HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: HMRC Annual Report and Accounts, 2020-21, HC 641

Wednesday 1 December 2021

Ordered by the House of Commons to be published on 1 December 2021.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Shaun Bailey; Peter Grant; Antony Higginbotham; Mr Richard Holden; Craig Mackinlay; Sarah Olney; Kate Osamor; Nick Smith; James Wild.

Gareth Davies, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1 - 149

Witnesses

I: Jim Harra, Chief Executive and First Permanent Secretary, Angela MacDonald, Second Permanent Secretary, Joanna Rowland, Director General, Transformation Business Group, and Justin Holliday, Chief Finance Officer, HMRC.

Examination of witnesses

Witnesses: : Jim Harra, Angela MacDonald, Joanna Rowland and Justin Holliday.

Chair: Welcome to the Public Accounts Committee on Wednesday 1 December 2021. We are here today to do our annual visit to HMRC to look at its performance and accounts. This is one of the Departments that has been most involved in tackling some of the huge challenges of covid-19. We once again put on record our thanks to staff at HMRC, who did not quite stop collecting money but turned their business around to giving out money to people through furlough and so on during a very difficult period in March and April of 2020. Thank you for that.

Today we want to look at how you are recovering from that very challenging time, what impact it has had on tax take for the Exchequer and on your business as usual, and what the threats and challenges are as you go ahead. We look forward to having those discussions. I welcome our witnesses. We have Jim Harra, of course, first permanent secretary and chief executive of Her Majesty's Revenue and Customs. We have Angela MacDonald, who is the deputy chief executive and second permanent secretary. I think that is the first time we have welcomed you in that role, Ms MacDonald, so congratulations on the promotion—or commiserations.

Angela MacDonald: Congratulations, definitely.

Q1 **Chair:** It is certainly a big job in the current climate. We have Justin Holliday, the chief finance officer and a tax assurance commissioner at HMRC—so watching the beans inside the system. We also have Joanna Rowland, the director general for transformation. I think it is still true to say that the IT transformation project that you are overseeing in HMRC is the biggest IT programme in Europe in the public sector. Is that right?

Joanna Rowland: Yes, the portfolio has been described as the biggest in Europe, and of course it includes our covid response.

Chair: There is a lot on Ms Rowland's plate, so no one has a small job in this session. Before we go into the main session, Sarah Olney MP has a couple of questions for you, Mr Harra, about the loan charge.

Sarah Olney: Do we need to do disclosures, Chair?

Chair: Forgive me. Can I ask Members to declare their interests?

Sarah Olney: I am a member of the Association of Chartered Certified Accountants.

Craig Mackinlay: I am a chartered accountant and chartered tax adviser, and still nominally in practice.

Peter Grant: I am a member of the Chartered Institute of Public Finance and Accountancy, although I am not authorised to undertake taxation work.

Chair: You are up against the experts, I think is the summary of that.

Jim Harra: I wish you hadn't told me all that.

Chair: Just putting you on your mettle there.

Q2 **Sarah Olney:** Quickly on the loan charge, what progress is being made on pursuing the promoters of schemes that have been outlawed?

Jim Harra: That is increasingly our focus. Our strategy in tackling tax avoidance is two-pronged. We want to reduce the supply of schemes and we want to reduce the demand for them as well. The situation with the promotion of tax avoidance is that over recent years we feel that we have been very successful in driving the respectable end of the tax profession out of offering tax avoidance. The large accountancy firms, the banks and the main law firms now all have a code of practice that effectively prevents them from doing that.

What we are left with is a core of about 20 or 30 hardcore promoters who continue to sell schemes into the market. Many of them are offshore and hide behind complex corporate structures. They very often sell online or via an enabler in the UK, and the vast bulk of the schemes that they now market relate to employment taxes, and are directed really at contractors and agency workers, who are their key target. That means that the people at whom tax avoidance schemes are now targeted have changed quite significantly from affluent people who are relatively sophisticated in their affairs to middle-income earners, who will range from people who are knowingly involved in the schemes through to people who are unthinkingly getting involved in them. On the employer side, in terms of enabling those schemes, umbrella companies play a very large part in the current market.

We have extensive powers for tackling promoters, and the Government have recently announced further powers to enable us to move more quickly in particular against them. We are using the full panoply of those powers, ranging from criminal investigation and prosecution through to using insolvency law and the Advertising Standards Authority to try and drive promoters out of the market. That is our aim.

Q3 **Sarah Olney:** Is there anything to protect taxpayers who have unwittingly and unknowingly been sold an unlawful scheme?

Jim Harra: There may be things in the regulatory environment to protect taxpayers if they feel they have been wrongly advised, and there is also regulation of employers. Just yesterday, the Government published a call for evidence on what is required to ensure that umbrella companies in particular maintain high standards, not just in relation to tax compliance but in relation to all aspects of employment law as it relates to their employees.

The Government are committed to having a single enforcement body for the labour market and enforcement that will do that. There is no protection in tax law, really, because tax law is simply about determining the liability, but there is obviously protection in the wider regulatory sphere, and the Government have recognised that they need to look at doing more in that area.

Q4 **Peter Grant:** During the Second Reading of the Finance Bill last week, in the summing up, the Minister mentioned the efforts the Government are making to track down and deal with the promoters of loan charge schemes. She commented that unfortunately, most of them are offshore, mainly in the Isle of Man, which gave some people the impression that it was more difficult to first of all identify, and secondly bring to book, potential tax criminals living in the Isle of Man. I subsequently got a letter from the charity TaxWatch, which set out in significant detail how that is not the case, and that if the target of your attention can be identified as somebody on the Isle of Man, there are sufficient legal provisions in UK law just now so that the fact that someone is on the Isle of Man in these circumstances does not allow them to hide from you. Is that fair?

Jim Harra: My view is that there is no hiding place from us. Clearly, the promoters basing themselves offshore, and the efforts they make to put corporate structures in front of themselves, are designed to try and make life difficult for us, in terms of obtaining information and obtaining access to them. However, we fully make all efforts to bear down on them, and the fact that they are offshore does not deter us from doing so, but it is the case that first of all, those 20 or 30 promoters are not in any recognised tax professional body and often do not really care about professional standards towards their clients, never mind towards HMRC. They are extremely aggressive and determined people, and it is a bit of an arms race with them to bring them to book.

However, for example, where they have been selling online, we have worked with the Advertising Standards Authority, and as a result of that we have managed to shut down websites and get claims removed from websites. You will now increasingly see that whereas in the past, they might have advertised "We can get you 85% of your income, net", you will increasingly not see claims like that, because they know that we are bearing down on that. We also litigate if they do not disclose their schemes, because we have seen a trend in recent years for promoters to resist disclosing their schemes under DOTAS—disclosure of tax avoidance schemes—rules, and it is very important to us that we get that disclosure, because it tells us who is using the schemes and gives us information. We have been taking action to force them to disclose those schemes to us, so they are not beyond our reach, but they do make every effort to hide behind structures and placemen in the UK.

Q5 **Peter Grant:** As well as the work you are doing to close down schemes that are being promoted just now, there is still a big feeling of injustice out there among people who individually might have been quite well off, but are small fish compared to the promoters, a lot of whom suffered very substantial financial damage, and much worse in some cases. These people still think that the promoters who sold the schemes to them are getting away with it, and nothing has happened to them.

Is there anything more you could do to publicise the successes that you do have, possibly anonymously but ideally by naming and shaming, so that when you are able to close down an illegal promotion, you will be able to litigate and recover some of the tax? When you prosecute, for example, why do you not make a much bigger song and dance about it, so that the smaller individuals who have lost out, such as the self-employed people, can at least see that effective action has been taken against the real con men?

Jim Harra: On transparency, yesterday we published our second annual review of the tax avoidance market, which gives information on what we are seeing in that market. We do have powers to disclose information on promoters, and we have recently taken steps, with the Government, to ensure that we can do that more quickly than we have done in the past. Previously we had to gather quite a lot of evidence before we could disclose, by which time, of course, use of the schemes is ramping up. We want to warn off potential users as early as possible, including by naming promoters and their schemes.

In the meantime, we have been using the data we have to try to identify as quickly as possible the people who have got into avoidance schemes. We contact them, tell them that we believe they are in a tax avoidance scheme and offer them help to get out. That is a change in our operational approach, because I think that in the past we would have opened an inquiry and picked a lead case, leaving the follower cases sitting in abeyance while we pursued that lead case, and it could take us quite a long time to get that through the tribunals and courts. In the meantime, as you say, people have been building up tax bills, and often they are not kept informed by the person who is supposed to be representing their interests. I think we have learnt from that and we are trying to do it as quickly as possible.

Chair: I think all of us who have constituency cases on this will be grateful for that change of approach.

Q6 **James Wild:** I have a constituent who made a complaint about the loan charge and the fairness with which he was treated. At the end of August he received an acknowledgment from HMRC that the complaint had been received. Last week, three months later, he had a letter saying that his complaint had not been considered in time and that there would be a further delay in replying. Clearly, the delay that he is facing causes more stress for him and his family, so could I ask you, if I provide the details separately to this meeting, to look into the case and make sure it is looked into as soon as possible?

Jim Harra: First, I would like to offer an apology now, because it should not take us that long to look into a case. If you give me the details, I will by all means look into it.

Q7 **James Wild:** Do you get MI data on how many loan charge complaints have come in and how quickly they are dealt with?

Jim Harra: Yes, it is part of our general complaints data, and generally we most certainly do not take that length of time to deal with complaints. I know that some of these cases are very complex and it can take time to look into them, but I will find out in that particular case what the delay is.

James Wild: Thank you.

Q8 **Chair:** Just to be clear, you do actually record complaints that are directly related to how the loan charge is being dealt with.

Jim Harra: I am pretty confident that we do—

Chair: Ms MacDonald is nodding. It used to be her responsibility.

Jim Harra: We have a very comprehensive complaints database in the Department, including the causes of the complaints.

Angela MacDonald: Not only do we do that at an operational level, so we are getting operational data, but we pull out themes in the complaints, as part of our monthly leadership conversations, so particular topics are pulled through to be discussed. We are very active on complaints for whatever topic, but specifically we have information on the loan charge.

Chair: I am sure that Mr Wild will keep us posted on that, so that we can see whether there is a trend. Ms Olney has a question on a slightly different subject.

Q9 **Sarah Olney:** Mr Harra, constituents employed in the creative and cultural sector have told me of the impact that IR35 is having on their ability to be flexible, to move around and to do lots of different things—and not just performers, but technical staff. They think it is having a fairly damaging impact, because it is removing the flexibility they used to have. Have you done any analysis of the impact that your interpretation of the IR35 rules is having, particularly on the creative and cultural sector, which is a really strategic sector, because it is having a disproportionate impact? Obviously, it affects other sectors—we know about IT contractors, for example.

Jim Harra: The IR35 rules have been in place for 21 years. They are not intended at all to affect flexibility in the labour market; their intention is to make sure that if someone works like an employee, employment taxes are paid in relation to their income. Obviously what has changed since 2017 are the administrative procedures for making sure we get that tax, following many years of low levels of compliance. We are monitoring and evaluating what the effect of those changes is, in terms of both whether they are working in tax administration and whether they are having any wider impact. They should not affect the ability of people to work flexibly and move from engagement to engagement, because they relate purely to how much tax they have to pay. People can continue using their own personal service company if they wish; or, people are increasingly engaged by umbrella companies and then, through an agency, moved to the engagers who want them to work for them for a short period of time. My own department, like other engagers, makes use of that.

This is something that we are monitoring and keeping under review, and we would want to help industry if anything is causing it difficulty in the way that it is administered, but it should not have the kind of effect that you say people are saying it has. Obviously in the creative industries, and particularly broadcasting, there has been quite a lot of case law recently about what people’s employment status is, which is clarifying what the law means in that area. That has been a particularly challenging sector, out of all the sectors, for us to get right.

Q10 **Chair:** Thank you very much for that, Ms Olney and Mr Harra. We will of course be looking at IR35 in more detail in 2022—the NAO is looking at it at the moment—so gird your loins, Mr Harra, for some detailed questions on that, especially when you think of some of the constituencies we represent between us.

I want to move on to what has happened to the tax take in the last year. In 2020-21, as we highlighted at the beginning, you had a very challenging time. The pandemic hit; it was challenging for your department, challenging for the country and challenging for taxpayers. Although it was outside your control, how did you seek at that point to try to maximise the tax take that you would normally expect to get?

Jim Harra: We had to change our priorities during that year in particular. Our first priority was to deliver the covid-19 support schemes, our second priority was to deliver a smooth transition from the EU and the third was to continue running the key parts of the tax system that enable people to pay their liabilities but also receive their entitlements. But that did mean that we were stretched, and there were certainly areas of our regular services where you could see, particularly after quarter 2 of last year, the service level starting to reduce. But we did, for example, successfully manage the self-assessment peak and enable people to carry on paying their taxes.

Q11 **Chair:** When you say successfully manage, there must have been challenges nevertheless, because you had staff pulled off to do all sorts of things.

Jim Harra: There were two challenges. First, as you say, we had key staff pulled off on to other things; but also we know that, outside, taxpayers and the agents who supported them were facing their own challenges as well. For example, if you look at self-assessment filing last year, we postponed the late filing penalties for a month, till the end of February, because we expected, and indeed saw, a reduction in filing on time at the end of January. An additional 685,000 returns came in in that extra month that we gave people, so overall the level of filing stayed up.

Q12 **Chair:** So, combining the end of January date and the end of February, you were about where you should be, so that month's grace was enough.

Jim Harra: Yes. People just needed a bit more time and a bit more help, but actually the tax system really ran last year and brought in the money that it should. Obviously the receipts were down on the year before, although they were up on what the OBR had forecast they would be. The reduction in receipts is due to a combination of two things: first, the impact of the pandemic on the economy, and therefore on the underlying tax base, but also some policy decisions that were taken, both to reduce taxes and to defer the payment of taxes. We don't have any indication that there was a change of taxpayer behaviour in that year in terms of compliance levels. We will obviously measure the tax gap in due course, but we believe—

Q13 **Chair:** We will come to that.

