HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: HMRC's management of tax debt, HC 953

Monday 17 January 2022

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Watch the meeting

Members present: Dame Meg Hillier (Chair); Shaun Bailey; Dan Carden; Sir Geoffrey Clifton-Brown; Peter Grant; Antony Higginbotham; Craig Mackinlay; Sarah Olney.

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

Questions 1 - 136

Witnesses

I: Jim Harra, Chief Executive and First Permanent Secretary, Marc Gill, Director Debt Management, and Justin Holliday, Chief Finance Officer, Her Majesty's Revenue and Customs.

Report by the Comptroller and Auditor General

Managing tax debt through the pandemic (HC 799, Session 2021-22)

Examination of witnesses

Witnesses: Jim Harra, Marc Gill and Justin Holliday.

Chair: Welcome to the Public Accounts Committee on Monday 17 January 2022. In this session, we will look at the management of tax debt by Her Majesty's Revenue and Customs, which we obviously usually refer to as HMRC. The National Audit Office has put together a really useful Report that highlights that tax debt is now more than double pre-pandemic levels, which is perhaps not surprising given some of the challenges. In January 2020 it was £16 billion, but by August that year it peaked, for all the reasons we know, at around £67 billion. We will be probing how that figure is now coming down and whether it will get to acceptable levels. We want to know how HMRC is tackling this debt, understanding the needs of individual taxpayers and businesses, and what challenges and risks lie ahead.

I welcome our witnesses, who are all from Her Majesty's Revenue and Customs: Jim Harra—a regular visitor to the Committee—the first permanent secretary and chief executive; Justin Holliday, the chief finance officer; and Marc Gill, the director of debt management, which is rather appropriate for this session. Welcome to you, Mr Gill. However, before we go into the main session, we have some questions on a couple of other subjects. Mr Dan Carden MP, over to you first of all.

Q1 **Dan Carden:** May I welcome all the witnesses? Mr Harra, could I ask you to respond to some of the headlines today about the £4.3 billion of fraudulent payments through furlough and the business support schemes being written off?

Jim Harra: Nothing has been written off, contrary to what has been reported, but obviously the facts are as I stated when I was before the Committee in December. We estimate that the level of error and fraud in the furlough scheme in 2020-21 was about £5.3 billion. We managed to block fraudulent claims. We also managed to prevent fraudulent payments from being made by using pre-payment checks, but nevertheless some error and fraud got through, as we anticipated it would and as we said from the outset, because of the need to balance the checks in the scheme with getting money to people fast at that time. We now have a post-payment compliance programme under way to recover as much of the error and fraud as we possibly can. However, as I told the Committee before, it is not realistic to think we will get all that money back.

Q2 **Dan Carden:** These are eye-watering sums of public money. Is this a figure that you recognise internally for what you expect not to be able to reclaim?

Jim Harra: I will just give you some figures, so you understand. I mentioned that we estimate that the error and fraud was about £5.3 billion. That is about £3.9 billion of fraud, we think. We blocked fraudulent claims—prevented them from getting into the system—worth about £380 million. We also prevented payments of a further £304 million before they were made on claims that we felt were suspect. For one payment that did escape us, we managed to stop in the bank account; I think that was about £26 million that we prevented the fraudster from being able to access. We also contacted employers urging them to double check their claims and to correct them if there were any errors.

Q3 **Dan Carden:** But back to the £4.3 billion, is that a figure that you recognise from internal discussions on this?

Jim Harra: Not precisely, but it is the product of our estimate of the level of error and fraud—£5.3 billion—less what we have said we will recover as a result of the taskforce, which is around £1 billion. In fact, we recovered a further £536 million before that. The figure is inaccurate, but nevertheless it is the case that we suspect that a significant proportion of the amount lost to error and fraud will be very difficult to recover.

Q4 **Dan Carden:** Just finally on this, Chair, would it be signed off by the Treasury or the Chancellor that this will not be recovered?

Jim Harra: No, there is nothing really here to be signed off. It is HMRC's job to try to recover as much of the incorrectly claimed money as we possibly can. There is no political decision involved in that. These are claims that people were not entitled to that we have to now battle to get back.

Q5 **Sir Geoffrey Clifton-Brown:** Can I just ask something, Chair? Mr Harra, everybody is quite clear on what you have just said on the £5.3 billion figure reported today. You have a £1 billion taskforce, so it becomes £4.3 billion, and you managed to collect a bit more than £500 million, so actually the maximum figure for fraud and error is likely to be in the region of £3.8 billion. Is my understanding correct?

Chair: £3.9 billion.

Jim Harra: Yes, if our estimate is correct and we recover the amounts we forecast that we will. Obviously, we will try to do better than that, in terms of recovery, but that is our realistic assessment of what we think we can achieve.

Chair: We have covered that in other hearings.

