobhain McDonagh:** People need to be able to get an answer to their question without phoning up, do they not? I am going to do what I am sure you hate and what MPs do to you all the time. Last week, a very savvy and mature businesswoman came to see me because she and her accountant, after repeated contacts, could not get an answer to her question. Unless people's questions are being answered, they are ultimately going to be on the phone to you, are they not?

John-Paul Marks: That is right. We need to accept that our online service offer is incomplete. We need to improve it so that people can increasingly get those answers online. If they cannot find them, they will ring. We then want them to be able to get through and resolve that quickly.

We will see our telephony service improve this year. Given our understanding of demand, we are confident that we have the capacity in place. For the spending review, we absolutely are assuming that we will be able to shift channels and reduce demand and still deliver a good service, but it is dependent on that transformation also delivering on time. There is a level of risk to it, but we want to deliver that improved telephony experience.

It is multi-channel. It is good online; you can get through on the phone, if you need us; and there is post for those who need it, too. There will always be an element of that.

Q357 **Rachel Blake:** I wanted to turn to your work to close the tax gap and reflect on the reports in the spring statement about the additional income that you were set to bring in in 2024-25 and going ahead. Just to start off with, you estimated that you would bring in an additional £45 million as a result of investing in additional HMRC debt management capacity to increase the collection of overdue tax debt. Have you, at this point, been able to account for that? Have you achieved that within the quarter?

John-Paul Marks: Yes. As you say, I have all the measures in front of me here. A lot of measures were announced in AB24 and the spring statement. To date, we are on track with them. Penny is leading the work, for example, on recruitment of the first 5,500 additional compliance officers. The first 500 are in.

Q358 **Rachel Blake:** Did you say 5,500?

John-Paul Marks: In total, we will bring in 5,500. The first 500 have now joined us. There is more to do, obviously. It is a huge undertaking for us to scale up by that amount.

You referenced the debt capacity. The spring statement provided for 2,400 staff. The first element of that is retaining existing staff who were due to leave—they are in the organisation—and then increasing the debt capacity with more recruitment. So far we are on track, but, going back to the initial question about our spending review plan, this is a significant scaling up of capacity for the organisation. It is akin to the 13,500 additional work coaches that we did in the pandemic. There are lessons from DWP in terms of recruitment, onboarding and the like. Yes, the measures that are in there, which were scored by the OBR as delivering an additional annual yield of £7.5 billion, are so far on track.

Q359 **Rachel Blake:** What analysis was provided to the Treasury in terms of the consequence of each individual investment measure? How were you able to come up with the figure of an additional £45 million in 2024-25 for the additional debt management capacity?

John-Paul Marks: Jonathan might just say a bit more about the process on the impacting of budget measures, the work with the OBR on essential assumptions and how that is then scored, but, ultimately, the £45 million will be a function of us retaining some capacity that we previously were not going to be retaining such that we could collect some additional debts that otherwise would have gone uncollected. Jonathan, do you want to say a bit about the process?

Jonathan Athow: For areas where we have additional resources, we will be looking at the productivity of those additional workers. We will probably come on to this when we talk about compliance officers, but normally we have assumptions about how much additional yield a compliance officer will bring in. We will have similar work about how much additional yield a debt caseworker can bring in. That might be a certain amount a year. Because we are retaining staff, there is no learning discount that you need to apply, but it is only part of the year that they are retained for. The number of staff multiplied by their productivity would give you roughly how we would get to those numbers. We would use that productivity on the basis of what we know already about the amount per person that is brought in. That is our broad approach.

Q360 **Rachel Blake:** It is that productivity bit that I am really interested in. Can you unpack that for us?

Jonathan Athow: I do not have the figures to hand, but, again, we will look at different sorts of debt. Normally, the way that we work cases more generally is we always work the highest-value ones first. There will always be a sense in which you go down the curve, but we can unpack that for you. I have some of the costing notes with me, but I have not looked them up. We will normally have an assumption of—I do not know—£500,000 per year per person or something like that. Again, we can set out for you what the underlying assumptions are for those.

Q361 **Chair:** Would that include time-to-pay arrangements? Would that include the total time-to-pay arrangement or the per-annum money received?

Jonathan Athow: Again, I do not know exactly how we classify that. It would normally be the amount of money that arrives in one year.

Q362 **Chair:** Is there an incentive for agents to push for a time-to-pay arrangement that is of a certain level in order to boost their numbers?

Jonathan Athow: No. Again, one of the things that we will probably come on to in terms of compliance is that individual members of staff do not have particular targets. We try to make certain that our people are as productive as they can be, but we do not have targets that will drive behaviours at that level.

Q363 **Rachel Blake:** The rate or pace at which the debt is paid back is one input of productivity. That is what the Chair was inquiring about. Are you concerned that the productivity of individual officers is too low? Are you working on the basis that there is a fixed productivity equation for an individual person and you are just trying to multiply the number of people? Are you doing anything to improve the overall equation of the productivity of individuals?

Jonathan Athow: Again, we can extend the number of people, but we can also try to invest in technology to allow them to do their jobs better. One of the programmes that we have is something called debt transformation, which is designed to improve the technology that our people have so they are able, for example, to automate some processes or to better understand the nature of the person who owns the debt so that we are better able to target that.

We are both adding people and looking for each person, as we invest in new technology, to improve their productivity. We are trying to look at both trends. Particularly when we are talking about additional people, particularly over shorter timescales, the most important thing is sometimes the extra productivity of those people.

We are certainly always looking to think about how we can use our limited number of people in the most effective way possible. Can we give them new tools and technologies that allow them to be better automated? We should also bear in mind some of the things that we have already talked about. Some of our IT estate is quite old and therefore does not always have the functionality that people would like. If you were to talk to some of our frontline staff, they would say, "If I had a slightly better system here or a system that was a bit quicker, I would be a bit more productive." We are very mindful of that as well.

Q364 **Rachel Blake:** In terms of inputs, you have more people and better technology. Are there any others that could improve productivity?

Jonathan Athow: The only other thing I would say is that we use debt collection agencies as an additional flexibility. That is another way in which we can flex our resources by asking them to pursue some debt. Again, that is the other margin. Within the autumn Budget and the spring statement, we made additional use of that flexibility.