You talked about some of the special measures—the tax cuts that were introduced—but, as the NAO highlights in its good summary in figure 13 on page R39 of part two, the outturn, or the facts that you were able to report, are not available in most cases. That includes the stamp duty land tax cut, reduced VAT rate, VAT zero rating for personal protective equipment—I will not go through the whole list. Why do you not yet know what the real impact was against your estimate?

Jim Harra: We have some information. At the time that this was written, there was a certain amount of information, and there is a bit more now. If you take stamp duty land tax, that requires us to analyse property transactions which, of course, were not being—

Chair: Yes, so there is a time lag on that one.

Jim Harra: Yes. But we have a good estimate of how much VAT, for example, was not collected as a result of the reduced rate that was put in for hospitality. We have a good measure of how much the—

Q14 **Chair:** When you say "a good measure", can you point us to how you are evaluating that and what measures—

Jim Harra: In terms of what its impact was?

Chair: Yes.

Jim Harra: If you take hospitality, we know how many firms benefited. I think it was about 150,000.

Joanna Rowland: Yes.

Jim Harra: About 2.4 million employees were helped by it. We do have a certain amount of information, but whether you can evaluate in isolation the benefits of that to the sector is quite difficult, because alongside that they were getting bounce back loans, furlough support—

Q15 **Chair:** There is quite a lot of politics in it for you, actually. You are HMRC, and you do not have a Minister heading your Department. There is a huge political discussion about whether these things worked and how you evaluate them. Is there political pressure around how you evaluate them? Are you working up your own methodology to see if you can work through those challenges?

Jim Harra: As a tax administrator, what I am primarily interested in is, "What was the tax that was due and did I get it?"

Chair: Very good. I am glad to know that you have your mind on the prize.

Jim Harra: The policy decision to have a reduced rate, and therefore to forgo tax, as a tax administrator, is not a matter primarily for me. At the time, however, a lot of effort was put in, particularly by Treasury officials but also by HMRC officials as well, to make sure that we were able to advise Ministers on what would make a difference and what the scale of that difference would be.

Q16 **Chair:** You mentioned the tax gap. Where is your latest thinking on the impact of the pandemic on the tax gap? You have just presented quite a positive picture—ordinary taxpayers put in their returns, and you got the tax in as far as you are able and you can monitor the policy decisions, but you don't have the figures yet—but what about the overall tax gap?

Jim Harra: At this stage there is no evidence to indicate that the pandemic caused a change in people's behaviour in terms of returning accurate amounts of income, for example. A key risk to the tax gap is obviously the level of indebtedness, because if we do not collect a debt, that is recorded as part of the tax gap, and we obviously have a much higher level of indebtedness than we would normally have. If there is one area of the tax gap in which I would expect to see some movement, it would be in non-payment.

In some areas where we did see very significant reductions in the tax take, we are able to see independent evidence that points to that being correct, and not being an indicator of non-compliance. If you take air passenger duty, for example, where it really dropped very dramatically, and if you then look at the information about passenger movements on aircraft, you can see it almost completely matches the percentage reduction in take. The same goes for hydrocarbon oils, where we saw a big drop in excise duty collected from that, but if you then look at the statistics about travelling on the roads, you will see that it pretty much matches.

There is quite a bit of independent data that points to the reductions in tax take being a genuine reflection of what was going in the economy, rather than a change in people's behaviours in terms of tax compliance.

Q17 **Chair:** Looking ahead, because you will not get the full impact of it, of course, because of the time lag in collecting data, what are your projections for next year?

Jim Harra: We do not forecast the tax gap; we measure it afterwards.

Q18 **Chair:** You must have some working understanding of where the risks are.

Jim Harra: First of all, much of the risk in the tax system remains unchanged. We obviously need to make sure that we manage the compliance risks in relation to the covid-19 schemes. We need to make sure that we detect and recover error and fraud where we can. We also need to make sure that where people received taxable payments through covid-19 schemes, the compliance risk of those not being returned to us correctly is managed. We are doing a lot through education and guidance at the moment to ensure that tax agents and taxpayers know what they need to do in respect of those.

Otherwise, our main movement in relation to compliance is to get back to a normal way of managing taxpayer compliance. During 2021 we suspended some of our compliance work if taxpayers weren't able to cope with the inquiries, but also because we were redeploying our resources to other things. You can see that reflected in the compliance yield we collected that year. That will go right through to the end of this financial year as well. Our aim for next year will be to get our compliance yield performance back on an even keel.

Q19 **Chair:** We will come to that in a minute, but you mentioned indebtedness, which is obviously a big issue. A lot of people are very pressed. You are a primary creditor. Are you top of the list nowadays?

Jim Harra: I would imagine so, yes.

Q20 **Chair:** Even on a generous reading, if you give people time to pay because they can pay, but perhaps not immediately, that does mean that there will be a time lag in some of the payment coming in. Do you have a projection of the impact on the Exchequer and the tax take of that level of indebtedness?

Jim Harra: Just to give you some context, going into the pandemic, our total debt was about £22 billion, which was a pretty standard figure. It peaked in August 2020 at £72 billion. By the end of the financial year, that had gone down to about £57 billion. It is now under £44 billion, so the trend is in the right direction. I know we will have a more detailed hearing on debt in the new year. Much of that increase in the debt balance was a result of policy decisions that were taken to allow people to defer payment of VAT.

Q21 **Chair:** You think most of that was deferment, rather than—

Jim Harra: Yes, it was.

Q22 **Chair:** Of that £44 billion, what would be down to deferment?

Jim Harra: I would have to see what the make-up of the remaining balance is, but certainly the increase we saw from March to August 2020 was largely down to deferral. When we have started to try to collect that VAT and self-assessment debt after the deferral period, we have seen a pretty good payment record. The vast majority of both of those have now either been collected or gone into an agreed time-to-pay arrangement. Provided people comply with those terms, we will get that back. There is only a relatively small amount—about £0.3 billion for VAT and £0.3 billion for self-assessment—that is still not paid and not in a payment arrangement.

Q23 **Chair:** Typically, how long is one of those payment arrangements? I am just trying to work out the time lag for getting that in.

Jim Harra: Normally, our payment arrangements are 12 to 18 months, but we have no limit on how long they can be. We did have a standard offer that people could self-serve online, which I think was 12 months. That is where the bulk of the payment arrangements are, but anyone who could not cope with that was able to come to an adviser and get a bespoke arrangement. Some of those will be for longer.

Q24 **Chair:** Was that online thing new?

Jim Harra: It was new in 2018/19

Q25 **Chair:** So basically, people have voluntarily said, "I can't pay, but I will log on and offer to pay a certain amount each month."

Jim Harra: Yes, that is correct.

Chair: And they did that?

Jim Harra: Yes, they did.

Q26 **Chair:** So this is a potential business saving for you, is it?

Jim Harra: I am old enough to remember when we brought in time-to-pay arrangements, which was during the foot and mouth crisis many years ago.

Q27 **Chair:** How many crises have you seen through, Mr Harra?

Jim Harra: At the time we were, as a tax administrator, quite sceptical about what would happen, but what we have always found is very high compliance rates with time-to-pay arrangements.

This time around, we were therefore very comfortable about putting the self-serve service online. It helped taxpayers in two ways. First, they did not have to get in a queue on a helpline to speak to someone, but also, while we are very nice people, that is not necessarily how taxpayers always think of us when they are in debt and—

Q28 **Chair:** A bit of an advert there for your being very nice people.

Jim Harra: So an online service that meant they did not have to deal with an adviser probably suited some people. The take-up was very good.

Q29 **Chair:** The fear of the tax official drove people online.

Jim Harra: I think we have to accept that sometimes.

Q30 **Chair:** Smile here more often, Mr Harra, and people will see the benevolent side of the tax official, I'm sure.

You talked about returning to compliance levels. Mr Grant will come in in a minute in more detail, but you have to recruit staff to improve compliance. How is that going?

Jim Harra: In terms in the resources available to us, we are pretty much on plan. We have about 1,400 contingent workers in the department, rather than people we have recruited. We have used that as a bit of flexibility during the year to make sure we have the resources that we plan to have. We are in constant recruitment and will be bringing in several thousand more people, for example, in January to go through particular compliance training, so it is never ending.

Q31 **Chair:** Several thousand?

Jim Harra: Yes, I cannot remember the exact figure.

Angela MacDonald: We have put about an additional 3,500 people into compliance this year.

Q32 **Chair:** Some of those are from internally?

Angela MacDonald: Yes. Typically, about half the people who would come into the compliance group are people who are already somewhere else in customer services, because it is a great career progression to move into professional taxation. A lot of our people will come into service jobs to then move over.

Q33 **Chair:** So it is a promotion.

Angela MacDonald: It is definitely a promotion, but it is also a start of a career journey that many of our colleagues, once they are in the organisation, choose to take.

Q34 **Chair:** So that is internal, but you're backfilling those.

Angela MacDonald: Yes, we are backfilling. We will typically lose about 3,000 a year in customer services. That is pretty standard and pretty much in line with other industry percentages. Usually, roughly half of those we will lose outside and about half will usually move into compliance jobs. That is what we saw last year and also what we are already seeing this year.

Q35 **Chair:** You sound remarkably unconcerned about having the right people to do this.

Angela MacDonald: I am never unconcerned. It's definitely true to say that the labour market is tougher at the minute. I speak to many people from other organisations, and it is quite challenging to recruit, but we are a great employer, as the civil service—

Q36 **Chair:** Another little advert for HMRC. So you are all nice people and it is a great place to work.

Angela MacDonald: We are. We are very nice people and it is a great place to work, definitely.

The real resourcing challenge for us is how you keep skill levels up. One of the challenges we have had over the last 18 months hasn't only been, "How do you keep the resource levels constant?", but about the volume of retraining that people have been through—retraining to go on covid; we retrained 3,000 people for all the changes for the EU; and we have had some changes with the different kinds of volumes on some of our tax activity. We have faced two real challenges that you have got to manage when it comes to resourcing. It is just one of the big things that a great big service organisation has got to be really good at, so we have to try hard at it all the time.

Chair: Great, thank you for that.

Q37 **Peter Grant:** Mr Harra, I know we had quite a detailed discussion about this time last year about the accuracy and reliability of the figures for compliance yield, so I will not over that discussion again, but the reported compliance yield this year was quite significantly down, by about £5 billion or £6 billion. The NAO has reported that that was largely caused by the fact that last year's figure was artificially high. I think you just happened to have a small number of quite significant wins that hit the books last year. Did you actually highlight the fact in last year's accounts that the high compliance yield was a one-off?

Jim Harra: I will maybe ask Justin to say what note we put in our accounts, but it is correct that compliance yield can be bumpy, and certainly if we have exceptional items, we make it clear in our accounts and report that they are exceptional. What we had in 2019-20 was several big litigation cases that boosted yield in that year. I would say that in the following year that was one of the factors for why yield was lower, but the other factor was the fact that during the course of last year we slowed our compliance work and delayed some of it.

Justin Holliday: We didn't specifically flag that last year, but as Jim says, we have a kind of history of big cases coming through. The year before last there were a number and last year there weren't.

Q38 **Peter Grant:** Do you appreciate that people might wonder why, when there is a year-on-year big drop, you point to an artificially high figure last year to explain it, when you didn't necessarily highlight the fact that it was artificially high last year? It could be interpreted as you pointing to exceptional circumstances when it explains why performance seems to have gone down, but not necessarily pointing to it as markedly when it helps your performance to go up. Is that a fair criticism?

Jim Harra: No, I do not think it's a fair criticism. First of all, you refer to it being artificial. It was genuine compliance yield but, by the nature of our work, some of our compliance yield is lumpy. Sometimes you can have large businesses that contribute significantly to the yield: you can have some very large ones, or you can have very large litigation cases, so it can be uneven over time. We would have concluded last year that that was not an exceptional item that required a note in the accounts. I do recall that a few years ago, we did have one item that was so exceptional that we did not include it in our compliance yield—we put a note in our accounts instead—so we do make those judgments.

Q39 **Peter Grant:** Looking at the analysis you have given on pages 42 and 43 of your annual report in particular—I appreciate that the 2021 figures were significantly impacted by covid—and the figures for the amount that you spend on compliance in each of your client groups, if you take the individuals and small businesses together, your compliance yield back is almost exactly 10 to one. You spend £890 million, and you get back £8.9 billion.

If you look at the equivalent figures for the very wealthy individuals, which I think is somebody with at least £2 million at their disposal, or larger businesses, the amount spent on compliance is less than half what it is for the wee guys—it is £416 million—but that has a payback of almost 40 to one, £16.2 billion. Doesn't that suggest that you are spending a lot of resources chasing the small folk for what is a relatively small amount of money, although in absolute terms still a lot, when possibly if you concentrated more on the big fish, you would get more money in for the Treasury?

Jim Harra: It is very important, when we are deploying our resources, that we do that optimally. One of the key factors in that will be, in the case of compliance, what payback you get from that, but that is not the only factor that we take into account. We do feel it is important that we cover all aspects of the tax gap, and small businesses do unfortunately account for a very large proportion of the tax gap. The traditional way that we have tackled non-compliance in that group is quite expensive, and therefore the rate of return is lower. That is one of the reasons why we are doing Making Tax

Digital, because we would prefer not to deploy as much resource for a relatively low return.

The other thing to bear in mind is that while that is the average yield per person, it does not mean that if you added one more person on, the marginal yield that that person would bring would be the same. There is obviously a tail-off, but we are constantly adjusting the amount of resource that we put into the different directorates, both based on what yield we think we will get and what the risks are in there that we think need to be managed.

Q40 **Peter Grant:** That still does not explain why, if you look at large businesses, you had to chase them for 5.5% of the total tax they paid last year. That was compliance, yet the amount that you spent on compliance for that group was one of the lowest of any of the groups. It was slightly higher than the millionaires—obviously, there are fewer of them.