Q6 **Shaun Bailey:** At the start of these questions, I should just state that as well as sitting on the Public Accounts Committee, I sit on the Work and Pensions Committee. Mr Harra, that Committee recommended in 2020 that tax credit debts that had not been pursued for more than six years should be written off. When the Secretary of State for Work and Pensions was questioned on this, she said that that was a decision for Her Majesty's Revenue and Customs. Can I just clarify: would HMRC expect to make a decision of that kind, and would you have any interaction with Treasury Ministers over that?

Jim Harra: There isn't a sort of statute of limitations that prevents us from recovering tax credit debts. In fact, the nature of the arrangements for recovering them means that they are often recovered over a very long period of time. We do have a process within the Department of remission of debts if we think there's no realistic or value-for-money way of collecting them, but that's not—

Q7 **Shaun Bailey:** Can we just be very clear, Mr Harra, because it is a specific question: could you make a decision of that kind if you wanted to?

Jim Harra: I think I need to take that away and check upon it. We—

Q8 **Shaun Bailey:** If you could clarify that, I would be grateful. On this point, too, it has been stated that a lot of people who have transferred from legacy benefits to universal credit have had, obviously, tax credit debt taken from their first UC payment and, as a result, have been left in significant hardship. Can you just clarify—I know we will probably touch on services later—what you have been doing to make it a bit clearer how that works? I know from my own casework that that has been a very significant issue for people who have suddenly found that they have not got money to feed their family, so I am just conscious of wanting to clarify how you are dealing with that.

Jim Harra: When a tax credit recipient moves from tax credits to universal credit, we transfer any tax credit debt that they owe us to the Department for Work and Pensions—

Q9 **Shaun Bailey:** But what work are you doing with them prior to that? The concern is that these claimants don't know, so they are suddenly transferring over—you have obviously been aware of this debt for some time. What are you doing to make sure that they are not suddenly waking up and finding that a significant chunk of money from their UC has been taken off them?

Jim Harra: Once the debt is transferred to the Department for Work and Pensions, its recovery is carried out in accordance with that Department's policies, and they do have policies to protect people from hardship through the recovery of debt, but it becomes a Department for Work and Pensions matter to—

Q10 **Shaun Bailey:** I will ask one more time, if I may, Chair. Mr Harra, what are you doing to ensure that these people are aware beforehand? What engagement are you undertaking, as HMRC, to ensure that people are not blindsided by this, because obviously this still sits with you up until the point where they transfer over? That is really the point I am trying to get at.

Chair: It's very much a legacy—

Shaun Bailey: Yes, the legacy system sits with you, in terms of recovery of those debts. What are you doing prior to that transfer?

Jim Harra: Prior to transfer, if they are a tax credit claimant, their debt will have been being recovered from their tax credit award, and they will have been notified of that, but obviously, once they stop claiming tax credits, we can no longer do that, so the balance at that point is transferred to the Department for Work and Pensions. I would need to check what communication there is with claimants at that point.

Q11 **Shaun Bailey:** I would be grateful if you could do that. Finally on this point, there was a recommendation from the Centre for Social Justice—the CSJ—that tax credit debt that is less than three years old should actually be retained by Her Majesty's Revenue and Customs. Again, is that a decision that HMRC could take, or would Treasury Ministers have to make that call?

Jim Harra: I believe the policy decision has been taken that over time all of these debts will transfer to the Department for Work and Pensions.

Q12 **Shaun Bailey:** But could HMRC take that decision? Whose gift is it in to make that decision? That is the crux of my question.

Jim Harra: Again, I will double-check, but I don't believe it's something that is within the Department's—

Shaun Bailey: If you could check and write—if it's possible, could we share that with the Work and Pensions Committee, because I know they would be very interested?

Q13 **Chair:** Absolutely. We often work with our sister Committees. Could I just remind anyone watching, and colleagues, that we have obviously looked at a lot of this? The challenge, if I am putting it politely, of dealing with a legacy system like the tax credits system is, of course, that if there is no longer recovery of the debt, it becomes more challenging when it is then transferred over to a system that can recover it within itself. Mr Bailey has raised some very important issues there about cross-Government working, who is making decisions and the impacts of a decision by one bit of Government on another and the poor consumer or, in this case, benefit recipient in the middle.

Thank you very much indeed, Mr Harra, for taking those questions at the top. We obviously want to move on to discussing tax debt. I laid out at the beginning the figures involved. If you were to give an assessment, as the man at the top of this whole system, how well do you think you have managed tax debt during the pandemic?