Q365 **Rachel Blake:** I was curious as to why the investment in 500 additional compliance staff to increase collection of tax due is not having a consequence until 2026-27, according to table 3.1. The additional income is relatively small. It is £50 million and it is not until 2026-27. Why is that?

John-Paul Marks: It is a function of training and consolidation and when they will start to deliver yield. When they are first recruited, it takes a while. Penny, do you want to say a bit about building them up to being productive?

Penny Ciniewicz: We are recruiting 5,500 people over the spending review period. The first 500 have already joined, as JP said. We train our compliance officers through our basic training programmes. The largest is our foundation-level programme. That is around 18 months. The first 18 months is focused learning. The second 18 months is working in the business with mentoring and coaching support. That means our compliance officers do not become really productive until later in the training programme.

The costings reflect assumptions about the rate at which compliance officers become productive. In fact, compliance officers are assumed to not be fully productive—they are not as expert at their work—until about four years. We say they are fully productive at four years. They should be producing a return after about 18 months.

We also have our tax specialist programme, which we are growing as part of that 5,500 people. We currently take around 280 people a year into that. We will be taking 500 from the autumn. That is a more intensive programme over a longer period of time. It takes three and a half years to make people tax specialists. Again, there are assumptions built into the costings that explain the rate at which they become productive.

Q366 **Rachel Blake:** It would be really helpful to have those inputs to productivity written up and sent to the Committee, if you could write back to us.

I have some more ideas for closing the tax gap. I represent an area with a number of candy stores. Westminster City Council has done really great work in driving down the business rates gap from £9 billion to £2 billion. I am sure everyone will agree with me that that should be very welcome to the taxpayer, but what would really help is local authorities being able to work effectively with HMRC in terms of joint investigations.

You may or may not be familiar with these candy stores. They are essentially empty shops in high-value areas that sell goods that I certainly would not buy, very much not for the price that they are put on the market for. HMRC has been trying to work with Westminster City Council in particular on the issue of a data-sharing agreement. Do you know what would be holding up any further joint working? We have a concern that it is because the perception of the potential tax raise is not quite big enough for the level of enforcement activity that HMRC would consider.

Penny Ciniewicz: I am aware that we have worked with Westminster City Council. Indeed, we work with a range of different enforcement bodies on a whole range of different challenges with enforcement. It is true that there is a big impact from the point of view of business rates because that really is vital for local councils such as Westminster City Council. I recall some time ago some cases that we did with Westminster City Council where, certainly, the tax end of that compliance investigation was perhaps not bringing quite as much as might have been the case for the business rates end of it. We are always open to those conversations. As far as I am aware, those collaborative conversations carry on. There is a whole range of different challenges.

Q367 **Rachel Blake:** To me, this is quite a high-risk situation. Every person on the street is seeing what cannot be a functioning business. It would seem to me that there is a real potential to close some of the tax gap, but there is a concern that the scale of potential additional income is not enough for HMRC. How does your enforcement work on this in terms of your assessment of a threshold?

Penny Ciniewicz: Our threshold is not just a financial one. We take risk into account in a whole range of different dimensions. Risk can be present in a number of different ways. It can be present in the tax gap, but we have other responsibilities, such as anti-money laundering supervision and so on. Our risk assessment is not static. It is informed by a whole range of different factors. It certainly is not purely a financial threshold.

Q368 **Rachel Blake:** You take a bespoke approach to what the overall risk is.

Penny Ciniewicz: We always look at the risks in the round, yes.

Rachel Blake: It would be really helpful if you would consider having a look at the potential additional income from joint investigations and that data-sharing agreement with Westminster City Council.

Q369 **Dr Sandher:** Ms Ciniewicz, the tax gap for wealthy individuals is estimated at about £2 billion in 2022-23. The wealthy personal tax gap is about 50% of the total gap, despite paying about 25% of tax. Why is HMRC finding it so difficult to collect the tax that is due from the wealthiest people in this country?

Penny Ciniewicz: We are bringing in a lot of tax through our compliance work. The last figure that I had was £5.2 billion in relation to the wealthy population. That is a significant increase over the last few years from around £2.2 billion in 2019-20. We are very focused on the wealthy tax gap. There were a number of announcements in the autumn Budget and spring statement relating to that, particularly the focus on wealthy offshore. We are bringing in an additional 400 people to focus particularly on the offshore risk in relation to wealthy taxpayers.

It remains a challenge. We have around 1,000 officers in our wealthy directorates. We had 8,000 investigations opened last year. We put a significant effort into it. We are going to continue to build that not just in terms of civil work but in the criminal work, where we are going to be expanding the number of positive charging decisions. That is part of the criminal prosecution process, where we are putting another 20% on our target. We will be focusing at least some of that on the wealthy population.

Q370 **Dr Sandher:** You mentioned the challenge of offshore and the different types of assets, both liquid and illiquid. How important is it to have specialised knowledge within HMRC to get the tax that you need from those individuals?

Penny Ciniewicz: It is incredibly important. We have experts in a whole range of different aspects of wealthy taxpayers' affairs, whether that is trusts or assets. There are a range of different taxes that we need to consider. I have risk and intelligence colleagues who also draw very heavily on international data exchanges. We exchange a vast amount of data internationally as well as collaborate internationally on criminal enforcement. We bring together a whole range of different skills and expertise around wealthy customers. We have customer compliance managers in our wealthy directorate who focus on the areas of highest risk and the customers with the highest risk.

Q371 **Dr Sandher:** Given how important that specialised knowledge is, how many people are in that wealthy tax team? More specifically, how have those numbers changed over time?

Penny Ciniewicz: At the moment, we have around 1,000 in that team, but the number of people who might be focused on those particular risks will vary because we will be drawing on colleagues from, as I say, my risk and intelligence services, the fraud investigation services, colleagues in Jonathan's area and policy specialists. It is not a fixed number. Those customer compliance managers and others in the wealthy team will bring that expertise together to tackle the risks that they perceive in a particular customer's affairs or a particular risk in relation to the wealthy. It is not a limitation; it is a starting point.