Does that not suggest that if you put more resources into compliance work with the bigger businesses, who are going to have the ability to hide their affairs from you much better, you would get more money back for the taxpayer than you get by chasing smaller people? Those smaller people should be paying their taxes—there is no argument about that—but it does sometimes appear to a lot of my constituents that you are more enthusiastic and more determined to chase the small folk who cannot afford the good lawyers than you are to chase the big folk who, as it turns out, are trying to hold back almost 5.5% of their tax from you.

Jim Harra: First, the 2,000 largest businesses are quite heavily policed by HMRC. At any given point in time, about half of them are under inquiry for tax compliance risks. They each have a customer compliance manager, because our strategy for managing their compliance is to have quite an intensive relationship with them whereby we understand what they are doing all the time.

If you look at the yield and the residual tax gap, you will see that we recover a much higher proportion of the large-business tax gap than we do of the small-business tax gap. I think, roughly speaking, we recover about half of all the large-business tax gap, which is the yield figure that you see, whereas it's a much smaller proportion of the small-business gap. I take the point, but the vast majority of small businesses don't hear from us. We don't inquire into them; they self-assess and we take their payment. We risk-assess them, and if everything is fine, we just leave them alone, whereas the vast majority of large businesses hear from us very frequently. I appreciate what the perception may be like, but the reality is that the vast majority of small businesses we don't inquire into; we just leave them to get on with the business.

Q41 **Peter Grant:** Regarding your description of how you ensure compliance from larger businesses, are all the costs of those activities included in the reported £220 million compliance cost, or do you do other things with large businesses that are geared towards compliance but that are not reported as part of the compliance cost?

Jim Harra: Not to any significant extent. There will be other parts of the Department that large businesses get a bit of a service from. Obviously, IT is used. They might get some legal advice. They might get some advice from a policy official who is expert in a particular part of the tax code where we will not have scored them against large business. But the same would apply to small business as well. This looks at the direct resources in the directorates that are applied to those groups, but they will have access to some other things, like legal services, as I have said, that would not necessarily get captured in here.

Chair: Thank you, Mr Grant. We now go to Mr Craig Mackinlay.

Q42 **Craig Mackinlay:** I just want to pick up on a couple of bits that you have mentioned so far, Mr Harra. The trouble is that you're in the hot seat for most of these events, so I can't try to spread this among your colleagues!

I had always appreciated that the tax gap was the best estimate of what is lost through error, intentional action or just oversight and carelessness. You added another dimension in what you said. Some of the tax gap is tax that is properly assessed and has come through self-assessment, VAT or whatever else but has just not been collected. This is the first time I have heard that. Are you going to use the same type of rationale? There must come a day when you say that is written off—they have gone bankrupt; it's irrecoverable. Are you going to use the same rationale on debt recovery? I don't know what you use—whether it's two years or three years and so many chasings and then you give it up. Are you going to use the same rationale? What I am more concerned about for this Committee is: are we going to be matching like with like? I have not seen a figure that actually stratifies the loss through fraud and error and the bit that is just lost through non-collection.

Jim Harra: It is actually shown in the tax gap as non-payment. Where debts are written off and that is a loss to us, we record that as part of the tax gap. Those were obviously established liabilities, but they were not collected as a result of that loss, and we would intend to continue reporting that. That figure, I think, will probably have been skewed over the last 18 months by the fact that there has largely been a moratorium on insolvencies, for example. Something we will need to think about is how we present that, because it could have a distorting effect, just a timing effect, which we will need to think through. But it has definitely always been in there under the heading of non-payment.

What we do in our estimate of the tax gap is that we analyse it by reference to behaviour type—non-payment is included in that. We analyse it by reference to customer type: large business or small business. And we analyse it by head of duty—how much of it is VAT or self-assessment tax, for example. We try to give as detailed an analysis of that as we possibly can, for transparency but also for our own purposes in terms of targeting our resources and advising Ministers. Non-payment is definitely part of that.

Justin Holliday: It is probably worth adding that in a typical year, we write off and remit about £5 billion—write off being "cannot collect", and remit being "value for money not to collect". Last year, it was about £1.5 billion that we wrote off and £0.5 billion remitted, so there definitely will be a deferred effect of that, which is caught up in the way that we have provided against the debt balance.

Q43 **Craig Mackinlay:** Following on from my colleague, Mr Grant, on the compliance investigations, I note from the figures provided by the NAO that there have been 29% fewer compliance cases opened over the last year, and 26% fewer closed. That suggests to me that you are doing less, and they are all taking longer—that is just in easy speak.

I understand the pressures you had, in terms of reallocating staff to deal with the various furlough schemes and other covid measures, but we investigated this in some detail when you were in front of us before. If you had a business plan that provided, at best, a 10 to one return on the money that you invest and, even better still, a 30 to one return in some investigations of the bigger and more complex customers, that is something I would pursue heavily until the low-hanging fruit has most certainly been cropped. What are your plans to expand to that? As a taxpayer myself, to think that it is out there to be picked, if we are willing to put enough pickers in the field, has always been a bit of a frustration.

Jim Harra: We made a deliberate choice last year. We felt that there were people out there fighting to keep their businesses and livelihoods going. If they could not cope with our having a compliance inquiry and we were able to defer that without losing tax, that is what we offered to do. Some taxpayers said, "No, I want to get my inquiry out the way," in which case we worked it, but many said, "Yes, I'm delivering food door to door," or whatever it is, "to keep my business going. I really don't have time for this," and we were happy to defer that. As I said, it enabled us to redeploy resources to what our priorities were, but it also helped businesses. That was a deliberate choice on our part, and it is reflected in the reduction of take-up last year, but also in the fact that we did not close cases.

What we did do was make sure that we protected revenues, so that we are deferring revenues here rather than losing them. If we were up against a statutory time limit for opening an inquiry or making an assessment, we went ahead and did that. Also, if we thought there was any serious non-compliance going on, such as fraud, we went ahead and pursued that. Otherwise, for the vast majority of small businesses that Mr Grant was talking about, we asked them, "Do you want us to postpone pursuing your inquiry?" If they said yes, we were content to do that.

Q44 **Craig Mackinlay:** The worry is that after we are back to normal, whenever that properly happens, you will have a certain number of errors and frauds happening on an annual basis. That will not stop post covid; it is going to be a similar amount. It is like a bus stop: people come, and the bus comes along. You're the bus taking the cases away. Are you going to be looking at the current year in normal years in the future? What will you do about these two years, effectively, of fewer cases? Are you going to take the view of, "Well, we'll just have to crack on with the new, rather than reopen the potential old"? I know that in some of them, you will be time barred, through legislation, from easily going back into them unless there is something really serious. Some self-assessment windows will be closing at the end of January, in terms of the year before. Are you going to just give them up and start afresh? What is the plan?

Jim Harra: No, we think that, by and large, the action that we took last year will defer our ability to correct the non-compliance and recover the tax, but it will not significantly involve a loss of tax that we would otherwise have been able to collect. If there was a case that we would have picked up in normal times last year but instead will pick up next year, obviously tax legislation gives us the ability to go back into earlier years, if we find non-compliance. We can go back to the year that we would have inquired into and collect.

What we are doing now is getting back on an even keel, in terms of picking up cases and restarting the cases that we had put on hold. We are confident that, by and large, what we are looking at here is a deferral of compliance yield, rather than a loss. As I say, in cases where we knew that there was a risk that was up against a time limit, notwithstanding our offer to postpone things, we did take action in those cases.

Q45 **Craig Mackinlay:** I don't want to be making our job, or that of the NAO, easier, but I foresee that there will be an excuse for a number of people to say, "Ah, well it was different then because it was a covid year." It is going to be difficult to match like for like, but that is something we will have to cope with when we approach it.

Jim Harra: I think that is fair. We will have to do our best to try and get transparency through that, certainly in terms of how we are performing and the work that we are doing. In the next financial year, I want to be back on an even keel. It all depends how things go, but that is what we aim for. We know that compliance yield will continue to be depressed in the current year, but by next year I would very much hope that we would have normal volumes of work and that we would be pursuing normal timelines for clearing them. You are right; there will be distortions, like the one that Mr Holliday mentioned. We will need to find a way to present them and be clear about it.

Q46 **Craig Mackinlay:** Perhaps we can come to Ms MacDonald. I am always wary that Mr Harra ends up with the lion's share of the questions. The whole strategy of the estate for HMRC, with the moving into the super-centres, always causes a discussion on the Floor of the House. For example, when somebody's more minor tax office ends up closing, and it has been a solid, well-paying employer and well respected for many years, it always causes upset. We have obviously seen a very big change in work patterns, with homeworking. I can imagine that all your staff are not back in office properly. There is a lot of homeworking going on. I want to examine some of those issues a bit later on, probably under customer service. Do you think the strategy you have embarked on—with the super-centres, long-term leases, and a lot of money in them—is now holding up and is right for the future?

Angela MacDonald: Yes, I think it absolutely is. We embarked a number of years ago on this changed strategy for our property, because one of our long-term property deals was coming to an end. It was part of making ourselves fit for the future. What we now have—and have nearly finished with—is an incredibly high-grade, high-quality estate, into which, quite rightly, our people will go. Who would have thought, when we started this off in 2015, that hybrid working would be a large-scale feature of any organisation, let alone the civil service?

One of the real advantages that we have found as we have started to think forward about our future plan is that a great, high-quality estate is actually easy to offer to many other Government Departments, as part of the broader moving of roles outside London and into other parts of the UK. My local regional centre, for instance, is Leeds. We have put 8 departments on to one of our floors which, because of hybrid working, we will not need. What we have been able to do is make space very easily and speedily available to other Departments. As an easy example, the Department for Transport is in there. Those Departments are able to come in and pursue their own property strategy as we seek to move around. I think that there is an incredibly positive move here, not just for HMRC, but for the broader civil service and its delivery of services from a wider range of UK bases.

Q47 **Craig Mackinlay:** So your new plan is for hybrid working, probably in perpetuity to some extent?

Angela MacDonald: Yes; as an employer, just like any other, what we have discovered throughout this process is that technology offers a real availability to deliver jobs—not all jobs, as there are definitely some tasks that must be office-based, due to the nature of the task and what must be delivered. But we can do that, which is great for us. It means we need to occupy less property, but it also makes us competitive as an employer. I get the opportunity to spend time with the leaders of other service organisations in both the private and public sector, and what we are seeing in HMRC—around the expectations of our employees—is the same as is being expected everywhere.

Q48 **Craig Mackinlay:** In terms of your ambitions, perhaps here you have been saddled with buildings that you might not have chosen in 2015—

Angela MacDonald: I wouldn't say "saddled with" at all; I would say that what we've got is—

Craig Mackinlay: Sorry—inappropriate choice of word there. But you have built them and you are hoping other Departments will come. Are they stepping up to the plate and willing to come?

Angela MacDonald: Definitely—I think we have a queue. Justin might help me out here. We could hand over far more—we are basically trying to keep people out. We have a queue.

Jim Harra: First, HMRC has not just been implementing HMRC regional centres. We have been implementing phase 1 of Government hubs. All of our regional centres are effectively in hub locations. We have already let about 28,500 square metres of space to other Government Departments. By next autumn, we expect that to be about 41,000 square metres.

Q49 **Chair:** What percentage is that?

Jim Harra: It is the combination of about 7,500 officials. We have about 65,000. So that is the proportion, if you like. I can get you the figures.

Chair: Of the total space you have got, how much is that?

Jim Harra: I don't know.

Chair: Maybe Mr Holliday could write to us about that.

Q50 **Craig Mackinlay:** Back to you, Mr Harra, on some issues of compliance.

I need to know the plan by which you will be accurately assessing, for us to look at, the tax gap in terms of what perhaps has not been looked at during the covid period and what will be looked at in the post-covid period. I can see we are going to have some great difficulty in saying that was a really good year and you have done exceptionally well, because we have had a gap in insolvencies, as Mr Holliday said; we haven't had too many zombie companies; we have probably come out of covid, if it doesn't get worse again, in a state I didn't foresee. I thought we would be in a worse place, honestly, and I am usually an optimist. We have come out in a good place. The level of insolvencies has not happened. We just need a bit of commitment that the tax uncollected—I know you have about 2,000 staff potentially being recruited for this. How are you going to focus on that, and how can we look at that to be sure that the figures that come out can be matched year on year and all the rest of it? It is a bit of an abstract, because we have a lot of timing differences going on here. So there is tax assessed, tax to be collected normally a bit late, a few laggardly ones, and what are the unusual covid ones. How can we assess that?

Jim Harra: Obviously, we will be looking at how we can present as clear a picture as we possibly can. There will be some distortions that we need to work through, but as I said, in terms of our level of activity, we are getting that back to normal now and I would expect that to be normal in the next financial year. There is obviously some deferred work in terms of cases that were put on hold and are restarting, where we will have to see, on a like-for-like basis, how we identify what the performance is. When it comes to the tax gap measurement itself, I think that should be relatively clear, trend-wise, with the possible exception of non-payment, where you are going to see that distorting effect that Justin talked about.

Q51 **Craig Mackinlay:** Ms MacDonald, on the estate, you explained very well how it is available to other Departments to come in, how it has been built, and that we have got a little too much space. What if there is a day that comes where you say, "We've got a whole floor—it is a big floor. Other Departments don't want to come"? What will be the strategy for that? Will you be looking at third party rentals?

The whole market has changed in commercial property—I think we are very aware of that. Homeworking is going to apply to HMRC, as to lots of places.

We may be in a different commercial property world in the future. Have you made any assessment thus far of whether you have perhaps bitten off a bit more, for good reasons in '15, than will ever be filled?

Angela MacDonald: If it's okay, Mr Mackinlay, I'm going to offer Justin the opportunity to respond.