Jim Harra: I think, as the National Audit Office Report acknowledges, there are really two phases to this. First of all, I think we were very adaptable in the early stages of the pandemic, in terms of making sure that we responded effectively to customers who had either pre-existing debts or new debts. Our priority was to support people and businesses through a time when they were obviously dealing with financial uncertainty and financial difficulty. We introduced a helpline, actually before any restrictions were introduced, at the beginning of March. When restrictions were introduced—effectively the lockdown—we stopped all proactive enforcement activity and really switched our resources to supporting people who could not pay or who needed more time to pay, or who just needed reassurance that they were not going to have any enforcement action taken against them. We also ensured that businesses could access the deferral that the Government decided that they should have.

Q14 **Chair:** We know about all those mechanisms, but do you think you made the right calls in your assessment? How do you think the management of it is going now?

Jim Harra: Yes, I do. I think that was well received, and I particularly think that initial pause in enforcement activity not only gave our customers breathing space when they knew they would not get pursued for debt when they were trying to keep their business going, but also enabled us to take the time to rework all our communications with customers and to introduce a segmentation approach so that, when we were able to restart collection activity, we were able to target much more effectively the customers we thought were most likely to be able to pay. In the meantime, we also created digital services and communications that were right for the time.

Q15 **Chair:** So more empathetic?

Jim Harra: Yes, I think they were. They were certainly designed to reflect the fact that a very large number of these customers were in a different position from that which customers who owe us debt are usually in. We consulted quite heavily with stakeholders to make sure that we were getting that right. Generally speaking, I think people feel we handled that well, and so do we. You are right that tax debt reached that peak in August 2020, mainly as a result of the deferral of VAT and self-assessment payments, which was a Government decision. It has fallen quite rapidly from that peak.

Q16 **Chair:** We know it has fallen and that you have a target for March. What is the current level now?

Jim Harra: At the end of November it was £39 billion, down from £42 billion at the end of September. We forecast that it will go down to £33 billion—

Q17 **Chair:** £33 billion by March, yes. Do you know how close you are to that target of £33 billion?

Jim Harra: Obviously, if we kept up the trend in the amount that we recovered between the end of September and the end of November to the end of this financial year, we would hit £33 billion, but that was before omicron and plan B. My expectation is that, as a result of those, the payment rate will slow and we will come out above £33 billion at the end of the financial year.

Q18 **Chair:** Any ballpark figure of how far above it you are, or when you will hit the £33 billion?

Jim Harra: It is somewhere between £33 billion and £39 billion. Hopefully it will be closer to £33 billion. That is where it is. We have not done a revised forecast.

Q19 **Chair:** That is still double what it was before the pandemic. We would have expected it to go up. You mentioned providing advice to people to reassure them and on managing debt, particularly people who had never been in debt before. However, lots of people couldn't get through on the phones. Looking back, what would you have done differently? Do you think you got it right in the circumstances, or did you just not put enough resource in for people who were trying to do the right thing and manage their debt?

Jim Harra: I think in the case of people with debts trying to get through to the debt helpline, most could get through, even if at some peak times they couldn't get through with their first call. As I say, during that period we were in any event not taking enforcement action. It was either to reassure people that that was the case, or to help them into repayment arrangements. We put in place digital services so that people could go online and self-serve a payment arrangement for both self-assessment—that service was in place since '18-'19—and the new payment service for VAT, to help people repay the deferral. For example, at the end of September we had a debt balance of £42 billion, but at that point £11 billion of that was already in a payment plan.

Q20 **Chair:** Typically, how long are your payment plans? What is the range of people's repayment plans? What are you allowing people to repay?

Jim Harra: Normally it would have been 12 to 18 months, but there is no upper time limit, so some people will have much longer payment plans than that.

Q21 **Chair:** Do you have more with long time limits now as a result of—

Jim Harra: Yes, I believe we have.

Marc Gill: Thank you, Mr Harra. Typically, before this, routine "time to pay" arrangements were around five to six months, to get people over a cash flow issue. They have gone up. The average is now 12 months. There are more of them. There are twice as many—

Q22 **Chair:** That is Time to Pay, so that is a certain type of debt, isn't it? What about the longest range? What is the upper limit of what you are giving people with time to pay?

Marc Gill: There is no upper limit to a Time to Pay arrangement. If you think about business, typically pre pandemic—it is mentioned in the National Audit Office Report—we would try to resolve the debt position within 12 months. There is good logic to that, because of the tax cycle and wanting to get people out of the debt position. There is no upper limit. We moved very quickly at the start of the pandemic to relax the operational controls to allow our frontline teams to go routinely to 24 months. As I say, the average is sitting at about 12 months. What we are finding is that people want to resolve the debt faster, rather than having much longer Time to Pay arrangements. Exceptionally, they can be longer—36 months or more.

Q23 **Chair:** What I am really driving at, as you might guess, Mr Harra, is how long it is going to take for you to really get this back. Even if you hit your £33 billion by, as you were saying, later than the end of March, that is still double. How long do you think it is going to take before you get the debt levels back down to what they were pre the pandemic?