Q372 **Dr Sandher:** I have seen that the HMRC wealth team has seen staff cuts. Is that correct?

Penny Ciniewicz: No.

Q373 **Dr Sandher:** It has not seen cuts over time.

Penny Ciniewicz: No.

Q374 **Dr Sandher:** Of the extra 5,500 HMRC staff that you mentioned, how many of those will be focused on collecting tax from the wealthiest individuals?

Penny Ciniewicz: Of the 5,500 people that I was talking about earlier, the majority will come in at foundation level in the Department. Over time, that will enable us to move more of our more experienced staff into other areas where we require more specialist expertise. This has to be part of a whole process of developing people.

As JP mentioned, we are setting up the Tax, Customs and Compliance Academy, which will be the focal point for developing our skills in HMRC. As part of that, we will be looking to develop our specialist skills and move more of those specialist resources into areas such as wealthy, where you need that depth of expertise.

At the moment, it is hard to say precisely how we will grow that because it is early days in terms of the actual growth in the numbers of workforce. So far, 500 have started, but as I have indicated, it takes a few years for those people to come online. We will certainly be looking to bring more focus and more people into that area over the coming year. We made a commitment at the spring statement to bring an extra 400 people specifically into that focused area of wealthy and offshore.

Dr Sandher: That is very helpful. Thank you very much.

Q375 **Chair:** Before we go back into our main session, I just wanted to alert everybody—hopefully you and your team are aware of this, Mr Marks—that it has just been reported that a number of taxpayers' online personal tax accounts have been locked down by HMRC after HMRC's security systems detected unauthorised access. Do you have any information on this? How many people are affected? We have been talking about systems just now. Are the systems secure? What does it say about the digital transformation? I understand that your phone lines have also gone down. It would be helpful to know whether that is coincidental or whether it is connected.

John-Paul Marks: I think that the telephony point is coincidental, not connected.

Chair: No one can contact HMRC at the moment.

Lola McEvoy: We can.

John-Paul Marks: Some of the lines are still open and the web chat services are working. As you say, I have just had that notification as well. Something has disrupted those telephony lines. We are expecting them to be back up and available in the morning.

Q376 **Chair:** There is a commitment that they will be up and running tomorrow.

John-Paul Marks: Yes, that is the expectation.

Q377 **Chair:** Do you know how many people are affected by this unauthorised access of accounts?

John-Paul Marks: We have written or are writing to about 0.2% of the PAYE population, around 100,000 people, to notify them that we have detected activity on their PAYE account.

Q378 **Chair:** This is individual working people, not companies.

John-Paul Marks: That is right. It is individuals. To be clear, there has been no financial loss to those individuals. This was organised crime phishing for identity data outwith HMRC systems—this is stuff that banks and others will also unfortunately experience—and trying to use that data to create PAYE accounts to pay themselves a repayment and/or access an existing account. There has been a criminal investigation. Some arrests were made last year. A lot of work was then done to intercept this incident.

Q379 **Chair:** This is a historic incident.

John-Paul Marks: Yes, it is a historic incident. We identified and locked down the compromised accounts.

Q380 **Chair:** You have already written to those 100,000 people. They have had letters some time ago.

John-Paul Marks: When customers contacted us when they noticed an anomaly, we were able to speak to them and resolve their inquiry. We worked with agent and representative bodies in the new year. The notification that you are seeing there is about the fact that we have now been able to conclude our analysis of different accounts, such that we have written to customers to say, "You do not need to take any action, but we have suspended your account."

Q381 **Chair:** We are talking about individuals. That is fine. We have heard about this today. There is an announcement on gov.uk dated today. You are saying you knew about this last December. I quite appreciate that in the middle of a criminal investigation you might not go fully public with it, but I am a bit puzzled about the timeline here. Could you perhaps explain that?

John-Paul Marks: Last year, there was a criminal investigation into organised crime phishing attempts. Penny made the point. Our fraud investigation team detected this risk. The investigation took place, including jurisdictions outside the UK, in terms of organised crime. That led to some arrests last year. That worked well.

We have then taken action to protect customers. Where we found accounts that people had sought to access and/or created new ones, we could delete the compromised accounts and lock down those that people had sought to access and remove any incorrect information from the records. There was no loss to individuals. There was a small loss to the taxpayer, to be clear. We have concluded the analysis, such that we have been able to notify customers who might have been affected. They will see that their account has been suspended, and they can take action.

Q382 **Chair:** Normally in these circumstances we would receive a letter, as the Treasury Select Committee, that something was afoot. We have not had one, unless we missed it in the post.

John-Paul Marks: I am happy to write to you in confidence with more detail on the incident.

Q383 **Chair:** Did HMRC write to the chair of the Public Accounts Committee? That would often be the case in situations where taxpayers' money is at risk.

John-Paul Marks: No, we have not done that yet. If the Committee would like us to write to you, we are happy to do that.

Q384 **Chair:** It is perhaps a responsibility that you report to us in the House, in parliamentary terms. We would expect to get information about this and not have it emerge because of an announcement while you are in the Committee room. It was not mentioned until we picked up the news story.

John-Paul Marks: I mentioned at the beginning some of the incidents that we have been dealing with, including PAYE fraud. This is one of those. Unfortunately, the phishing of identity credentials outwith our systems—

Q385 **Chair:** I probably do not need to teach you, Mr Marks, because you are a permanent secretary, but let me nevertheless use my position as Chair to remind you gently, or perhaps not so gently, that it would be normal to advise Parliament of things. If you are appearing in front of a Committee, we would not expect it to be announced during the Committee hearing. I have a rule never to have something announced the lunchtime before the Committee either. We should have a little bit more notice. We are regularly used to getting things the night before. That is mildly more acceptable than finding it out in this way.

John-Paul Marks: I am very happy to provide those details.

Q386 **Chair:** On the telephone lines, at the moment, people can still access the digital service, but they cannot access anything on the telephone lines at all.

John-Paul Marks: I need to check exactly which phone lines are available this afternoon.