Justin Holliday: We had the advantage of being the first mover on the Government hubs programme. As Ms MacDonald explained, we had to move because the Mapeley contract was coming to an end, but we took that move and it did mean that we were at the front of Government hubs. If you look at most of the cities we are in, we have got the newest, best, most modern accommodation. We do rely on the controls operated by the Cabinet Office, who look at all new property deals and all new lease extensions, to make sure that people who could be pointed at our buildings are pointed at our buildings. That is working well at the moment. We are open to any—

Q52 **Craig Mackinlay:** Can I stop you there a minute, Mr Holliday? Do you think the Cabinet Office is actually co-ordinating that well enough? It would know that you have 4,000 square feet of space. Would the other Departments that might be thinking of relocating know that your space is available? Can I be sure of that?

Justin Holliday: I am probably not often very complimentary about Cabinet Office controls, but this is one that works and is useful to us. I do think it is working. It needs to be kept on top of, and Cabinet Office needs to keep making it work, but it works at the moment. In relation to your question about—

Q53 **Chair:** Just to be clear on the controls, they are forcing people to you, rather than encouraging them to rent somewhere else. That was always the plan, but there were not many Departments keen to move in before the pandemic.

Justin Holliday: Yes, there is a strong intent to rationalise Government property. That needs some central control, and that is being exercised by the Cabinet Office in a broadly sensible way. Coming back on your question about who else we would be prepared to rent to, I guess we have an informal hierarchy—central Government first, other bits of the public sector next, private sector after that. On all our leases, we have the ability to sub-let to people. We would obviously be discerning when it comes to the private sector, but we do have the ability to sub-let.

Q54 **Craig Mackinlay:** Ms Rowland, I understand that you look after software, Making Tax Digital and all these types of things. I have been very close to many Financial Secretaries to the Treasury for many years, and I always ask them this question: what is Making Tax Digital for? I don't want to prompt you in any way, but the story I am given changes with each different Financial Secretary to the Treasury. What is your interpretation of what it is for?

Joanna Rowland: I think there is only one interpretation of what it is for. It is absolutely integral to our 10-year tax strategy, and it is about making tax easier, it is about keeping tax moving with the digital age and it is about making businesses more productive as a result. A number of research pieces are already looking at the impact of Making Tax Digital for VAT. As you well know, we already have a number of customers, and we have had 11 million tax returns in through that portal already. We have already seen, for example, the Enterprise Research Centre say that using software creates up to an 11% productivity benefit for small business. It is all about making tax easier and productivity for businesses—but it is also moving with the digital times.

Q55 **Craig Mackinlay:** There is no question about using the electronic digital interface, either for the taxpayer at home using the HMRC portal to do their annual tax return or for an accountancy practice through whatever software they use; that has been fairly standard stuff for 15 or 20 years now. It is more about this move towards the quarterly Making Tax Digital obligations for the smaller taxpayer. Could you tell me why that is so necessary and beneficial, because I am not sure it ticks the "easier" box? Yes, it is modern and it is digital age, but I am not entirely sure that that is an ambition in itself. It is a statement that, yes, it is modern and we are in a digital age, but what is beyond that?

Joanna Rowland: Our research shows that, for 80% of our customers who responded, Making Tax Digital is either very easy or fairly easy. So, we already have evidence that it is ticking that box. The other benefit for the tax system, and one of our main benefits, is that, as Jim said, the self-employed make up a huge proportion of the tax gap, and a large amount of that is errors. We have all heard, and those of you in the accountancy sector know, stories of people emptying a year's worth of receipts on their accountant's desk and saying, "There we go. Could you do my tax return?"

Q56 **Craig Mackinlay:** I would say that error is in HMRC's favour, because half of the bits of paper have been lost throughout the year, going out the side of the white van.

Joanna Rowland: But we're about getting tax right for the customer. That is what we are here to do. It is about keeping digital records more frequently, and 48% of businesses that we have surveyed are actually keeping them not just quarterly but as a regular daily part of their business, because they are now finding that easier. That is by far the best way to get tax right.

Q57 **Craig Mackinlay:** In terms of the self-employed—the plumber, the builder, the small shop owner, or whatever type of self-employment—I can see that. But I have had concerns about the small, retired person with one rental income. How will that help them? I do not suppose they actually took part in your survey, because I expect it would have been an online survey in the first place, and they may not have been digitally enabled to take part.

Joanna Rowland: Obviously our evaluation to date has been on the VAT element of Making Tax Digital. We have recently announced that the income tax element will be delayed to 2024. That is in strong consultation with our customers and with representative bodies, who wanted to give customers and us more time to prepare for the income tax change. There is a threshold in that, though, of £10,000, so it is highly likely that someone with one property would not be part of the mandated sector.

Q58 **Craig Mackinlay:** They will if they are on a state pension.

Joanna Rowland: It is self-employed income, so if that is under £10,000, they would not be part of Making Tax Digital. If they are, we are very keen to support people through the transition, and those with the most simple tax affairs are likely to have free software available, and of course all the guidance available from us, as well as the tax and accountancy community.

Q59 **Craig Mackinlay:** Do you think HMRC are getting themselves ready to give that support to the smaller, unaccompanied simple taxpayer? Do you think you have got the resources available to give them the support that they need? Is the free software being written for them to make this easy, or will they have to buy it from somewhere? What is the plan?

Joanna Rowland: The free software would be through the software market, not delivered by us. A feature of MTD is that software—

Chair: Sorry, MTD is Making Tax Digital.

Joanna Rowland: Making Tax Digital, thank you. It is all about involving the software industry, who are renowned for creating a range of software for a range of customers. We have got pledges from the industry—just as we have had for VAT—that they will provide free-at-point-of-service software for those with the most simple needs. Of course we are gearing up to give the support to the customers, but we are not alone. We are very pleased that we have a range of stakeholders on board, ready to give that support to their customers, their clients, as well. More recently, stakeholders like the Federation of Small Businesses have been working with us to look at how we can support the transition.

Q60 **Craig Mackinlay:** I am not so concerned about those in business, perhaps with the support of the FSB, with banking facilities. I saw today that Lloyds Bank are offering some sort of Xero-type software for a fiver a month. That is all fine if you are in business. I am more concerned about the support for the unsupported taxpayer, who has never had to worry about this in the past. They have done their annual tax return, which is all pretty simple for them. They might use the HMRC interface, or a friend or family member might do it for them. I still have not had the answer as to why we need those simple taxpayers to do something every quarter. I have had a new answer this year from a new FST and a new Chancellor, and you have not mentioned it yet.

Chair: Trick question!

Craig Mackinlay: Maybe Mr Harra might know what the answer is. The point I am making is that it seems to be an evolving answer, because nobody really can tell me why you are doing this.

Jim Harra: I think I know why, but I will also talk about what the narrower business case for Making Tax Digital is. To reduce those errors, we want people to use software to keep their records, and we want them to keep their records up-to-date and not just do that once a year. Quarterly reporting will give us evidence that their records are being kept fairly contemporaneously, as well as giving us some information that will enable us to play back to taxpayers how their tax liability is building up over the course of the year, to assist them. Because one of the pieces of feedback that we get from self-employed people, in particular, is that they are often caught by surprise by their tax bill, because they have not had a good view during the year of how that is going. Quarterly reporting will force people to keep their records fairly contemporaneously, but also give us an opportunity to play back to people a sort of mounting picture of their tax liability over the course of the year. Is that what you would have said?

Joanna Rowland: That is what I would have said.

Q61 **Craig Mackinlay:** That is not the latest answer. No, the latest answer from the Chancellor is that, because of covid, we would have had a much better idea of the support that was needed—it's that one.

Jim Harra: Well, yes. I am on record as saying that as well.

Chair: Good. It's nice to know that you are aligned.

Jim Harra: And I think I have said that to the Committee before.

Chair: You have indeed.

Jim Harra: We have very regular information about employees and their income—we get that every time the payroll is run.

Q62 **Craig Mackinlay:** Maybe it is me being a bit of a Luddite. I think that when RTI came in, everyone was going, "It's the end of the world. It's going to be aggravation" and, let us be honest, it settled in.

Jim Harra: It was our saviour when we were creating the furlough scheme. For self-employed people, we only get information once a year, and we get it very significantly in arrears. That does mean that if we then have to swing in and do something like we did with the self-employment income support scheme, we do not have real-time or up-to-date data about those people. There were some people whom we were not able to help, particularly in the first three phases of the self-employment income support scheme. We were able to bring in about half a million extra people in the last two phases because we were able to move to another year's tax returns—the 2019-20 tax returns.

So, was that a reason originally for MTD? No, it wasn't. But does real-time data enable me to offer a better service to customers, including a support response if, God forbid, we are ever called on to do it again? Yes, it does.

Craig Mackinlay: Okay. I will move on and let someone else in shortly, but I remain unconvinced. The small, retired taxpayer with one rental property who has paid their July payments and their balancing payment in September in advance of January knows where they are—there is no arrears and they pay it. That is probably a not uncommon situation for many hundreds of thousands of taxpayers. I have yet to hear from anybody how being modern, being sort of digital, is going to help them or help you. Because it feels like they are being made a servant of you rather than HMRC being a servant of them.

Chair: Or you could say that is progress, but—

Q63 **Craig Mackinlay:** Well, yes. Ms Rowland, let's turn to another aspect of the whole digital roll-out. As you know, I am in practice and we will later discuss the customer service that we have had over the last 18 months, which I must say has been truly, truly woeful.

Chair: Okay. Let's park that for the moment.

Craig Mackinlay: Yes, but it is on the computerisation—people working at home. Have people been able to access from home all the areas of HMRC that they need to access?

Joanna Rowland: Angela or Jim would probably be better placed to answer that. I will just start by saying that we—

Craig Mackinlay: When all this chaos happened, people said, "Right, you are going to work at home—you can't come into the office" and you did something.

Angela MacDonald: There were about 5,000 people's worth of jobs where it was not possible for the work to be done at home, and those people were in our offices all the way through. For everything that could be done remotely, to comply with the overall rules that were in place, we sent our colleagues home just like everybody else did. Now, it is a very long time since we had bits of real post in our offices; everything is scanned and digital. And whether or not that colleague would be sat at an office desk doing it or sat at their kitchen table doing it, the delivery mechanism for their work is the same. So if it could not be done remotely, those colleagues were in; and if it could be done remotely, those colleagues, to keep in line with the rules, worked from home where that was possible, because that was the instruction.

Q64 **Craig Mackinlay:** I get that, but I am afraid that I have seen too many letters this last year saying, "We have not been able to do this because of covid." Was there something wrong with the interface for people working at home—maybe for perfectly acceptable security reasons, firewall reasons or whatever—although if they had been in the office, they could have accessed everything they needed? It seems to me that they could not quite do everything because they were at home. Was there a problem with the interface?

Angela MacDonald: No, there was not. I think the challenge is about the allocation of resources across the different topics rather than, "I am sat with task A in front of me and I cannot do it." Bear in mind that we chose to prioritise a number of areas to support covid first and then EU exit, as Jim mentioned. That meant that some work was put to one side, which meant some of that work was not being done. So, because of covid is not "because I couldn't access it"; it's "because we had to manage the work and the resources in the round, that work was not prioritised at that point", whatever might have been the individual item. Does that help?

Craig Mackinlay: It does. That's fine. I will be back on some other things shortly, but—

Chair: We're not going to hold Mr Mackinlay today, as you can tell; he's on fire.

Q65 **Peter Grant:** I have just one question, Ms Rowland. Following up on the answer you gave to one of Mr Mackinlay's earlier questions about the pensioner with a single external source of income, you referred to there being quite easy software freely available, often free of charge. That is what HMRC used to say about online self-assessment and I remember that for about five years I printed off dozens of forms and filled them all in by hand, because none of the freely available self-assessment software actually worked, or if it did work it was only for very specific circumstances.

Is there a danger that you will have to do exactly the same again with Making Tax Digital? If you can foresee that there is, would it not be better just to put it all on the HMRC website now, rather than going through a period of several years of diverting people to commercially available, if free, software that turns out not to work?

Joanna Rowland: First of all, we acknowledge that the online self-assessment experience is not where we would want to be right now. That is exactly why we are improving our services. There are a range of things that we are asking software providers to build in, such as nudges and prompts to help customers to get it right in the system.

I think it would be arrogant of us to assume that we could produce better software than an industry that makes commercial profit out of doing so. Of course, what the industry would hope is that while some of their free software is fine for those with the simplest affairs, those with more complex affairs, or as their business grows, might be tempted to buy a fee-paying version of their software, so it's very much in the commercial interest of the suppliers to make sure the software is adequate.

However, the whole reason for the pilot is so that we can test this. The whole reason we are building in, and have delayed until 2024, is to make sure that the software industry has plenty of time to act on user research and user feedback, and get it right.

Jim Harra: I would add something in relation to that. Obviously we have already done VAT. I feel that if we had gone into VAT with HMRC saying, "We are going to provide the software for this", you would have got a one-size-fits-all software—

Q66 **Chair:** We would have had a lot of complaints in our inbox.

Jim Harra: And the market would not have stepped up. So we had a deliberate strategy of not doing that and we watched very carefully, and a very large number of products came on to the market, serving all kinds of different needs, including free products for people with basic affairs. As Jo says, we will watch carefully—

Chair: I don't know if it's in your defence or not, but as a payroll provider for my babysitters when I had them, the private sector stuff was better than yours, and I switched over mid-year, so there you go.

Mr Richard Holden, very briefly.

Q67 **Mr Holden:** I have just one very quick question, Mr Harra. Paragraph 2.32 of the NAO Report says that Making Tax Digital for Business was initially expected to raise almost an extra £1 billion in extra tax revenue. Then that was downgraded to £480 million, because of the changes in what was going to be added. The actual estimate for the programme now is that you will only generate additional revenue of £265 million, which is a quarter of what you had originally suggested and 45% less than even what was planned in the revision. So how can we have any confidence that the programme's investment life cycle, including the penalty reform element all the way through to 2027-28, will get anywhere near the £2.9 billion that you are suggesting? Is there any danger of it going the other way round?