Jim Harra: I think it will take a couple of years. For us, a key thing is to get it into a managed payment arrangement, even if it is over a period of time. What we are really focusing on is not how quickly we can get the money paid, but how quickly we can get the bulk of it into managed arrangement rather than having to pursue it and enforce it.

Q24 **Chair:** Can you give us any assessment of the impact on cash flow to the Exchequer? Obviously, you are a great Department—you are the Department that brings in the money. You are not usually the Department that gives it away, and you have been giving it away for the last couple of years, through furlough. What do you think will be the impact on the Exchequer of this element of income alone?

Jim Harra: Obviously, we do forecasting with Treasury all the time so that they know what the borrowing requirement is. The main impact was that initial deferral. I think the assumptions about the rate at which we recover the remainder of this are probably not as material to the Treasury in that kind of planning as they are to us. I think that initial impact was the biggest one.

Q25 **Chair:** Mr Gill, you talked a bit about the business cycle, and I know other colleagues will come in on this a bit more. You say that some businesses are paying back more quickly. Obviously, there is a big impact, potentially, on the economy if lots of businesses are carrying high debt or cannot pay it back, and that causes them issues. As you are the primary creditor now, if they cannot pay it back to you, they have probably got other problems. Have you got any assessment that either of you can give us about the impact of this debt on the workings of the economy?

Marc Gill: I leave it to colleagues in other Departments to opine on the economics of it. You asked Mr Harra about how we have done through the pandemic. I think we have done very well at treading the balance in offering support to businesses and individuals by giving them time to absorb shocks, to recalibrate the finances and come up with affordable payment plans. Over 90% of our Time to Pay arrangements that we set up with businesses and individuals pay successfully. It is significantly higher than 90%, I think.

What we have really found is that it works. We have been able to navigate most taxpayers who owe us money through this. We know that we have got to contact more of the taxpayers who owe us money in order to engage them in Time to Pay arrangements or in payment, but it is a balance. It is a balance between support and pressing hard enough to get the money back in.

Q26 **Chair:** You sound like the cuddly taxmen. One of the questions we will delve into a bit later is whether you are actually giving people a bit of an easy ride with Time to Pay—not in all cases, but there may be some people who do not need the time to pay as much. How do you make the judgment, Mr Gill, about whether those Time to Pay arrangements are tough enough to get the money in? In the end, as Mr Harra highlighted, if it is not coming in one end, it is being borrowed by another bit of the system and costing the taxpayer.

Marc Gill: When we deal with every customer who comes in, be it business or individual, we will look at their income and expenditure, for individuals, or cash flow for business, and assess what we think they can pay.

Q27 **Chair:** Do you push them a bit, if you think they are trying to finance their business or their lives?

Marc Gill: Yes, absolutely. It is a negotiation with customers. That is set against the context of quite an exceptional event that the UK has been through, and our posture, which is to offer support and forbearance where it is appropriate but all the while look for payment and an affordable payment plan. To put it the other way, to push too hard risks driving more work into operations on defaults and dealing with the customers multiple times.

Q28 **Chair:** I sense Mr Harra is going to come in very quickly on this.

Jim Harra: I don't want to reinforce the image of us as being cuddly, but there are two things. First, it is our policy, and was our policy before the pandemic, that in our debt enforcement we do not want to drive any viable business to the wall. We are here to support the economy. That is what enables it to have tax capacity, and therefore that is the judgment that we try to make. Also, our experience has been that, quite often, people in debt will put forward proposals for trying to pay that are actually unaffordable for them, and we have to work with them to get to an affordable arrangement that will often involve their paying less than they originally proposed to us, because what we do not want is arrangements that break down. We want arrangements that succeed.

Chair: Twas ever thus. Sir Geoffrey Clifton-Brown next, then over to Mr Grant.

Q29 **Sir Geoffrey Clifton-Brown:** Mr Harra, you have been very candid with us this afternoon in saying that you do not expect to get the debt down to £33 billion by March, that it will take several more months to get there, and that it will take two years to get back to a pre-pandemic debt level of about £16 billion. You ceased write-offs during the pandemic. Do you have any estimates of the amount you will need to write off over the next year or two in order to get to that £16 billion?

Jim Harra: Just to be clear, we didn't cease write-offs completely, but the losses that we record against debt are of two types: first, what we call remissions, which are debts that are, strictly speaking, enforceable, but we do not think there is a cost-effective way for us to do it. The others are write-offs where, for example, someone is insolvent or a business is put into liquidation and they just do not have the assets to pay their debts, and those debts are lost.

Obviously, during the pandemic there was a moratorium on creditor-led winding-up petitions for companies. In our case, not only were we bound by that, but we basically extended it to personal bankruptcies as well. It was a policy that we undertook, so the amount that we wrote off, for example, in 2020-21 was about £2 billion less than in a normal year. It will also be less in the current year as well, because that moratorium has carried on, so there are two years in which write-offs through insolvencies have been a lot lower than you would expect, and there will be catching up to be done after that.