Angela MacDonald: It is not our telephone system itself that has gone down; it is the interface that our advisers use when the calls come in. We have had a system outage on that. That pervades all our phone lines. The only line that is currently open is the one for customers to ring us about the pay-as-you-earn fraud letter that they have received today. That is vital. We have had a system problem. We are working with our supplier to get that back online as fast as we possibly can.

Q387 **Chair:** Is one of the reasons that you did not want to talk in public about the issue that you have described, which started at the end of last year, because you were worried that more people would ring up and overload your phone lines?

Angela MacDonald: No, not in the slightest. Maybe I should talk about this as JP was not here.

Chair: Indeed, you are seven weeks in. It is not quite a hospital pass.

Angela MacDonald: Yes, perhaps I should talk about it. This is organised crime, as JP said. It is not a cyber-breach of HMRC. It is phishing activity. It is criminals taking customer credentials and then masquerading as the customer to get into the customer's HMRC account. The nature of the attack altered through the year. As we were closing it down and closing accounts down, they were changing their MO. We were closing accounts as we were seeing that there were challenges. As JP said, we took a lot of action to tackle the perpetrators.

What has been a challenge, in terms of cleaning the accounts up, is being clear that we were then talking to the genuine customer and not, in fact, talking to the criminal on the other end of the account. It has taken us some time to do all the analysis necessary and make sure we were there.

We were clear with the Information Commissioner right from the very beginning about what had been happening and we took their advice on how to handle it. Our real priority was to close these customers' accounts so the criminals were not able to get in.

The reality is that many of the customers who were impacted would not have an online digital account. Lots of people who are pay as you earn do not have an online account because they have no reason to go into one. In many instances, customers were not realising that somebody else was in their account. We did have some where they were live accounts, where criminals had managed to get their details and were logging in as the customer.

This is not an unusual situation. This kind of scamming and phishing is happening to all organisations. The challenge for us is about how we have detected it. As I say, every time we have closed it down, they have attempted to move their—

Q388 **Chair:** I am just a bit puzzled here. Getting into your own digital account requires you to have your gov.uk number and your clever password, which is increasingly complicated to remember. It is not easy. I find it hard to get into mine when I have to get into it in the first place. That system of two-factor authentication is supposed to stop this, is it not? You probably cannot tell us every detail. We might want a private session on how this works. If they have access to your tax login, that is quite significant.

Angela MacDonald: Yes. Perhaps we can talk about that, but, as I said, the important thing here is that this information has been taken from the customer through phishing in other environments. It has not been taken from HMRC.

Q389 **Chair:** Are you saying that the gov.uk login information is now not secure?

Angela MacDonald: No, I am not saying that at all. If you do not have a digital account at all, you can set one up.

Chair: You can set one up.

Angela MacDonald: You can then get the details and then you can log in. Does that make sense?

Chair: I see.

Q390 **Lola McEvoy:** They have found the details somewhere else.

Angela MacDonald: They found the details somewhere else.

Q391 **Chair:** We cannot go into all of this, but can you tell me how much taxpayers' money has been lost as a cost of dealing with this?

Angela MacDonald: At the moment, they have managed to extract repayments to the tune of £47 million. That is a lot of money and is very unacceptable. Overall, in the last tax year we protected £1.9 billion of money that was sought to be taken from us by attacks of a variety of natures.

Q392 **Chair:** How much of that £47 million are you going to get back? Is it gone?

Angela MacDonald: Perhaps that is a conversation that we can have.

Q393 **Chair:** It is a big job for Ms Ciniewicz. You have said that £47 million has gone to the fraudsters. How much has it cost you to try to fix this problem?

Angela MacDonald: I do not have that information to hand.

Q394 **Chair:** We will be liaising with our sister Committee on this. What does this tell us about your digital transformation programme? Are there any lessons from this? We were just hearing how it was all going swimmingly and it is going to go faster.

Angela MacDonald: We are living in an environment where cyber-threat is facing every single organisation. We are seeing it in organisations large and small. It is a continuing piece of work for us to invest in our systems, like every other organisation, to try to outpace the criminals, who are determined to try to extract data or money. We will learn lessons from this. We also work with the National Cyber Security Centre and we are learning lessons across Government. These difficult and very unfortunate things are also happening in the private sector. It is about sharing that information.

HMRC is not immune from this situation, unfortunately. Therefore, we have to work hard, the same as every other organisation, to keep trying to outpace it.

Q395 **John Grady:** I must say I am used to dealing with complicated things, but I am slightly lost with this. We have had a sustained attack on HMRC, and you have had to deal with it. You deal with it one way and then they come back and have another go in a different way. We probably need you to set out what has happened very clearly in writing to us so that we can then take it away. This is something that I would have wanted to discuss. My constituents would want reassurance that HMRC systems are secure and that, if someone gets information from a different mechanism, they will not be able to go straight into HMRC's systems. I cannot ask you detailed questions about it now. There is obviously a long history.

John-Paul Marks: Chair and Mr Grady, first of all, we would be very happy to write in confidence. Chair, you suggested having a private session on security and resilience. I made the point briefly at the beginning of my comments. It is certainly the cluster of risk that is of most concern to us.

This incident is constrained and under control. As Angela said, it is not a cyber-attack. The notification to customers is to say, "There is no action for you to take. We have suspended your account and there has been no loss to you, but we want to make sure you are aware."

At the same time, we appreciate that you will have scrutiny and questions for us. We want to try to be clear to the public. We do not want to create alarm. The vast majority of people are unaffected by this. As I say, we detected activity on 0.2% of the PAYE population.

Q396 **Chair:** If we had known about it beforehand—you knew about it beforehand—we could have asked questions about it.

John-Paul Marks: Let us write to you.

Chair: Let us not have this happen again, please.

Q397 **John Glen:** Ms MacDonald, you set out a very fair and reasonable assertion around HMRC not being immune to common cyber-attack pressures. Next week, we have a spending review. As a former Chief Secretary, I know that all Departments submit their bids and some of those bids are about system transformation. You have certain parameters in terms of customer delivery expectations. You are a bit different to a private sector organisation because you have to compete with other Departments for a funding settlement from the Treasury. In light of the escalating ongoing risk, the specific risks that we have just discussed and indeed the things that have come to pass, are you confident that you have the right settlement to deal with, as you described, the escalating set of risks that HMRC faces?