Jim Harra: I will let Jo come in shortly, because it is her programme, but there were some key policy decisions taken that changed the profile of the benefits. First, originally we intended to go first with self-assessment and then with VAT, and that got reversed. Of course, we have now had a decision to defer self-assessment for a year, to give people more time to prepare.

Those decisions have necessarily had a deferral effect on when the benefits come in, but they have not reduced the benefits that we believe we will get from MTD—they have kind of moved them to the right—and we have already seen the Office for Budget Responsibility validate and certify the forecast of what we believe we will get from MTD.

Joanna Rowland: Just to add to that, obviously Making Tax Digital is about changing habits, so the return on the investment builds over time. On the very latest OBR estimate for the whole scorecard period, the figure you quite rightly quote is for receipts to date. The whole value over the whole scorecard period has actually been increased by the OBR to £3.2 billion, and that scorecard period goes up to 2027.

Q68 **Chair:** Okay, we will keep an eye on that, but well raised. I want to move on to some of the issues around fraud and error. We have obviously had a difficult time, but figure 17 from the National Audit Office shows your most likely projection of all the schemes combined. These are CJRS, which is the coronavirus job retention scheme, the self-employment income support scheme, also known as SEISS, and eat out to help out, which the NAO has decided to call EOHO—eat out to help out is probably easier. Your most likely current estimate of all those schemes combined is around £6 billion, yet your ambition to recover error and fraud losses is £1 billion over two years. It does not seem very ambitious, Mr Harra. Can you explain and unpick those figures?

Jim Harra: First of all, in terms of what we have already recovered, in 2021 we recovered about £500 million through our compliance efforts before the taskforce funding came in. We have also done one-to-many campaigns to encourage—

Q69 **Chair:** Was that mainly furlough?

Jim Harra: Yes, that is from the furlough scheme. We have also done one-to-many campaigns to encourage claimants who we think are at risk of having made errors to self-correct. To date, about £350 million has come in from their responding to that.

Q70 **Chair:** An amnesty, effectively.

Jim Harra: That is all we would recover anyway, if it is an error, and then we expect that the taskforce will bring in about another £1 billion.

Q71 **Chair:** That is £1 billion on top.

Jim Harra: Yes.

Q72 **Chair:** So the total would be £1.5 billion.

Jim Harra: And we continue to encourage people to self-correct, although obviously time is passing and I think you expect to get diminishing returns from that. But certainly, before we would open lots of inquiries, we would write to people to say, "We may be opening an inquiry, and we invite you to have a look at what you did." That gives us payback. We will endeavour to bust those figures if we possibly can, but that is our best estimate of what we think we will recover.

Q73 **Chair:** I am just going with the estimate figures, because the NAO also highlights that your original assumptions, which we have discussed before in this Committee, were that the level of error and fraud would be 5% to 10% for the coronavirus job retention scheme and furlough scheme, and 1% to 2% for the first tranche of the self-employed scheme. But actually, those figures were higher—6.7% to 12% for the furlough scheme, and 1.8% to 3.2% for the self-employment scheme. Eat out to help out went up significantly as well. What did you get wrong? What did you not understand in the first planning assumptions about the behaviour of people that led to those higher-level estimates?

Jim Harra: Certainly for the furlough scheme, our estimate of the most likely level of error and fraud is still within the original bounds of 5% to 10%. You are right to say that the lower bound and upper bound have moved, but the central estimate of 8.7% is still within that. We think our original planning assumption that we used for design and planning resources was actually a fairly good one. You are right to say that in relation to the self-employment scheme, where our planning assumption was that error and fraud would be between 1% and 2%, we are now saying it is 2.5% for the first three phases of that scheme. There are a number of reasons for that, in terms of how it panned out.

Q74 **Chair:** What is the 3.2% figure?

Jim Harra: That is an upper bound.

Q75 **Chair:** You are very confident of your middle bounding.

Jim Harra: There is a significant degree of uncertainty in our estimates, and we will be continuing to update those estimates as more data come in, which is why we have given a lower and upper bound for confidence. But we do have a most likely estimate, which is 8.7% for furlough and 2.5% for the first three phases of the self-employment scheme.

Q76 **Chair:** Over two years, you could try to get that £1 billion back, and you also have the £850 million from that first tranche, so that is £1.85 billion. You are still just over £4 billion short.

Jim Harra: Yes.

Q77 **Chair:** So what is the plan? You say yes—very nice and cool, Mr Harra.

Jim Harra: That is our realistic judgment of how well we think we can do.

Q78 **Chair:** But that is over that period of time. What are you trying to do to get back the other £4-and-a-bit billion?

Jim Harra: We're going to try to get it all back. If you want my estimate of how much we will succeed in getting back, that is what it is. Of course, it is exactly the same with the tax gap. The tax gap is about £35 billion. I am afraid I cannot promise to get it all back. We don't get it all back. If you look at the furlough scheme, for example, where I think we were very successful— First of all, to go back, we were trying to get help to people at the right time, because the effect on the economy would have been catastrophic if we had taken longer to design the scheme.

Q79 **Chair:** We understand. We gave you that credit, if you like, at the beginning. Bank that—you don't get it a second time.

Jim Harra: But we made a big effort to make sure that organised crime could not take advantage of it. We think that the level of organised crime, particularly in the furlough scheme, is very low, proportionally—about 0.3%. That is through our preventing, I think, about 21,000 claims; we blocked those that we knew were fraudulent. For claims that did get through, before we paid them, we made checks on those. Even in the case that got through those checks and we paid, before they could get the money out of the account, we got an account freezing order for £26.5 million on that, so we felt we did a good job at preventing that kind of abuse. However, some aspects of the furlough scheme will, in practice, be very difficult for us to establish. In particular, if an employer was claiming for an employee, but perhaps they were colluding and the employee was in fact working and therefore did not qualify, realistically, without help from employees, that will be quite difficult for us to establish.

Q80 **Chair:** We will come to more detail on furlough; Mr Mackinlay is firing up for that in a moment. The NAO and you highlighted the early self-employment schemes, but you have schemes 4 and 5 as well. What is your range of estimates of fraud and error in those? Have you learned from the first schemes how to reduce fraud and error in later schemes?

Jim Harra: I might ask Jo to come in. First of all, in terms of the basic protections in the design of the scheme, they were equivalent. We used data that we held, rather than allowing people to self-assess. We did that from tax returns. That should keep the level of error and fraud, in terms of quantification, low. However, the eligibility rules were tightened up in the last two phases of the scheme. We will need to look at what impact that will have had on people's behaviour—we do not really know that yet; we will only know that when we have investigated some cases—and whether that had an impact on the level of error and fraud in those phases. We do not have the data so we have not put in an estimate.

Q81 **Chair:** I have a couple of questions. Worryingly, there is a new variant. First, what lessons have you learned along the way? Do you think you have left some of this too late to ever recover the fraud and error, because you are going through and checking claims and so on? Some of it, as you say, you stopped at the beginning—the major organised crime. What would you do differently if you suddenly had to turn around and implement these schemes again in, say, January?

Jim Harra: A learning, which I think we knew at the time, was that the more data you already have, the less opportunity there is for people to make mistakes or to defraud you, and the less you rely on self-assessment, the better.

Q82 **Chair:** We knew that anyway. What would you do differently in January?

Jim Harra: I was going to say that the reality of some of these schemes is that you would be reliant on self-assessment. People will have to do things on which we do not have referential data. That would continue to be a challenge.

Q83 **Chair:** So people not getting anything under the self-employment scheme would still be a challenge if you had to do this again?

Jim Harra: I sincerely hope that we won't have to do it again.

Chair: No, we all do. I am not predicting that, I hope.

Jim Harra: We made changes where we possibly could to bring more people into the schemes. Particularly for the self-employed scheme, we brought an extra 500,000 people in by changing the base year for the last two phases. If you change the balance of the judgment about who you admitted, you could significantly change the error and fraud risk, but that is a policy choice and a value for money choice. The positive of all this was that it kept the economy going and—

Q84 **Chair:** We don't need to be convinced of that; we all recognise it. We are trying to talk about the recovery. With schemes 4 and 5, you say that you have learned lessons and that there were tighter criteria. Do you have some working assumption about what the level of fraud and error would be on those? You have tightened the rules, you went through the processes, and you have experience to work off.

Jim Harra: The criteria that were tighter related to the level of adverse consequence on the businesses. In particular, in the final phase, there were two levels of grant that you could claim for. There was a turnover threshold. Those are extra rules for people to potentially get wrong.

Q85 **Chair:** But in terms of fraud and error, from what you have said you would expect it to be less than you had in the earlier schemes, because the parameters were tighter. Could you give us some idea of what your working assumptions are? Can you reassure me that you have some working assumptions about the level of fraud and error, so that you are tracking and evaluating it against some estimate you have made or analysis you have done?

Jim Harra: I think we had broadly the same assumptions.

Joanna Rowland: We have kept broadly the same assumptions as we go through. Until there is firm evidence to the contrary, we wouldn't move them. However, early evidence is showing that, as the schemes went on—both CJRS and SEISS—fraud and error did reduce. Part of that was our own intelligence.

Q86 **Chair:** Fraud and error on the early schemes or on 4 and 5?

Joanna Rowland: Yes. As each of the schemes went on over the months—the self-employed scheme compared to scheme 1, compared to 4 and 5, and for CJRS—there was some evidence, though it is still being worked through and properly evaluated, that we were able to be more effective. Part of that was because we had a growing intelligence base about who was claiming and what their circumstances were.

Q87 **Chair:** Your Department is good at dealing with numbers and money, and you are used to dealing with fraud and error estimates. It is bread and butter to you. Your Department and DWP were better at this, let's be honest, than a lot of other Departments. That is the good bit—bank that—but it feels that there is not much urgency from you in determining what the likely fraud is of new or reworked versions of the scheme. I cannot quite get a handle on how we can hold you to account and you can hold yourselves to account against the potential fraud and error when giving out taxpayers' money. You must have had some ideas that you were reducing risks of fraud and error in the later schemes.

Joanna Rowland: There absolutely is urgency. What I would say is that we have literally only just closed these schemes down, so it is still early days for us to be able to say to you exactly how long it will take and what we can say about it.

Q88 **Chair:** So when will you have better figures?

Joanna Rowland: We are currently discussing with Ministers what the right approach to evaluation is, now that the schemes have been longer. We published our approach to the CJRS evaluation in December, but in terms of the timeline and approach, that is something that Ministers need to opine on. We are in discussions now.

Q89 **Chair:** I am interested that Ministers have an involvement here. We are all elected, and we are all quite happy—well, I'm not so happy with the Government we have got, but you know, that's—

Mr Holden: Speak for yourself, Meg.

Chair: My point is that the electorate spoke and elected a Government. I am happy that we have a democratically elected Government that makes decisions. What is the role of a Minister in deciding how HMRC evaluates these schemes? Surely it is automatic business as usual for you?

Jim Harra: I think we are perhaps talking at cross purposes.

Q90 **Chair:** Please explain.

Jim Harra: There are two things we need to do. Obviously, we need to evaluate the schemes on the following. How did they work overall? What benefits did they bring? Did they hit their target? And what lessons can be learned? Separate to that is our estimate of the level of error and fraud in these schemes. On that, I believe that we did act promptly. We put out our planning assumptions very early on, and on 4 November we published provisional estimates to back those up. That is much earlier than we would normally issue a tax gap estimate for a tax year.

The time it takes us to produce an estimate of error and fraud has not in the meantime stopped us from deploying resources and getting on with trying to recover that error and fraud. I think that if our estimate that we published on 4 November had turned out to be wildly different from our original planning assumption, that might have pointed to us having taken wrong decisions somewhere. But actually, as I say, it came pretty much within those planning assumptions.

Q91 **Chair:** Even on the wider evaluation, this is again about number-crunching, and it is for Ministers to interpret those figures, rather than to determine the evaluation you are doing, surely? I am just a bit puzzled.

Jim Harra: I think the evaluation of whether the schemes achieve their objective and what you might have done differently in terms of different policy decisions you might have taken would involve Treasury and Ministers. What we are talking about here is the measure of error and fraud. That is something that HMRC does.

Q92 **Chair:** Okay, but with something like eat out to help out, for example, there was a tax element—the VAT issues, the supply chain VAT issues and so on. There are lots of layers that you could be looking at the data on. Presumably, you are doing that number crunching without referring to Ministers.

Jim Harra: The number crunching?

Chair: We are getting into the weeds here, potentially. Eat out to help out boosted an industry, if you like—kept it going. There are all the suppliers of food and so on, who supply the restaurants that were opening. They would have been paying VAT that they wouldn't have been paying, even at the lower rate, if they hadn't been operating. You must have some analysis of what your tax take was as a result of the taxpayer pumping relief into the hospitality industry.

Jim Harra: In numerical terms, there is an estimate of how much tax was forgone, for example, as a result of the reduced VAT rate. The evaluation of whether it was worth doing and whether we got a good payback in terms of keeping the hospitality industry going and keeping jobs going in return for forgoing that tax is an evaluation that Ministers would be involved in. They wouldn't get involved in quantifying the tax forgone.

Chair: I get that the Treasury would be involved. Perhaps we are going down a bit of a rabbit hole here. I will turn back to Mr Craig Mackinlay.

Q93 **Craig Mackinlay:** Looking at the breakdown of the most likely losses in that £5.84 billion, the biggest by a long way is the job retention scheme—the furlough scheme. I suppose it doesn't take the wisdom of Solomon to realise what the likely fraud was. As you alluded to, it was partly the employer being in collusion with the employee, where they were still working and a claim was made, or—just as likely if not more so—the employee did not know at all that a claim was being made on their behalf. How do you drill into that? You are lucky that there are live actors involved—the employee upon whom the claim was being made. That is a big job, to interview people.

Do you think there was a weakness in the system, in that the underlying employee was not part of the claims scheme? It isn't a criticism. I know these things were put together in great haste for good reasons, but in terms of risk management of a scheme, do you think more could have been done?