If it was £2 billion last year and you assume it is £2 billion this year, that is the kind of build-up of losses that we would normally have gone through in that period, but haven't. Of course, to some extent they are just stored up and will be incurred at some point. Hopefully, to some extent, that is not the case.

Q30 **Sir Geoffrey Clifton-Brown:** That raises two issues. Given that the amount that you have written off in the last two years is less than you would normally write off, that would indicate that you are going to have to write off considerably more than normal in the next year or two in order to get back to that balance of £16 billion.

Jim Harra: I will let Justin say in a moment what he thinks we will need to do, but I think there are two things that will impact on the level of losses in the next few years. One is the catching up that we mentioned, where there has been a sort of underutilisation of insolvencies since the pandemic started. Insolvencies are now returning to pre-pandemic levels. The other thing is the wash through of the effect of the pandemic, where some businesses will presumably fail that otherwise would not have and that may well be in debt.

Justin Holliday: In the way that we account for this, we are making bad debt provisions, now called impairments for some reason. We are making bad debt provisions as we go along. Because we did not do so much writing off last year, we have got a higher bad debt provision. Picking up on the receipts forecasts and the general Exchequer position, as the receipts forecasts are done and redone, the level of receipts coming in and therefore by implication the amount that is not coming in through debt not being paid, is also being taken account of. Other things being equal, as Jim has said, there is £4 billion or £5 billion of write-off to come, which is a catch-up.

Q31 **Sir Geoffrey Clifton-Brown:** In this year, or—?

Justin Holliday: It will be over the next two years. Some of it will be about the crystallisation of insolvencies, which we imagine will take place over the next 18 months or so. The system has got to catch up with that. At the moment forecasts are not being made about how fast that catch-up will happen. In terms of the bit that is definitely imponderable at the moment, the cardinal rule of debt management is the longer you leave a debt, the harder it is to collect, and there will be some consequences of that, but at the moment we really have no reliable forecast of how big that consequence is.

Q32 **Sir Geoffrey Clifton-Brown:** A second question arises from what you said, Mr Harra. The rogues were still out there during the pandemic. Will you be doing any retrospective work suggesting to BEIS that those that go into insolvency, as the Report makes clear, should be struck off, as well as things like attaching debts to individual directors—that sort of work? Will you be doing work in HMRC to try to identify those things?

Jim Harra: Yes. It is referred to in the NAO Report as phoenixism. First of all, phoenixism in the way it is used in the NAO Report usually involves people who go into business with the intention of not paying their debts, then liquidating the company, leaving the debts behind and moving the business into a new company, as opposed to many of the businesses in the pandemic, which are genuine businesses that never intend to do that. So I don't think there's necessarily an increased risk of more phoenix companies as a result of that, but of course in there will be the phoenixes who would have crystallised earlier than they were otherwise going to because there were no creditor-led insolvencies, so there will be some losses.

We have increased powers now to tackle phoenixism. While we already have a track record of doing so, we now use enhanced powers, so, uniquely, HMRC can attach liability to the officers of a company, as well as using disqualification and, increasingly, when a new business arises that is a successor of an old one, requiring financial securities up front from that business to enable it to operate pay-as-you-earn or operate VAT. We use all of those to tackle phoenixism.

Chair: Thank you very much, Sir Geoffrey. Over to Peter Grant MP.

Q33 **Peter Grant:** Thank you, Chair, and good afternoon to all our witnesses. Mr Holliday, could I start by looking in a bit more detail at the estimates that you use of provision for write-off. The word "write-off" can be confusing because it can mean two things: it can mean the process by which you give up on a particular debtor—"The business is liquidated. We've got no legal claim on the money, so it gone." There is also a requirement in your annual accounts to estimate what proportion of outstanding debt is unlikely to be collected, and every year you might have to take what in business would be a hit on the profit and loss account if that provision has to increase. Do you envisage an increase in that provision within the annual accounts for bad debts either this year or next year as a result of the pandemic?

Justin Holliday: There was an increase in the year we just reported on; in the year ending March '21, we did have quite a significant increase in the bad debt provision. Historically the provision has been at about £8 billion or £9 billion. Last March it went up to just under £15 billion, which as a proportion of the debt is actually less, but it is obviously a significant increase in the provision. We don't do a running estimate of the bad debt provision; we do it once a year. The next one we will produce will be when we produce our accounts, so the coming June or July.

Q34 **Peter Grant:** Is that figure also being fed into the Treasury as part of their cost-keeping for the overall cost to the taxpayer of the pandemic?