For many people, as many of my colleagues have said, this is about their level of confidence in a system that is about their money. You say there was no loss to these 100,000 individuals. Notwithstanding that, they will be wondering, "What was taken? How could this come back in some other form through some other agent in the future?" It is really important that we leave today knowing that you have the resources you need to deal with the risks that you perceive exist, regardless of whether you are competing with other Departments or not.

Angela MacDonald: The spending review settlement is not yet public. However, I can reassure that the investment—

John Glen: It is your time to lobby now. That is what I am inviting you to do.

Angela MacDonald: Thank you so much. It has been a significant feature of our spending review bid. We had extensive conversations with the XST and Treasury about the nature of the risk. There is very clear understanding of and support for this from Treasury Ministers. I am very confident that the investment necessary in order for us to move this through at an accelerated pace—that is what I said earlier about some of these other issues—is a significant part of the spending review bid, of which we will hopefully see the outcome next week.

Q398 **Chair:** Back in November, Mr Marks, your predecessor Jim Harra said to us, "I am not aware that we have had any cyber-attack that has been successful in defrauding us." That was November 2024. Was that a true statement at the time?

Angela MacDonald: Yes, because this is not a cyber-attack. We have not been hacked. We have not had data extracted from us.

Q399 **Chair:** It is an interesting definition. The average person would say that there has been an attack. There has been an attempt to extort money out of HMRC through its digital systems.

Angela MacDonald: Yes, through its digital systems. You might think it is splitting hairs, but I am not sure that I think it is. If somebody breaches your systems and tries to extract data, hold you to ransom or all those things, that is a cyber-attack. That is not what has happened here.

Q400 **Chair:** You get the point about the trust and confidence in the systems.

Angela MacDonald: Yes, completely.

Chair: Coincidentally, that point was played out pretty well in the room today before we realised this. I have made the message very clear. In future, HMRC needs to advise us about this in advance. I would stretch it out to our sister Committee, the Public Accounts Committee. Sir Geoffrey Clifton-Brown, the chair of that Committee, would have expected to have had that information. I have not spoken to him; I do not know whether he has had that.

Q401 **Lola McEvoy:** I have one question on this. Is every individual who enters the tax system allocated an online profile automatically?

Angela MacDonald: Yes. As the Chair mentioned, if you access the Government Gateway, your digital records and your tax records are sat there waiting for you, if you choose to access them. Bear in mind that it is simply an accumulation of the various personal information that is sat there. Yes, everybody can log on, whoever you are, whatever your tax situation is. Your personal information will be available to you once you have gone through security.

Chair: We need to take this further about getting the £47 million back. On the splitting hairs point, we will not go into what is a cyber-attack. Money was got by criminals who penetrated a digital system. A lot of people would consider that a cyber-crime, however you define it. We will pause on that now, but we need to pursue this further outside this room.

Q402 **Yuan Yang:** I will turn to our previous theme of compliance and the tax gap, but I want to bring in something that we have known about for a number of weeks, which is the National Audit Office's report from May entitled "Collecting the right tax from wealthy individuals". First, I wanted to pin down some questions about the data—perhaps this is a question for Mr Athow or Mr Marks. In this report, there is a breakdown of what HMRC calls affluent individuals with an income of over £200,000 a year or assets greater than £2 million and then high-net-worth individuals with assets over £10 million and above, the ultra-wealthy and billionaires. First, are those figures for wealth gross or net?

Jonathan Athow: I don't know. This is an operational classification.

John-Paul Marks: I think it is probably a total, gross number. The number of wealthy individuals, the cohort that the team is working with, increased from 700,000 to 850,000 in 2023-24. We are segmenting that group to give them additional attention, given the point that was made earlier around level of risk and the tax gap.

Q403 **Yuan Yang:** There has been a lot of writing about how wealth inequality increased over the pandemic period. Asset price inflation also increased. Those are gross figures, as far as you know. Is it possible to have the—

John-Paul Marks: We will confirm the definition for you in writing, but I think it will be total income.

Q404 **Yuan Yang:** As far as I gather, HMRC does not gather data on wealth systematically. I would be interested to know how that information is arrived at by HMRC. Perhaps that is for the follow-up as well.

John-Paul Marks: Unless you know differently, we can follow that up.

Penny Ciniewicz: I will follow it up.

Q405 **Yuan Yang:** One of the recommendations from the National Audit Office report was that there should be an impact assessment of merging the affluent individuals and high-net-worth individuals units into one big unit called the wealthy unit. The kinds of tax non-compliance that might occur by, let's say, a very well-paid senior civil servant earning £200,000 per year paying PAYE tax are very different to the kinds of non-compliance that occur when somebody holds assets of £10 million with shares in their company. They have the ability to avoid income tax by withdrawing earnings as dividends and a much more complicated set of tax arrangements.

In the light of that, I was wondering what you make of the NAO's recommendation and whether you have done an impact assessment.

John-Paul Marks: I will bring Penny in in terms of the operation of the wealthy regime. I met with Gareth Davies and we went through the latest NAO report together. The report recognises our progress. The team has doubled the yield that is collected for this cohort. Penny mentioned it earlier: the yield went from £2.2 billion in 2019-20 to £5.2 billion in 2023-24.

One of the points that the NAO was making was whether we should be targeting based on high net worth and income and whether we have diluted our focus somehow by merging the teams. I have stepped through that with Penny and the team. I do not think that is the case. The vast majority of our case managers are working on our higher-risk cases. They have high-net-worth features as well. The point that the team has been developing is that income alone is not the only risk factor. Penny can say a bit more on that.

We are at the PAC next week to discuss the recommendations of the report. We accept them all. We are investing to build the capability and capacity to reduce the tax gap for wealthy customers, which is broadly similar to the overall tax gap. Where we can refine the method to understand the opportunity, we will do that. Penny, do you want to say a bit more?