Jim Harra: We recognise that there certainly is a risk that employers claimed and the employee was unaware that they claimed. During the course of the scheme, we changed the transparency. We published the identities of the employers who were claiming. We also put on to the online personal tax account of employees the amount that had been claimed in respect of each of them. Any member of the public can see which employers claimed from the date when we started releasing that data, and individual employees can see that they were the subject of that claim on their online account.

Craig Mackinlay: That I did not know.

Jim Harra: But we didn't have that in from the start. It took us time to get that in place, but it was put in place during the life of the scheme.

Q94 **Chair:** Was it in December?

Jim Harra: Yes, December. You are right that those are two key risk areas.

Q95 **Craig Mackinlay:** I suppose the reality is that if you are just a PAYE employee, you are probably not so likely to have an online tax account, because tax is just done for you and it is just one of those things.

Jim Harra: I can't remember the exact figures, but tens of millions of people do.

Joanna Rowland: Yes, about 15 million people do.

Chair: Fifteen million?

Joanna Rowland: From memory. I would have to double-check the latest figure, but it is about 15 million.

Chair: But that doesn't negate Mr Mackinlay's point.

Q96 **Craig Mackinlay:** So your hope is, they will go online and say, "There was a claim made for me," and—

Jim Harra: In terms of targeting cases for investigation, we will use a variety of data sources. If an employee gets in touch with us through our online service or our helpline and says, "My employer was up to this," that is obviously valuable human intelligence for us to use. But we are also looking at other data that points to things not being the way the employer said.

For example, we had one case where an employer told us they had furloughed all the staff, but then put in an eat out to help out claim showing that they had had their busiest month ever in their restaurant. We have data from merchant acquirers, for example, on how much income was going through a business. If that doesn't look like it changed in the way you would have expected it to change for a business that had furloughed all its staff, that is the kind of case that we will pick up for inquiry. We have our own data sources for risk assessing, but we value anyone giving us information if they think that they know that someone has acted fraudulently.

Craig Mackinlay: I am sure everyone in the room has had a variety of emails from different constituents saying, "It's not fair because I've only just started and there was a deadline date." It was a very sensible thing to put in, because it stopped the potential ghost employee. If someone had not registered on RTI or whatever by a certain date, that employee did not qualify; I think we all had employees who were just on the wrong side of it. It was a good safety measure that there was a key date by which it had to be on the system, and you had to know about that employee being on the payroll.

I can see where you are going to go for the furlough scheme, and personally I think that is about the best you can do. On the self-employment support scheme, the early rounds were fairly fluid and easy-going—

Chair: Before we move on to the self-employment support scheme, I know that Peter Grant wants to come in. We will come back to you, Mr Mackinlay.

Q97 **Peter Grant:** I have a couple of questions on furlough. One of the ways you tried to identify furlough fraud was by publishing details of those who had claimed and, in effect, setting up a hotline for members of the public to raise concerns with you. What progress are you making on working your way through those claims, and what are the arrangements for reporting back to members of the public who have raised those concerns?

Jim Harra: I think we have probably received about 45,000 contacts to our hotline or our online service where people can report potential fraud. Every single one of those is triaged and taken into account when deciding whether to open an investigation. As I said, particularly in relation to the risk areas, there is pretty valuable human intelligence.

We are very limited in the extent to which we can go back to people and engage with them. There are two reasons for that. First of all, if we engage in collecting information from people and go beyond a certain point, they become a covert human intelligence source around which there are all kinds of rules. We try to avoid that in most cases.

When we investigate an employer, they are entitled to confidentiality about that. We cannot go back to an informant and say that we are investigating a person as a result of their information. I want to send a message to people to say that we very much value that information and look at every single piece of it, but the reality is that we are seldom able to come back to you and tell you what we have done with it.

Q98 **Peter Grant:** I understand the restrictions around covert human intelligence, but if the human intelligence is that somebody looks at the Facebook page of a business that keeps putting up posts every day about the work they are doing, at the same time as saying that they have furloughed all their staff, surely that is not covert human intelligence. It is maybe a bit stupid on the part of the business. Would there be benefit in your having more facility to go back to people and tell them what is happening?

I can appreciate the need to keep some stuff confidential, especially if you want an employer to co-operate with an inquiry. Leaving aside the fact that some of it will be malicious and some will be spiteful—although some of it is genuine and some of it is from people with genuine concerns about what is happening—is there a danger, especially after such a big exercise, that if the people who raise the concerns never hear anything more about what you did with them, they think that you did nothing with them and are less likely to co-operate with you in the future?

Jim Harra: There is no doubt that I get a fairly full postbag, and you may well do as well, from people who want to know what happened with the information they gave us and that we did something with it. I know that there is a demand for that kind of feedback, but the approach we take for this is very similar to the approach that all the other law enforcement agencies take. We value that intelligence and we use it, but we generally do not collaborate with the informant to the point where they become involved in our investigation. Because of taxpayer confidentiality, we are often not able to tell them what we actually did with the information. We have to work hard to get across the message to the public that we value that information. We want it and we definitely use it.

Chair: Mr Mackinlay, I should warn our witnesses that we are expecting votes in about 15 or 20 minutes, so be quick. We are unlikely to finish before the vote, so we will have to come back.

Q99 **Craig Mackinlay:** Just to clear up one thing on the furlough scheme, the employee has the key intelligence on what was going on. Let us say there was a furlough claim on behalf of Mr and Mrs Smith by XYZ Ltd. Have you considered a randomised audit letter to go out to Mr Smith or to one in 100 or one in 1,000 employees? Are you allowed to do that under the Taxes Management Act 1970 or with GDPR issues? Are you allowed to do a randomised letter saying, "A claim was made in your name by your employer. Can you confirm that that was correct?"

Jim Harra: I am not aware of anything that would prevent us from doing something like that. I am not sure it is our plan to do so in a randomised way. Where we are investigating an employer, it might well be part of our investigation plan to engage with the employees and see if we can get information about what happened, but we do not have plans on a randomised basis to contact employees of employers. We are planning to do a random inquiry programme of furlough claims, however, to get a better measure of the actual level of error and fraud and to improve our estimate, but I will take your point back to the compliance people.

Craig Mackinlay: I don't want to give you any ideas.

Chair: Order. I am afraid we will have to break now. We are expecting two votes. We are likely to be 20 minutes, if people can get to the front of the queue. As soon as we are quorate again, we will kick off, although we will wait for Mr Mackinlay, so be quick.

Sitting suspended for Divisions in the House.

On resuming—

Chair: Welcome back to the Public Accounts Committee on Wednesday 1 December. We were just interrupted by votes on the Finance Bill, so we are going to pick up where we left off. Over to Mr Craig Mackinlay MP.

Q100 **Craig Mackinlay:** I think we have done the furlough scheme. Can we move on to the self-employment scheme? Obviously, there were a number of rounds. It had a fair bit of complexity, going in and out, with changes and this, that and the other. The latter schemes had far more of a codified assessment as to what "qualification" meant, and that was the "adversely affected"-type test. Looking online, there was a ready reckoner of what you went through and if you had long accounting periods or short ones. The last round finished on 30 September, of course, for claims to be put in.

In terms of the recoverability of things that may have been wrongly claimed, might it be fair to say that the latter rounds give you greater scope to assess whether somebody should not have had a claim who did, rather than the early rounds, which were a little bit looser—again, it is not a criticism, as it was due to the speed with which they were rolled out? Do you have a different approach to the early schemes than to the last three?

Jim Harra: I think the criteria for what the impact on the business had to be in order for it to claim under the self-employed scheme got more defined as the phases of the scheme went on. Obviously, when we started the scheme, everyone thought there was probably only going to be one phase, because we thought the pandemic would be over after that point.

For people who claimed in those early phases, their business had to have been adversely affected. We are not going to try to split hairs about that, or argue with people on fine judgments around that, but if there are egregious cases where it is abundantly clear that a business did well, then we will reserve the right to use that test to say, "You should not have claimed this, and we want our money back."

In practice, we believe the vast majority of businesses were adversely affected in that first time, or people believed they would be, because it was quite a panicked, uncertain time. We have no interest in picking clever arguments with people about that. You are right that by the time we got into the third phase, there was a defined reasonable belief test, and that probably gives us a better platform for explaining what we think people should have done.

When you get to the fifth phase, the criterion is still the same—the reasonable belief test—but then there is a defined question about the impact on turnover, which determines which of the two levels of grant you should have claimed. Obviously, we will police that boundary.

Q101 **Craig Mackinlay:** Are you going to rely on the '21-22 tax returns, which are some way away yet, to do some obvious tests of criteria? Or are you actively doing those in year—in other words, now?

Jim Harra: We are largely going to use self-assessment tax returns, but Jo can give you more information.

Joanna Rowland: If evidence comes to light that enables us to act now, we will act now, but the tax return for that year and the year before are a huge source of intelligence for us, and we will be using it to good effect.

Understandably, we take error and fraud extremely seriously. The vast majority of the population were honest, and we can see that as the income support schemes rolled on, the difference in claim numbers between 1 and 5 was quite dramatic, with 2.6 million self-employed people claiming the first grant but only 1.2 million claiming the fifth.

Q102 **Craig Mackinlay:** Are there any particular business sectors that are more likely to have made claims in error than others, or in an egregious manner?

Joanna Rowland: The self-employment market is so varied; I don't think we can typify a sector. It is about making sure that we use the intelligence we have and give the same attention to anything that comes to us as a potential risk.

Q103 **Craig Mackinlay:** Obviously, if the rules did not allow a shop to open, and it was a self-employed person in the shop, then that is likely to have ticked the box properly.

Joanna Rowland: Unless they went online and did sales on that service.

Craig Mackinlay: Of course.

Joanna Rowland: This is why each case is considered on its merits.

Jim Harra: It is quite clear that a lot of hospitality work had to close, and that those businesses must have been adversely affected. Even if a pub started delivering Sunday roasts to homes, you can be pretty sure that their business was adversely affected. Even if a shop was allowed to open throughout, if they had to restrict the number of people who could be in the shop at any one time, or spent money on putting up screens and deploying PPE, those could all amount to a business being adversely affected.

Q104 **Craig Mackinlay:** But you haven't got in mind a particular sector that perhaps wasn't badly affected.

Jim Harra: I will go away and see if our compliance people have that view, but I am not aware of it. I think it is just such a diverse range of people. One of the issues with the pandemic is that it was quite difficult to tell who would be adversely affected and how much. At the outset, when we were encouraging people to apply, it was based on what people expected would happen to them, rather than looking back. We have to make allowances for that.

Craig Mackinlay: I can think of an obvious sector, but I will leave you to think who that might be.

Jim Harra: You must tell me.

Q105 **Craig Mackinlay:** The money involved in the scheme—the £5.8 billion—is fairly small compared to the furlough scheme, which is the really big one. Are you making one of those, "Tell us on a voluntary basis now" offers to people who feel that they have claimed in error? Are you making that known, and are you offering that? It would be the same as what you had for employers who used the furlough scheme, if errors had been made.

Jim Harra: Yes, we have been taking a one-to-many approach. One key thing we have done is that if people have either not submitted a 2019-20 tax return, or have submitted a return but not shown self-employment pages, we have written to them, asking whether there is a mistake or whether they need to return their self-employed income support grant. Before we start investigating people, where we see circumstances where it looks like something is not right, we are giving people the opportunity to self-correct.

Q106 **Craig Mackinlay:** Okay, but I am asking whether it is widely known out there in the self-employed sector that they can consider whether they have a declaration and a repayment to make to you.

Jim Harra: We have written directly to those people. I think we have written to about 70,000 of them.

Joanna Rowland: Yes.

Jim Harra: In that instance, I do not think we need to market that to a wider group, because we know the group that is affected and we have contacted all of them.

Q107 **Craig Mackinlay:** That is fine. Eat out to help out was obviously a very short-term scheme, and again, the amounts involved are not high. On that £71 million estimate, are you focusing much on the most likely errors and problems?

Jim Harra: On eat out to help out, first of all, as you say, it was a very short scheme, and it was well over a year ago. We do not think we will come up with any updated estimate of the error and fraud in that scheme, but we are definitely actively pursuing cases, particularly of apparent fraud. Again, we have had our own intelligence, and people contacting to give us intelligence.

Q108 **Craig Mackinlay:** It is a difficult one, because it is unknown people in a restaurant, rather than employees or a business. It is quite a complicated scheme to highlight the error or fraud in. I just wonder what your approach is likely to be.

Jim Harra: I think I mentioned earlier that we have seen a case of a restaurant that claimed to have furloughed all its workforce, and that claimed on furlough, but then also had its best ever month and claimed under eat out to help out. I do not think we can let those go by.

Q109 **Chair:** There was some publicity about a business where the measurement was over the Christmas period or something, but they maintain that their business was higher. What period of time are you looking over, when you look at returns? They could have had one good month. There have been periods of time between lockdowns when months could have been better.

Jim Harra: When it comes to eat out to help out, we will be quite careful about comparing periods, because it was actually a very good period for restaurants. As a result of the scheme, some of them had their best months ever. I do not think we would necessarily dispute that.

Q110 **Chair:** So you would not take August, or whatever it was, as the month?

Jim Harra: Not as a rule of thumb. Obviously, if we decide to investigate a case, we might look at whether the number of covers in a restaurant could possibly have supported the figures the restaurant gives. That is the kind of thing we would do. We would not necessarily assume that August 2020 would have been the same as August 2019 or August 2021, because it was quite a bumper month for restaurants.

Q111 **Craig Mackinlay:** One of the potential frauds highlighted—it might have been in one of the newspapers—was the splitting of a starter from the main course. I do not know if you are aware of that one. I do not know how you would ever investigate that, frankly. If there was a lot of starters on a till roll and a lot of main courses only on a till roll, that might give you somewhere to look.

Jim Harra: I am not sure we will make an issue of that. If it is a breach of the rules and we see it, clearly we will do something about it, but I do not think we will target cases on that basis. We are looking for egregious examples.

Chair: Mr Grant has a couple of questions on eat out to help out.