Justin Holliday: I'm not sure it as a cost of the pandemic. The bits that were scored were the policy consequences of the deferral. In fact, in terms of the level that was costed at the time of the policy assessments of the deferrals, we now think we'll collect considerably more than we thought. For example, at the time of the VAT referral, it was anticipated that about 5% of that would not come in, and we now anticipate that that will be about 2%.

Q35 **Peter Grant:** Are there particular kinds of debts that you expect to see a higher level of non-recovery in? Is income tax debt harder to get back than VAT debt, for example? Has there been any shift in that during the pandemic?

Justin Holliday: We have seen some changes in the shape of the debt. The bit that has been unusual was the VAT deferral, which has meant that VAT as a proportion of the debt has gone up. We think that is largely an artefact of the deferral and then the winding down, but we obviously need to keep an eye on the make-up of the debt.

Jim Harra: Just to say, pre pandemic, it really was self-assessment and pay-as-you-earn that was the more volatile element of debt. VAT and other elements were much more stable, but what we did see during the pandemic was an increase in VAT as a proportion of the overall debt balance.

Q36 **Peter Grant:** Thank you. Are there any other Government Departments that are likely to have debts owed by these same individuals or companies? Are there times when you need to have co-operation with other Departments to make sure, for example, that you are not spending money chasing a debt that a different Government Department could tell you has already gone?

Justin Holliday: That is likely, and there have in the past been various efforts to try and get more co-ordinated on that. I think that is probably an area that is worth some further work, because those conversations are not always had.

Q37 **Peter Grant:** Have you been able to form a view yet as to what provision will be needed in the accounts for 2021-22, or is it too early in the year for that?

Justin Holliday: No, it is too early in the year to do that.

Q38 **Peter Grant:** Have you had any preliminary feedback from the NAO about the figures in last year's accounts? Are they happy that that is a fair and realistic figure?

Justin Holliday: The accounts were signed off, so I guess they must have done.

Peter Grant: I just wanted to get that on the record of the meeting.

Chair: Thank you very much for now, Mr Grant. Over to Craig Mackinlay MP.

Q39 **Craig Mackinlay:** Thank you, Chairman. Good to see you again, Mr Harra and team—always a pleasure. Just a couple of things: on the Time to Pay agreements—I think, Mr Gill, you are more on that side of things—during the depths of the pandemic, these were pretty much, "Ask for one, get through on the phone, you'll be offered one." It was almost no questions asked, wasn't it?

Marc Gill: In the early stages, the first quarter of the pandemic, that was largely the case, because—

Q40 **Craig Mackinlay:** There was some sort of right of putting stuff off. The VAT scheme was a right of everybody. Say you've got corporation tax outstanding—they were pretty easy to obtain, is what I am trying to put to you.

Marc Gill: Certainly in the first quarter of the pandemic. Essentially, the first-quarter VAT, that was deferred. Businesses stopped paying, cancelled their direct debits, and then we provided a facility later for them to pay it back, which Mr Harra and Mr Holliday covered.

On non-payment, the helpline was initially around reassurance. We had set up Time to Pay arrangements for those that needed it. For those that needed an initial period of deferral, in the main, those were agreed, because the alternative was simply for businesses to not pay. Broadly, yes, I think that is a reasonable assumption for the very early stages of the pandemic.

Q41 **Craig Mackinlay:** Now, where we are today—let us just look at the backdrop of the economy. The economy, somewhat to my surprise, is in pretty good shape; it has bounced back very quickly, and that is all to the good. You have houses being sold in a heartbeat compared to where we were before; the domestic savings ratio has increased; second-hand cars are selling for a higher price than a new car. There is money out there. How many corporates and individuals do you think are really just using HMRC now as moderately cheap financing, and have got money in the bank to pay you should they be squeezed hard enough to do so?

Marc Gill: Well, I would certainly not offer an opinion on the economics of it, but what I will say is that we have systematically returned to collections. We are pursuing all businesses and individuals who owe us money. I will offer an example. Since we returned to collections this year we have done 110,000 field visits. We were out collecting 1.2 billion, so we are absolutely returning to all of our processes, not just helplines dealing with customers' queries. We are definitely in a different phase, because we are seeing that kind of asymmetric impact in the way in which people and businesses are absolutely impacted and suffering. However, as you say, there are others that have adapted to the environment and that are doing considerably better.

I will finish with one further point on that. We have made great strides in our use of data and segmentation. The Report specifically mentions how we started segmenting the low, medium and high impact of the pandemic. We are now pushing through into ability and, importantly to your point, propensity to pay. We are looking at past customer behaviour to precision-target our contact, field visits, enforcement activity and so on. As I said to the Chair, it is a balance, and we are trying to strike it well.