Penny Ciniewicz: Yes, absolutely. Just to come back to that point about targeting our efforts, we do not start with just the simple numbers of income or wealth. We have to look at complexity, opportunity and propensity. We use a lot of data and a lot of insight. As I mentioned earlier, our customer compliance managers work with the wealthiest customers. We look at things such as wealth and life events. There will be points when assets or other things become more important in the taxable affairs of an individual. We are constantly looking at a whole range of different factors, not just a simple graduated scale of wealth or assets.

Over 70% of the yield that we took in my wealthy directorate in 2023-24 came from those customer compliance-managed cases. We are really putting a focus on that complexity and risk. We want to continue to do that. We want to develop the capability and the capacity in those teams and the way that we use a whole range of data and insight to get even better at tackling that problem.

Q406 **Yuan Yang:** I have one final question in this area about the impact. There has been a lot of media speculation—I am sure you have all seen it—on the impact of the non-dom reforms. As far as I can tell, it has been quite difficult to see any data on the outflows of people emigrating or moving their assets. The most commonly cited report I see references LinkedIn statuses, which does not feel like a very concrete way of doing economic research to me. I was wondering whether HMRC has any ability to scrutinise data on this. If not, how could you collect data on this?

John-Paul Marks: Ultimately, we will have data to be able to scrutinise this, which we will publish, but it will be from the new year of 2027. It will be after the fact, when we see tax returns reported. We can then analyse those to see what has changed. Jonathan can say a bit about that process.

In the meantime, the OBR, in terms of costing this measure, would have made an assumption about the behavioural response. They have assumed something like a 25% change in that population. Jonathan, do you want to say a bit on that?

Jonathan Athow: It is a population that is already quite mobile. Last year, before the changes were announced that we have data for, 12,900 non-doms moved into the UK and around 8,900 moved out. This is a population that is quite mobile. We would expect to see some change in a normal year anyway. As has been said, the OBR already factored in either a 12% or a 25% behavioural assumption of people leaving, depending on their circumstances.

We will not know the actual numbers until we have the tax returns in. Those tax returns are not due until 31 January 2027. That is the earliest we will have any information. Of course, we will then need to process it and understand it. There will also be some people who are late in submitting their tax returns. That is the overall picture of where we are.

Chair: We will put a pin in our diary to have you back after that date.

Q407 **Bobby Dean:** I have just one more probe on the wealth regime, if I can. If the threshold is at the £200,000 mark for income or £2 million for wealth, I have seen an estimate that that is about 850,000 people. If you go higher up the wealth scale to £10 million-plus, it is 40,000 people. If you think about the fact that one billionaire is worth about 500 of those people at £2 million, it would make sense for you to target your efforts at that upper end. Is that something that you do? Is that within your gift to do, or do you need to wait for ministerial instruction to target all your resources at that upper end?

John-Paul Marks: We target based on risk, of which income is one key factor but not the only factor. That was the point of the change. We can maybe say a bit about the risk model, if it is helpful. If we suspected that there was a billionaire with a tax compliance risk, that would of course be part of our risk assessment and our compliance activity.

Q408 **Bobby Dean:** Do you have to have evidence of something being off in order to do that? If there are 40,000 people with a net worth or gross worth—whatever you said it was—of over £10 million, it makes much more sense to examine those thoroughly. They are likely to have financial management and you probably are going to find tax gap opportunities among those groups of people. You do not necessarily need to wait until you have a suspicion to monitor those.

John-Paul Marks: Penny can comment on this, but they have case managers who focus on them.

Penny Ciniewicz: The customer compliance manager model is essentially about man-marking the riskiest customers. We would work very closely with them on risk in real time. We would speak to their advisers very regularly. We have a lot of data, but, equally, we will use our data to look at, as I mentioned, things such as life events, where particular assets might crystallise and tax might be due on them. We bring lots of different dimensions to bear when we are thinking about risk.

Certainly, if you are looking at our wealthiest customers, it is about the risk that they present. Is that presenting an opportunity for there to be less tax paid than ought to be paid? Fundamentally, we are staying close to that risk with our wealthiest customers as well as looking at a range of other different factors.

Q409 **Bobby Dean:** It sounds like you feel you have a pretty good handle on that category of people. You broadly know who they are, you broadly know how much they have and you are able to monitor their tax arrangements. I asked you to confirm that because there are some people speculating about the potential for a wealth tax to be implemented at some point in the future, but the critics say it is impossible and it cannot work because HMRC do not know how many people there are and what money they have. Would you say that is not quite true? Would you feel confident that you would be able to implement a wealth tax?

Penny Ciniewicz: We understand wealth from the point of view of taxable wealth. You do not have to declare all your assets to HMRC, if you are not in a position where there is a taxable event. That is not what we do. That is the data distinction.

To come back to the points that we were talking about earlier about offshore, there are gaps in our data in relation to offshore. We get data through the automatic exchange of information on financial assets, but we do not have data on non-financial assets. We are trying to expand the range of data that is being exchanged—that includes things such as crypto assets and information that is coming online—through that international exchange of information.

With the data and the insight that we have, we are doing a good job of managing that wealthy population, but we are always looking for opportunities to understand more and to bring more data together.

Q410 **Bobby Dean:** Do you need more powers to get more data to be able to properly tackle the wealth tax gap?

Penny Ciniewicz: It is less about powers than the complexity of that. With international information exchange in particular, there are things that are not easy to gather data on and exchange with international colleagues. That becomes more problematic. We continue to work on that.

Q411 **Chair:** One of the interesting things for Ms Blake and myself in particular, in our constituencies, is that there are an awful lot of people who are now living in properties that are worth £2 million or £3 million, even in east London, unbelievably. You would have no record of that asset unless there had been, as you say, a life moment where it had been inherited or purchased or there was a capital gain. As is highlighted in the NAO's report, a lot of those people would not feature in the new wealthy unit, which Ms Yang described.

Penny Ciniewicz: Yes. Equally, if they have not crystallised an asset of that nature, they are not in a position where we are interested in their tax affairs in relation to that asset. If you were selling a house at that price, you would be—

Q412 **Chair:** They will then be forever in that group. That is the point at which they will join the wealthy unit or come under its purview.