Q112 **Peter Grant:** There was an acceptance everywhere that because the furlough scheme had to be put together at scale and at speed, fraud and error would be higher than would usually be acceptable. Eat out to help out was not done on anything like that scale, and it did not need to be done at the same speed, because it came in four months after lockdown, yet in percentage terms, the fraud and error levels are quite close to those for the furlough scheme, and are certainly way above those for the self-employed scheme. What is the reason for that? Were intrinsic vulnerabilities to fraud built into that scheme?

Jim Harra: A key reason why error and fraud in the self-employment scheme is so much lower than in the others is that the grants were all calculated using data that we held, so we were not reliant on the taxpayer self-assessing what they were entitled to. If they met the eligibility criteria, we calculated how much they were going to get, whereas in the furlough scheme and the eat out to help out scheme, they had to tell us what they were entitled to. Naturally, in any self-assessment scheme, you are going to see a higher level.

Q113 **Peter Grant:** Am I remembering correctly that eat out to help out was one that required a ministerial direction before it went ahead?

Jim Harra: Yes, that's correct. At the time when eat out to help out was being designed, there was very limited data as a counterfactual to demonstrate the value for money of the scheme. This was nothing to do with error and fraud; it was simply about whether this was going to be a value-for-money judgment. Under the Treasury guidelines, I could not sign off on the scheme, and I had to ask the Chancellor for a direction; he was perfectly entitled to make the judgment that he would do this. But that was not about worries about the level of error and fraud specifically; it was about whether there was enough evidence for me to satisfy myself that it was going to meet an objective.

Q114 **Peter Grant:** What evidence is there to show that the benefit actually went to the restaurants and cafes, rather than to wealthy customers who could have well afforded to pay the full whack? Have you been able to demonstrate that the benefits went where they were intended, and that the scheme was not just basically subsidising lunches for people who did not need them subsidised?

Jim Harra: If you look at the objectives of eat out to help out, they were not simply to put extra money in restaurateurs' pockets. It was about getting people back out of their home and getting the economy restarted. There were broad objectives as well as the narrow objective of helping a particular part of the hospitality business that had been severely affected. Of course, diners benefited from it, but that is why they went out and used it from Monday to Wednesday in circumstances in which they perhaps would not normally go out. That was all intended to stimulate demand in restaurants, and to get people back out and about, which seemed to work very effectively at the time. Of course, as we know, circumstances subsequently changed.

Q115 **Peter Grant:** Obviously, that was at the height of summer. Is it fair to say—you referred to the absence of a counterfactual earlier—that there is not a counterfactual that allows us to say, "This is what would have happened during a hot August if there had not been an incentive," so we do not actually know how much of it is additional?

Jim Harra: That was a problem for me as an accounting officer. If you had simply lifted the restrictions on people, it may have been that there was a desperate pent-up demand to go to a restaurant anyway. There was just no way of measuring that within the terms of the Treasury guidelines. Ultimately, it was a political judgment, which is why I asked for the direction, and the Chancellor was perfectly within his rights to do what he did.

Q116 **Peter Grant:** Have you published a geographical breakdown of where the money went, or do you intend to?

Joanna Rowland: I would need to check. From memory, we certainly had geographical data on the self-employed scheme and CJRS, but I would need to double-check on eat out to help out.

Peter Grant: If you are able to provide that, it would be helpful. Thank you.

Q117 **Craig Mackinlay:** I think this will be a fairly meaty part of the session, as I am sure you have anticipated. It is on service times and customer service. Looking at figure 7 in the NAO Report, we see that every one of them is even worse than anticipated. A regular theme, even before covid, was that there have always been long delays, and people have complained about waiting on the phone and postal returns, but it really did go badly wrong.

This is probably something for you, Ms Rowland. You had to reconfigure the way HMRC worked—I don't know whether this was your Department. You have a phone system, but that had to be diverted to people working at home in some clever way. Did that not work properly? What went wrong? You had the same number of people working. Obviously, I appreciate that you might have had a high sickness rate during some of the period, but all these metrics were poor, and I can confirm what they show. A postal response within 15 days—I am not sure I have ever had one within 15 days, even in good times. Given that there were the same staff numbers working at home, why were these response rates, on the phone and everything else, so very, very poor?

Joanna Rowland: Angela has already highlighted that the technology worked, but I will hand over to her, as she runs that side.

Angela MacDonald: We can think about the last 18 months in three parts. In the first half of 2021—the point when I was before the Committee last year—we diverted about 5,000 people from various places, and they were focused solely on being trained and then on delivering all the covid support.

During that period, post intake actually dropped because the economy grew smaller. We stopped doing debt collections, so I was able to divert those things. When I was sat here this time last year, our post position did not have backlogs—we were pretty much on top of it—and although our phone situation had been a bit more variable, that was because we had really focused on making sure that people ringing us about covid were getting through in less than a minute—in seconds, usually. That was pretty much what we were focusing on and trying to do, because at that point, as you will remember, everyone was very concerned. That was the first half.

We then got into the second half of 2021. At that point, we were still doing the covid schemes, but we also needed to divert about 3,000 people to the leaving of the European Union. About 60 IT systems were changed, and lots of training needed to be done, so we moved another chunk of people off to do that. We really focused, during that second half, on making sure that we stayed strong on the fundamentals of the tax system. We mentioned earlier that it is so important that the self-assessment peak gets done, and we very successfully did that.

We also managed the annual tax credit peak—again, that is incredibly important. We prioritised making sure that the extra uplift for tax credits and the one-off payment that we needed to pay all went through. All those things were about ensuring that money was being paid out to vulnerable people, and that the core fundamentals of covid, customs and everything else were put in place. That meant, of necessity—I think we touched on this—that a number of other parts of our tax activity had to be put to one side, so we started to build up a bit of a backlog during that period.

We then moved into the first half of this year. Life moves on, so in the first half of this year, in May, we restarted our debt activity. I do not think we have mentioned it, but the debt position reduced dramatically during that period. We also started compliance activity again, so those colleagues were moving back to their home activity, as it were. As the economy opened up, the pre-pandemic levels of post activity came back completely. Our core taxes work is back at pre-pandemic levels, and we are managing the covid activity we were doing and ensuring that our EU work was really on it.

In the first half of this year, some areas of our service experience definitely had some backlog, and I absolutely recognise the impact that that has on tax agents, businesses and individuals. We are extremely sorry about that. We are making really good progress; month on month, as we have gone through the year, we have really started to see our situation improve, and we expect to have worked through that outstanding work by the time we get to the end of this financial year.

It has not been about technology; it has been about the challenge of multiple competing things going on at the same time. I think last time I was here I said that we had multiple plans, depending on multiple circumstances, because we need to do a multiple-layered set of activities. I cannot make any excuses; I am not blaming covid for our situation. We have managed and prioritised the areas where we think it has been most important to keep money flowing—flowing out, in this instance. It has been about covid; it has been about keeping absolutely on top of the border—you are talking about minutes and hours on the targets there—and it has been about making sure that the big set pieces of the tax year ran effectively.

Q118 **Craig Mackinlay:** Okay, that is a reasonable explanation of some of the reasons, but with some specialist tax departments that you have—trusts and IHT, say—I cannot imagine those people were repurposed to other things. I don't know how you are set up, but I would think a very specialist department—quite traditional compared with other parts of HMRC—would not be repurposed to scanning mail and getting furlough money out. Is that correct?

Angela MacDonald: It depends. It has been depending on some of the skills of those colleagues. As I sit here right now, we are delivering good service on our bereavement services, stamp duty refunds, IHT, probate—a number of those topics that you mentioned. We have got work under way at the minute on topics like trusts, which is one of the things that you mentioned, and we will be back within target on that in a couple of weeks. We definitely have moved people around on quite a variety of topics, sometimes because they had great prior knowledge and it was easy for us to move them, or in some instances needs must. We have really tried hard to hold as much together as we possibly could.

Q119 **Craig Mackinlay:** The point I was making was that a specialist department that has specialist skills, probably quite a core staff—even those departments that were not affected by VAT changes to do with Brexit and would not have been repurposed to do furlough claims on an answerphone, and those specialist areas of the tax departments within HMRC—also seemed to suffer a problem. Hence my query about whether there was something wrong with the phone system, but you confirmed there was not. It has been a disappointing experience, I am afraid, as a tax agent, because the client always thinks it's our fault.

Jim Harra: First, to pick up on things that we did that definitely had an impact on tax agents, we saw service levels holding up pretty well for the first two quarters of last year and really dropping in the final two quarters, and then over the course of this year, month on month, gradually improving, and we have got more and more of our lines of business into a steady state of decent service. One thing that we did was switch off the dedicated agent lines. We had a policy that agents could effectively go to the front of the queue in our helplines, and we switched that off for a period to help us balance the calls and give as many people as possible the best possible service. That meant agents would very much have seen a deterioration in that service.

We publish quarterly stats on our performance, and you can see from the first two quarters of this year that in each of those quarters it has been better than the quarter before and better than the last quarter last year. Although we have not published the October figures yet, for each of those lines it is better again. Once we had got the helpline performance up to what we regard as a decent service—so, we are handling more than 80% of the calls getting through first time to an adviser—we did stop deploying any more of our resource on to improving that. Instead we have diverted that on to improving the post work state, which is the area with most backlogs. We have a significant number of those post lines now up to date, but several of them, particularly around P87 claims—repayment claims—and also PPI repayment claims still have considerable backlogs that over the next five months or four months we have got to get up to date.

Q120 **Craig Mackinlay:** My final one. Forget the covid period. I want to look forward and see how the service can be up to a standard that we would all be happy with. Do you ever make an assessment of the type of calls that you tend to get? Do you think that that is because the website was not working properly for that issue, or that there is an area of tax administration just not working somehow, and if we were to fix that we would be able to get rid of a big call volume because they are repetitive and about the same thing that thousands of taxpayers encounter?

Jim Harra: We have an area of our customer service called operational excellence whose job it is to focus on that. Each month at the executive committee on which we all sit, as well as bringing up into our hub the stats on performance, we bring up the key pieces of customer insight about what is driving low value demand or driving friction from the customer's point of view. We review what we are doing to fix that. One of the issues for us on phone contact in particular is that some of it is very important to us and to the taxpayer, but actually some of it is frictional contact that is low value in the sense that dealing with it does not really change anybody's tax outcomes. Ideally, we want people either to not have to make contact at all or to self-serve online if they possibly can. That is our strategy, and we have increasingly been doing that.

Q121 **Craig Mackinlay:** How do you measure that? Is it a sort of feeling in your thumbs or is there a proper measure like a drop-down box after every call?

Jim Harra: We measure it in two ways. First, there is seeing the call demand go down year on year, which does happen. Also, we have customer satisfaction scores and a net easy score, which is done on an exit survey with the customer. We say, "Did you find this easy or not easy to deal with?" and that is a key indicator for us to track.

Q122 **Sarah Olney:** A couple of quick questions. Earlier on, you talked about bringing in extra staff to help with the demand. Could that contingency not have been done a bit earlier, perhaps? You are talking about the volumes of calls and inquiries.

Angela MacDonald: Absolutely. Last year, we brought in about 3,000 colleagues and about 1,000 people's worth of contingent labour. This year, we will be bringing in about 3,500 new colleagues and about 500 people of contingent labour. As I mentioned earlier, we have turnover that needs to be replaced, so it is not always a net gain.

I think we have two real challenges. In some areas where the work is complex, just bringing in brand new people does not really help, because the training time is long, and you have a relatively small number of people who have the skills. You also reach a saturation point where the volume of new people is such that the amount of training and support that needs to be given becomes a distraction to the people trying to do the work, so we are always trying to plough that balance.

We are regularly checking with ourselves: would more resources help here? Not only bringing brand new people in from outside, but where else in the organisation are there people? Could we deprioritise other activity? I am responsible for the compliance teams as well as the service teams, and we regularly look at whether or not there are relevant people to move around.

It is a large-scale resource deployment challenge, but I have always got a mind on not only the service now, but what is to come. How are we making sure that we are training now because next year will be busy again, and how do we train and then grow to that? It cannot just be worrying about what is happening today.

Q123 **Sarah Olney:** A second quick question: on the issue of customer service, for those taxpayers who find it difficult to use the telephone or access online services—if they have a second language or other barriers—what are you doing to ensure accessibility for every taxpayer if they have a query?

Angela MacDonald: We have a variety of extra help available. That can be about people—pre-covid—going into people's homes or, indeed, running clinic-type things in community centres and the like. We have a number of people in our extra support team who would go out if that was necessary, but we also have people who might be more vulnerable and need somebody who is caring for them.

We have a team both in the service group and in the compliance group who are specifically trained. We also give training out to our broader teams to help them identify people who might need extra services. We also have translation services and accessibility services, so those are all there as well. Our aim is for those who are digitally enabled to care for themselves, so that the resources we have that are humans can do the most they can to support the vulnerable.

Q124 **James Wild:** On improving customer service performance, how is that reflected in the senior team remuneration? Are there KPIs that you all have to get back to the targets, so the red boxes go to green?

Jim Harra: I am responsible, obviously, for everyone on the executive team's performance management, together with Angela. Yes, the senior team all have their objectives that they need to hit. In the case of customer services, we have got a set of forecasts and plans over the next four months about what it is that we want to get back to on an even keel, and also looking at any further steps that we might want to take over the next couple of months to improve on that. Obviously, each person has to hit their objectives to get their appraisal marking and to get a bonus. However, in relation to the customer service experience, the impact on the last two quarters of last year and the recovery profile, I think there are objective reasons for that, including some choices that we made together, not as a result of an individual's performance.

Q125 **James Wild:** Okay, although I think that performance on some of the metrics had been dipping before the pandemic came along. For example, average speed of call answering has gone up. Waiting more than 10 minutes has gone up. All of those were on a declining trajectory before we got to covid.

Jim Harra: At the end of 2019-20?

Q126 **James Wild:** The average speed of call in 2017-18 was four minutes and 28 seconds; then it went up to five minutes and 14 seconds and to six minutes and 39 seconds. The indicators were going the wrong way prior to this.