Q42 **Craig Mackinlay:** I appreciate that. A number of businesses had a very hard time, and I would have thought that the data would be now there to say—I am not guessing—that the hairdresser has had a tough time, because they have not been able to do hair, but the construction company has probably been busy and maintained business. Are you focusing your low-hanging fruit collection on those industries that we would all sort of know have not suffered that badly?

Justin Holliday: I would answer that by saying that it is not as clear-cut as you describe. Conceptually, you can see how it features like that but, to give you an example, we have not used trade sectors in targeting. You could be a brewery, but if you were predominantly supplying pubs and the licensed trade you would be heavily impacted. If you moved quickly into pump supply you are doing well, so that is not a reliable indicator for us to use. We have used filing data and access to covid support schemes—we know relative turnover, payroll and that sort of thing—to try to triangulate, as well as previous behaviour.

Q43 **Craig Mackinlay:** I am encouraged that you are using a mechanism to try to separate the ones that are likely to be struggling and those which are not.

Mr Harra, you said there are two types of debt. There is debt that has gone because a business has become insolvent because creditors have wound it up or because they have been struck off for non-filing or whatever reason. There are also debts that, I think you said, you remit because they are uneconomic to collect. You have, I assume, criteria by which you say that it is uneconomic to collect. There would have been criteria two or three years ago, pre-pandemic. Are you using exactly the same criteria in making those decisions now, post-pandemic.

Jim Harra: I will maybe ask Justin to confirm, but yes. There are controls around it, including Treasury controls over certain amounts. It is a long-standing practice that we reach a point in enforcement activity where we think that it is not cost-effective to carry on seeking to recover a debt, but it is not written off—it remains on the customer's account, but we are not actively going to pursue it and we are not going to include it in our debt balance. I am not sure whether the criteria have been affected.

Justin Holliday: Essentially we are using the same criteria, yes.

Q44 **Craig Mackinlay:** So you are going to have the same criteria, whether it is strong, weak or whatever I might perceive it to be, that you used pre-pandemic.

Justin Holliday: Yes, because it is essentially hard-headed. Is it worth while spending another £1 to try to get another—

Q45 **Craig Mackinlay:** I understand where you are getting to, but I want to be sure that it is the same criteria—you are not going to loosen it now or whatever you might do.

Justin Holliday: It will be the same criteria.

Q46 **Craig Mackinlay:** As a taxpayer, I am a little concerned that if you still have an active business of some sort—it has not been properly struck off or insolvency provisions used through some other means; not your own—you are not raising that winding-up order in a court procedure, which is pretty easy to do. Why do you do this? Why do you make an internal decision ever?

Jim Harra: A lot of these debts are not business debts. You may have a taxpayer, for example, who was in pay as you earn and who owed us £150. They are no longer in employment. Strictly speaking, they still owe us £150 and we can still pursue them, but the cost of doing so will exceed what we can recover, so we will remit the debt. From the customer's point of view, they still owe us the money; if at some stage they come back into employment and we still have it on their record, then they can pay. That is fine. It is largely that type of thing.

Sometimes we look at this in bulk. There could be several thousand customers all in the same situation, who owe us a small amount of money, where we have tried some approaches, but in the end it is just not worth us spending our resources on it. We need to move on to something that gives us a better return.

Q47 **Chair:** To be clear, before it sounds like you are giving everyone an amnesty for £150-worth of tax—

Jim Harra: No, it's not—

Chair: When you say you remit that, it is on their tax record for the rest of their life.

Jim Harra: It is on their tax record, but we do not regard it as part of the recoverable tax balance that we chase.

Q48 **Craig Mackinlay:** Just on a bit of a nerdy point, figure 18 in the Report is a sort of stratification of how you think you will recover some of this future debt, such as active debt management or insolvency, with the preferential creditor status that you were given a few years ago by Parliament. The one that is interesting to me is the dynamic coding-out—very small amounts, potentially. Have you now got the propensity to try—as you know, I am in practice, and I perceive more of an attempt at this—to code out other debts in a tax code, or other income that might not usually be just assessed through self-assessment. So, you are trying to code it out early.

Jim Harra: Yes, that is correct—

Q49 **Craig Mackinlay:** Is that a new tool? You are trying to collect debts earlier by coding them—or the collection of them—out in-year.

Jim Harra: Yes. Marc can pick this up, but that is something that we started to do a couple of years ago that we previously did not.

Marc Gill: Absolutely. We got the powers a couple of years ago and planned to introduce this during the pandemic, but implementation plans were put on hold for obvious reasons. Essentially, it mirrors what taxpayers have been able to do for a long time with self-assessment, to code out for the year ahead. We have now introduced in operations scans to code out in-year self-assessment, where someone is pay-as-you-earn, taking it out of the tax code in-year. It is relatively small, in terms of return, but it makes a contribution to reducing the debt balance. It also helps customers, I think, because it replicates what they could elect to do in a year and resolves things over the rest of the tax code period.