Penny Ciniewicz: In effect, yes.

Q413 **Chair:** Mr Dean mentioned a wealth tax. In the past, there have been conversations about whether that could be done through council tax, which would not be you. If it were done through the tax process, as Mr Dean has highlighted, just to be clear, you would not have any sight of the assets unless someone was regularly purchasing a home at that sort of level.

Penny Ciniewicz: We do not gather that data on assets.

Q414 **Chair:** Thank you. I just wanted to be clear about that. Who decided on the amalgamation of these units? Was it the executives or was it the board? Was it done under the Minister?

Penny Ciniewicz: That was back in 2017 on the back of an NAO report at the time.

Chair: There was a PAC report.

Penny Ciniewicz: Yes.

Chair: It was related to that time, not more recently.

Penny Ciniewicz: Yes. There was a general reorganisation of all the compliance functions in 2016 or so, just before I arrived. It was part of that amalgamation.

Chair: I am just checking that it was not something more recent.

Q415 **John Glen:** How is the principle of the HMRC being operationally independent of Ministers maintained if your Minister is chairing a board where you make decisions around the focus of limited resources? Referencing Mr Dean's questions around millionaires, billionaires and focus, any decision that you might make tactically would be a legitimate decision that you, as a board member, might wish to bring to your colleagues. How would you avoid a situation where the chair of the board, the Minister, would not bring undue influence on such a decision?

John-Paul Marks: Yes. The operational decisions, such as which cases to investigate based on the risk model, are for Penny and her teams. That is not discussed with Ministers because it is operational. It relates to taxpayer confidentiality. The priority of closing the tax gap, including the wealthy tax gap, the policies, the risk modelling and the segmentation are discussed by the board. There is a sub-committee of our board that is totally dedicated to closing the tax gap, of which Penny is a member. The overarching model is discussed there with experts and regularly reviewed. That does not focus on the particular cases; it is focused on the model.

Q416 **John Glen:** Yes, I am not talking about individual cases. I totally get the right of the Minister and all Governments to say, "We are going to focus on the tax gap. We are going to make that priority when we think about HMRC." To operationalise that, you will need to make quite tactical decisions not around individual cases but around whether to go for multiple low millionaires versus a smaller number of billionaires.

The risk that has been foreseen historically is that, if you have a Minister chairing the board, you are perhaps under perceived influence over how you make those tactical decisions to deliver on the policy objective because the Minister is present. That is surely a reasonable concern.

Penny Ciniewicz: Yes. Those tactical decisions—they are tactical decisions—are really very much made by operational leaders in the organisation. They do not surface to the board.

Q417 **John Glen:** The board would not discuss that.

John-Paul Marks: No, it would not.

Angela MacDonald: No.

Q418 **John Glen:** It would not discuss who to focus on.

John-Paul Marks: No.

Angela MacDonald: No.

Penny Ciniewicz: No.

Q419 **Chris Coghlan:** Ms MacDonald, an issue for businesses in my constituency has been delays in processing refunds under the construction industry scheme. They are telling me that payments used to take five weeks, but now they are taking five to seven months. That has caused very serious cash flow issues for some businesses and in fact has put their survival at stake. The industrial action at the HMRC offices in Newcastle has not helped. We have heard about the helpline issues today. What are your plans to rectify this?

Angela MacDonald: If I talk about repayments, in 2024-25 there were about 2.87 million self-assessment repayment claims. Some 93% of those went through in a few days. By far the majority of those claims go through really quickly. The balance are taking an average of about 25 days, but it can be taking us longer.

It is interesting that you raise the construction industry scheme because we have seen a notable rise in repayment claims for both the construction industry scheme and employment expenses. If I refer you back to the conversation we have just had about fraud, the process of extracting repayments is a prime target for criminals.

We want to do this as effectively as we possibly can, but we also have a really strong duty to protect moneys from the Exchequer. The challenge is that there are an awful lot of genuine customers making genuine repayments who get caught up in that. I recognise the massive inconvenience of that. Where we see risk and we are seeing a particular trend, which at the moment is unexplainable, we must put a real focus on ensuring that money only goes where it is properly and legally due, to people who are properly and legally entitled to it.

Q420 **Chris Coghlan:** Essentially, you are saying that there is legitimate reason, not a lack of resources.

Angela MacDonald: It is not a resourcing issue. It is about the increase in risk. These cases are not done in customer services. They are referred to compliance. We are looking at data that tells us there might be something that requires further intervention, and then we make inquiries. That is usually asking for either more information about the identity of the person making the claim or more information to validate the data that underpins the making of that claim. Some of those claims do not make it all the way through to repayment.

Q421 **Chris Coghlan:** There is one final question from me. On R&D tax credits, I know you have had issues with refunds. Is there a risk that these issues could act as a disincentive to investment and a barrier to the Government's objectives of driving innovation and growth?

John-Paul Marks: I mentioned it briefly at the beginning in terms of the accounts qualification, given the level of fraud and error. Absolutely, the intent is that it does not cause a disincentive effect to investment, which R&D tax credits are there to support.

The total number of claims is still healthy, but there has been a small reduction on the previous year. We have been doing additional checks, as Angela says, to protect the Exchequer. We continue to exceed the processing targets. Some 85% of the claims are being processed within 40 days. That is good, but we need to sustain that.

As you know, the overall level of fraud was too high. It needs to be brought down. The latest sample will give us a sense of whether the process changes that we have made have enabled that. I think they will, but I suspect there is still a bit more to do. There is a constant balance between support for investment, which we want to do, and protecting the gateway for the Exchequer.

Jonathan Athow: We have recently consulted on the ability for businesses to put in pre-approvals to have certainty up front. There is already a limited scheme for that. At the spring statement we put out a document looking at how that would work and whether it would be advantageous to businesses. That is one way in which there could be more certainty around this, but it would come at the cost of needing to do up-front processing or have an up-front application process.

Those are the sorts of things we are looking for, which aim to both reduce non-compliance and increase certainty for businesses. It is the certainty that businesses have said to us is very important.