Jim Harra: We have got a set of finances that we have to deliver to—budgets that we have to stay within. We have got efficiencies that we have to deliver so that we can continue delivering the services within those levels. So there is no doubt that, over time, you can see that. We are not resourced to give a brilliant service; we are resourced to give a decent service, and that is what we are constantly trying to manage. But where we are today is that we have got some things back on an even keel and some things that still need to recover.

Q127 **James Wild:** Sure. I want to pick up a report in *The Times* on Saturday about people who had used firms to claim tax rebates for things like uniforms. Some of these firms turned out to be rogue firms, who did pay some rebates back to individuals, but then used the details they had gained to submit false self-assessment claims to get rebates for investments in enterprise investment schemes that never even existed. Now the individuals concerned are getting demands for the rebates while the company that took them has disappeared. Is it right that no checks were done on whether these EI schemes existed before you paid out rebates?

Jim Harra: First, I think we do need to look at whether we have got our balance of checking right with our balance of getting repayments out. Self-assessment works on a self-assessed basis, so you self-assess and if that is what you say you owe—or what we owe you—then, subject to some security checks, that is what we do. Afterwards, we will risk-assess and, if necessary, intervene if we think things are wrong. That is how, for a long time, the scheme has worked. Obviously, people select agents, and most agents do a good job for them, but this is an unregulated market and there is no doubt that there are agents out there who give a poor performance or who scam us and scam the taxpayer. I would not want to suggest that that is a lot of people, but it is an area of concern and one we keep looking at to see how we can drive standards up in the agent market and protect taxpayers from players in the tax system who might want to do them or us harm.

What I would say to taxpayers is: you should take care to pick an agent. This person represents you—they are doing things on your behalf—so you need to take care in that, and you must not give anyone, including your agent, your personal credentials that enable you to log on online. Those are for you, and no proper agent should need them or ask you for them.

Chair: Thank you for that reminder.

Q128 **James Wild:** I agree that there are obviously some rogue firms out there, but does HMRC not check that EI schemes exist before giving rebates? I am going on what is reported in *The Times*, and schemes that the individual was alleged to have backed never existed. Do your systems not check whether they exist?

Jim Harra: I would have to go back and check that. Very often, when someone makes a repayment claim on a self-assessment return, we do some security checks to ensure that this is the person whom we should be dealing with, but, if that is what they have claimed, initially we will process their claim, because process now, check later has been the basis of self-assessment since it was introduced in the 1990s. I will need to look at what we do specifically in that circumstance.

Q129 **James Wild:** It seems like it could be a big gap, potentially. This is one example that *The Times* has found, but there could be multiple people in the same situation.

Jim Harra: We need to use the data that we have as wisely as we possibly can. The fundamental issue is about whether people are operating as agents in the tax system—people who can be trusted to help their client, as opposed to people who will scam us or scam the taxpayer. Unfortunately, there are some bad players in the system, and that is something that we need to focus on.

Q130 **James Wild:** As a taxpayer, my view would be that HMRC should be doing some data matching to check that schemes actually exist before they pay out funds for schemes that do not exist.

Jim Harra: I will take away what we actually do in those circumstances, because I am not 100% sure.

Chair: This is about cross-checking. We hear about all the data sharing that goes in Government.

Q131 **Peter Grant:** Before I go on to look at the qualification on the accounts in respect of R&D expenditure, can I come back to part of the answer that you gave just now? You said that one of the reasons for the deterioration in customer service was efficiencies. It is not efficiency if you save money by providing less service, is it?

Jim Harra: Sorry, I think that was my point. We do see the resources that we have to deploy on customer services reducing over time. It is our job to ensure that we make efficiencies so that that doesn't result in a cut to service, but rather something that we can absorb to maintain service levels. Certainly, going into the future, we have our spending review settlement for the next three years, and I believe that it is sufficient to enable us to do a good job, but it does require us to make significant efficiencies. If we do not succeed in making them then, when we live within that budget, people are going to experience a poorer service, and it is our responsibility to ensure that that does not happen.

Q132 **Peter Grant:** What confidence can you have that those efficiencies will be deliverable without impact on service? Service performance is falling in a number of your indicators, and not just during covid but for two or three years before that.

Jim Harra: Over the next few months we are concentrating on two key things. One is recovering the service state to the maximum possible extent, so that we go into the next year on an even keel and not carrying a backlog. The other, now that we know how much money we have got in the spending review, is really planning over the next few months to make those efficiencies, using the investment funds that we have through Jo's transformation portfolio really wisely to ensure that we can do that.

Q133 **Peter Grant:** Thank you. I will move on to the qualification on the accounts because of the levels of fraud and error and the reliefs for research and development costs. There has been a massive increase in claims for that relief over the past five years. How much of that growth do you think is down to abuse of the system and how much is down to genuine increases in business expenditure?

Jim Harra: We have made our estimate of R&D error and fraud, which obviously is in the accounts, so that gives you our quantification for what we think is going on there. It is actually a very difficult thing to monitor because, over the years, the policy has changed quite significantly, becoming increasingly generous, and therefore you would expect to see an increase in claims. However, they have consistently exceeded forecasts, and one of the things that we therefore do is try to understand the reason why that is out of kilter with the forecast. If it is because of a forecasting error, that is fine, but if it is an indicator that there is more error and fraud than we had expected, that is when we need to act.

You can see that in the Budget and in yesterday's announcements on tax, the Government are taking steps to make R&D both better targeted from a policy and value-for-money point of view, but also better protected from abuse.

As a tax administrator, real incentives that are there to cause people to behave in ways that they would otherwise not rationally behave in are quite difficult to land without error and fraud, because by their nature people will want the incentive, but will not want to behave in the way that it is encouraging them to. So the tighter that is drawn, the better from our point of view; and I think on R&D, given the big expansion there has been in recent years, we have got to keep on top of making sure that it is well targeted and not abused.

Q134 **Peter Grant:** What is the nature of the frauds that you are aware of? Is it people claiming for non-existent expenditure? Is it several businesses in a group claiming the same expense lots of times? Are there trends as to particular kinds of frauds that you have been able to identify?

Jim Harra: One key thing that we have seen in R&D, particularly in the small business relief, is that a new set of advisers have moved into the market and they specialise in going in to businesses and saying, "You have already spent a lot of money. We think we can recharacterise some of that as R&D and get you some tax relief." We have actually found cases where a company has submitted an application for tax relief, that adviser has gone, and we ask them, "Why did you think this was R&D?" and actually we sometimes find that the business person does not know a great deal about the claim or what the adviser did to compile it. So one of the things that we are looking at is making an identifiable, named person in the business accountable for the quality of the claims, so that they focus much more on the service that they are getting from those advisers. In addition, they will have to pre-notify us when they are going to make a claim, and they will have to disclose to us the identity of any adviser that helped them to compile the claim. Obviously, we know the risks that those different advisers pose.

Q135 **Chair:** You have a watchlist of advisers that you are worried about.

Jim Harra: Yes, and that will be of great benefit to us when claimants are required to disclose to us who helped them with their claim.

Q136 **Peter Grant:** Paragraph 4.37 of the Comptroller and Auditor General's Report looks at the way in which you estimate the current levels of fraud, and points out that there is a lot of judgment and a fair degree of assumption built into that; and that if those assumptions are even slightly out, the actual level of fraud and error could be significantly different from your estimate. I suppose the two questions are, first, what are you doing to improve your understanding of how bad it is; and secondly, £311 million of fraud is bad, but how does the Committee not know that it is not half a billion, or a billion pounds?

Jim Harra: The Comptroller and Auditor General's Report shows that we base our estimate on cases that we have risk-assessed, and therefore there are some assumptions built into that risk assessment. We are running a mandatory random inquiry programme for R&D claims, so that we will have a statistically valid sample that is not based on our risk assessment but is randomised, to give us more assurance that the estimate is correct.

Q137 **Peter Grant:** Do you plan to do that for large businesses as well—or is that another area where you assume that your compliance managers are on the case?

Jim Harra: If I am incorrect I will come back to you, but my understanding is that we intend to do it across all R&D claims. But you are right that for the largest businesses, the compliance managers at HMRC are actively on the case all the time, whereas for the very large volume of small claims we often have no active relationship with those businesses, and we have certainly seen a greater level of growth in small businesses.

Q138 **Peter Grant:** Do you understand the concern that the public and this Committee may have, in that it is clearly a small percentage of the overall tax take, but any one of us here could find a use for £311 million in our constituencies very easily? Also, given the comments in the annual report that indicate that we are not on top of knowing how big a problem it is, do you understand that that would not only be of concern to us, but would give other Members of Parliament concerns?

Jim Harra: I am not sure it does say that. From our point of view, we deploy a lot of resources on to R&D compliance and we have increased those resources. As you can tell from the Budget and yesterday's announcements, we have been advising Ministers about the extent to which we think we can manage things operationally, or the extent to which we think policy change may be required. This is on our list of key compliance risks, and growing compliance risks, from our point of view. So it is not an area that we are behind the game on, but it has been growing significantly, and we understandably are expected, while managing the compliance risks, to enable people who are genuinely benefiting from R&D to actually go ahead and get their money, for it to have the incentive effect that it should. We have to manage compliance in a way that does not put a dead hand on the incentive at the same time.

Q139 **Peter Grant:** Thank you. What confidence interval do you attach to the reported figure of £311 million?

Jim Harra: I don't know. I would have to see. I don't think we would—

Peter Grant: Okay. Thank you, Chair.

Q140 **Chair:** Thank you, Mr Grant. We are nearly at a close. I just want to go back to the issue of the level of recovery that you are looking at. You have obviously had a settlement in the spending review. You get pounds given to you to recover pounds in terms of fraud and error. You have recovered just shy of £2 billion, and you have £4 billion still to recover, on your estimates. How much extra money do you think you would have needed in the spending review to be sure you could get that £4 billion back? Is it down to money?

Jim Harra: Well, we were given £100 million—

Chair: Yes, exactly.

Jim Harra: For the taskforce, and that gives us 1,265 people to deploy on this.

Q141 **Chair:** But with those people, you are still saying you are going to be £4 billion short.

Jim Harra: If I was given a free hand on "What would you like to spend more money on to raise more money?", I am not sure that that is the area that would give us the greatest payback, but it may be important for other reasons.

Q142 **Chair:** That just reinforces the impression that you have just written it off, basically, as too difficult to get back, too resource-intensive for the benefit.

Jim Harra: I hope I am not giving the wrong impression. We will recover as much of it as we possibly can. We have given a realistic assessment of what we think we can do. We have also identified the areas where we think it is actually very difficult to establish the error and fraud. We know it's in there in the global sense, but actually finding the cases and proving it—even if you gave me more resources, that would still be difficult to do.

In the spending review, we have been given some money for spend to raise. I think it's £40 million, £60 million, £90 million over the three years. Over the next few months, before that money arrives, we will be working with the Treasury on what is the best thing to spend that money on, and there is a variety of options.

Q143 **Chair:** You can see our concern that these big schemes were rolled out at pace—we understand that there were challenges—but you were one of the Departments that had a better sense of the risks than some Government Departments that had never done this sort of thing before. You knew a bit more; you had a bit more savviness to you, if I can say that. Yet there is £4 billion that you are not going to be able to get back easily. Your best guesstimate is that you are going to get to—well, you have got this £1 billion over two years that you are going to recover, on top of what you have already got back.

Jim Harra: I hate that I am giving the impression that we are not interested in—

Chair: Well, give me a bit more, because I'm not—

Jim Harra: We are passionate, whether it's on tax or whether it's on error and fraud in the covid schemes, in getting the right money in and stopping people—particularly on the fraud side—defrauding the taxpayer, and we are going to do the best possible job that we can.

Q144 **Chair:** You can see what I mean. There is a lot of money where, if you are a fraudster and you have done this, you might think you are never going to get caught.

Jim Harra: Some of it is fraud, but a lot of it is actually—**Chair:** Or even error. People might think, "I'll make a mistake. It will take years for the tax officials to catch up with me." That doesn't send out the right signals, does it?

Jim Harra: I think in the case of these schemes, and particularly on error, our approach is that we are not going to actively try to find just genuine mistakes that people made or minor errors. For example, in the first phase of the furlough scheme, you had to be completely furloughed, so in theory, if someone went out to deal with a fire alarm, that breached the rules. That's not the kind of thing that we are going to try to chase and find. We really want to focus on the most egregious—

Q145 **Chair:** But that's not in that figure, is it?

Jim Harra: Yes, it is. That kind of thing would be in that error and fraud estimate.

Q146 **Chair:** So you have estimated at that level of detail—someone who opened an email and went to check a fire alarm. You have actually got to the granular detail. Surely—

Jim Harra: We do not know the granular detail in every case, but our estimate of error and fraud ranges from minor errors right up to very serious fraud.

Q147 **Chair:** Well, if you discounted the minor errors, what would you think the level of fraud—would that be the lower of those estimates on that—

Jim Harra: I think in our publication in November, we did distinguish between our estimates of error and fraud.

Q148 **Chair:** But that is a very, very different type of error. That is a very minuscule error compared with someone who has miscalculated someone's working hours by a factor of 10 or 10% or something.

Jim Harra: Yes, and again we are not going to be actively risk-assessing to try to find that kind of error. What we have done is asked employers to double-check their claims and to voluntarily adjust them if they have made that kind of error.

Q149 **Chair:** But what is the sanction if they don't do that?

Jim Harra: We will be doing a certain amount of policing, but we will be targeting the most egregious behaviours. That is what we will be trying to—

Chair: Well, I think we have a clearer, if not a reassuring, idea of where things are at. We are at the end of a long session, so we will leave it there, unless Mr Mackinlay was looking to come in? No. I was tempting you there, Mr Mackinlay! To the witnesses, thank you very much indeed for your time and for your patience. Democracy takes precedence here of course, but nevertheless you had to wait while we voted. Thank you. The uncorrected transcript will be up on the website in the next couple of days, and we will be producing a report after Christmas. Thank you very much.