Q422 **Chair:** Certainly, I have had cases where this has been a real problem. People have been granted it and then there has been an investigation. Their business, often quite a small business, for which that money was absolutely critical, is then uncertain about what they are going to do with their financing.

Is there a problem with how these schemes are designed? Every Government come in and introduce a new tax relief on something. They do not always go well. Do you have robust systems in place to try to catch these earlier in future and make sure you are giving really good advice before any Chancellor of whatever colour stands up at the Dispatch Box and makes an announcement?

John-Paul Marks: Jonathan might want to say a bit on the history, but we are getting this under control. We have quadrupled the size of the team. There are over 500 people working on R&D compliance to achieve that. We will see the fraud and error rate fall. As Jonathan said, we also need to provide certainty and efficiency in the processing so that investment can crack on.

Q423 **Chair:** Mr Athow, can you give any reassurance to businesses that are struggling with this?

Jonathan Athow: There are some challenges here. We want businesses with legitimate claims to get these tax credits and to have confidence in them, but we also want to stop claims that are not compliant. There is a challenge in how you do that. We have put in place several policy measures. As I said, one of the ones that we are consulting on is advance clearances. That will hopefully hit that sweet spot.

There is a fundamental challenge with research and development. By its nature, it is uncertain and difficult to define. There is no third-party data that we can verify these claims against, so it is going to be a challenging relief to administer full stop. The question is how we use policy and operational responses to get that balance right.

Q424 **Chair:** I have had a number of cases. From memory, one was a brewery. With all respect to tax officials, the understanding that a tax official might have about the research and development to develop a new craft beer is perhaps in a different place to the brewery itself.

Jonathan Athow: Indeed, yes. We have just started a process of recruiting some external experts to help us with some of the technical aspects of research and development. As I said, we have some great colleagues working in Penny's area who are absolute experts on the tax side of things, but on some of the more scientific elements will not have the knowledge. We are recruiting experts to our panel to help us with that.

Chair: You are very welcome to come and sample some craft beers, meet the brewers and learn about it, Ms Ciniewicz. There is an open invitation to Hackney South and Shoreditch, if you would like to understand better research and development in that area.

Q425 **John Glen:** One of our big challenges as MPs is to work out what is a one-off example and what is a pattern. I have also been made aware of some individual cases. Apparently, there is no phone line for somebody to ring up about R&D tax credits. The corporation tax phone line will not answer questions on that. That is a great frustration. There are examples of people who are in the process and then somebody has gone away for a while. The risk associated with not securing this money is quite significant.

I recognise what you are saying about increased sampling and that this is a work in progress because we have asked you to reduce the amount of fraud, but is there anything that you can say to reassure those who are engaged with this session today around the processing journey and your sensitivity to when you go beyond 40 days in those 15% of cases? I was not sure that you would meet that 85%. I am pleased to hear it, but it is quite pivotal, if you have 1.5 million and you have cash flow issues. What can you tell us about what you are trying to do?

Linked to that—this is the final thing that I will say—I am aware that there are some white-label intermediaries being used. It has been asserted that HMRC use those people as pathfinders to sound people out. They are also linked to factoring. Perfectly legitimately, these firms help people navigate the process. Are you familiar with that? Do you recognise that?

Penny Ciniewicz: I hear what you are saying about the certainty for businesses and the investigative side of the processing of claims. It can be an uncertain business. It is really important that we keep people in touch with what we are doing and that we keep them sighted on the progress of that compliance work.

Just to add to some of the things that Jonathan has already said, part of what we have been doing is trying to gather more information up front. We now have a digital claims form, which gives us more information. It enables us to risk better, though not perfectly because a level of scientific uncertainty does exist and will continue to exist. We are trying very much to remove as much uncertainty from the process as we can up front through those kinds of administrative reforms.

We certainly do look at challenging agents, where we think they are multiplying non-compliance rather than removing it. We have an anti-abuse unit for the most abusive cases so we can take that noise out of the system. As JP said earlier, we have quadrupled the number of people working on R&D compliance. We now have 500 people working on R&D compliance. There is a lot of work to do, but hopefully some of those system changes that we have put in place—we will see the results of those in the annual report, when it is published—will help us to take some of that out of the system and make the service even better.

Q426 **John Glen:** There are intermediaries in the market that will say to a company, "Can we deal with your R&D tax credits?" They do it positively, to take out the stress out of it. Do you work with those firms to try to create acceptable pathways to inform firms how to properly make the application?

Penny Ciniewicz: Yes, we certainly do quite a lot of educational activity, but part of what the reforms have been doing is trying to make the connection between the business and the claim. It has to have senior sign-off before the claim can come in now. We were seeing an abuse of the process from firms making claims on taxpayers' behalf where they were not really involved in the process. There is a real need for firms to be closely involved in those claims because that is part of the process of giving us confidence that the claim is legitimately made.

Q427 **Chair:** These are interesting lessons for any future Chancellor thinking about these things. Tax relief is always an interesting area, which we do not have time to go into now.

I just wanted to update on the phone lines issue. At the beginning, we were picking up that the only information about the phone lines being down was in response to individual Twitter or X inquiries. Having done a mystery shopper exercise, we understand that there is a message saying that the phone lines will be up and running as soon as possible. Ms MacDonald and Mr Marks, you said it would be up and running tomorrow. Can you just be clear? Do you know, as you sit here now, when the phone lines will be up and running again?

Angela MacDonald: The phone lines went down as we were sat here. We know what our able colleagues are passing to us from the seats behind.

Q428 **Chair:** Perhaps you could write to us on this because clarity of communication is important. I would just stress again that your accountability, Mr Marks, and HMRC's to Parliament and, through us, to taxpayers is not an optional extra. It is something that should be absolutely fundamental. We will take that offline and make sure we do not have this problem again in future. Perhaps you could just commit that you are intending in future to make sure we are properly informed about such events.

John-Paul Marks: Yes. We will write in confidence on the incident that I raised with you.

Chair: Thank you very much indeed. Thank you for your time. We look forward to seeing you again, though you perhaps do not so much. Thank you indeed. An uncorrected transcript of this session will be available on the website, thanks to our colleagues at *Hansard*, in the next couple of days. Thank you very much indeed.