Q50 **Craig Mackinlay:** The reason for raising it is that the amounts involved are indeed very small. I put it to you that perhaps the amounts involved could be somewhat bigger by using that route, unwelcome as it is to some taxpayers. They can say, "I object to that. I do a self-assessment return and I do not want it dealt with in that way." They have that right.

Marc Gill: What I would say is that the figures in the Report are obviously correct at the time—our forecasts of what we think we would recover, based on behaviour—but if we see more customers who were able to do that too, it is a very frictionless and customer-focused way of recovering money owed to us.

Q51 **Chair:** How much do you think you could get? You have dynamic coding-out projected at £20 million, but it peaked at £64 million—presumably, that was as a direct result of the pandemic—with £26 million the year before. Are you being a bit defeatist on that figure?

Marc Gill: Well, I would take the point that we are being defeatist to Mr Holliday's point—I think it is probably too early to say. I assure you that we will be scanning that again at regular intervals to make sure that we understand the full target population we can apply the measure to.

Q52 **Chair:** Rather than using the phrase "coding-out", when people pay their tax bill through their normal PAYE income, instead of taking it out of their pay packet in the way that PAYE people do, do you find that once they start doing that, they tend to stick with that habit? Do you have enough evidence for that? It has only been going a little while, hasn't it?

Jim Harra: For a very long time, we have been doing coding-out, but it has been an annual exercise—

Craig Mackinlay: It was the 2003 regulations, so it has been in place for a long time.

Q53 **Chair:** That was with a tax return, but for other people with this new one. Did people keep it up in the old way of doing it, for a start, and what is happening with the new one?

Jim Harra: Yes, I think our experience is that if you are in PAYE, people find it is an easy way to spread the payment. They do not have to do anything themselves.

Chair: So once they have that habit, they stick with it.

Jim Harra: Yes. There are some complications with dynamic coding-out that is done in-year, because the closer to end of the tax year you get, the fewer months for payment there are, so we have to introduce certain protections for taxpayers to prevent undue fluctuations in their net income—

Craig Mackinlay: And you cannot have more than 50% of their gross income.

Jim Harra: But we have managed to do that in a way that I think gets good customer acceptance.

Chair: Perhaps it is harder for customers to keep track of if it is all mixed up together. Anyway, that is interesting.

Q54 **Shaun Bailey:** I just have a very quick one on VAT and the hospitality sector. Obviously, the hospitality sector had reductions in VAT, and then a slight change mid-year. Mr Harra or Mr Gill, what assessment have you made of the impact of those reductions and the increase? I know the policy focus at the moment is to bring that back in line with normality, probably by March '22. In terms of debt recovery, what changes will you have to make and what resources will you have to dedicate to recover that? I can imagine that this will present some issues in the recovery of VAT.

Jim Harra: The reduction in VAT for the hospitality trade is just that—a reduction, not a deferral—so no additional liability will arise from that. Together with a range of other measures, that obviously supported a sector that was heavily impacted by the pandemic. As Marc said, we do not really analyse our debt recovery performance or target our debt recovery action by sector because our finding is that that data is not the best for targeting our activity. In the example that Marc gave within hospitality, one brewery can be much more severely affected than another depending on whether they are on sales or off sales.

Q55 **Shaun Bailey:** But surely, given how big a policy push this was from the Government, this must have flagged with HMRC that there were potentially issues here that may mean you might have had to make some sort of exception to the approach that you adopt, given how wide the sector is and the impact of this.

Jim Harra: There are no plans to have any sort of particular debt recovery policy for particular sectors, but to the extent that the hospitality sector has been more severely affected, that will be reflected in the segmentation that my debt management service do based on the data that they have. For example, they look at the extent to which turnover has reduced compared with the past and the extent to which employees have been furloughed, and then they segment that into likely high, medium or low impact. It is quite possible that hospitality businesses will tend to be more in the high impact group, but that is because of those data items, not because of the sector they are in.

Q56 **Chair:** Just to be clear, you say you have no plans to have differential approaches by sector, but then you talk about segmentation, so you are effectively having differential approaches.

Jim Harra: The segmentation identifies, by reference to sets of data such as turnover, whether you are likely to have faced a high impact, a medium impact or a low impact. That affects the initial contact that debt management has with you and the initial approach they take.

Chair: But it is a differentiation.

Jim Harra: But it is not based on sector.

Q57 **Chair:** So it is not because you are a pub or a bar that you will get it, but actually the profile of pubs and bars will be pretty similar and they will probably end up—

Jim Harra: Very possibly in the high impact group.

Q58 **Chair:** So it is a slight nuance of language there. Are you giving out warnings to certain sectors where you know there is a big issue? Are you alerting trade bodies and trade journals that you will be pursuing them in a particular way if they are high, low or medium risk?

Marc Gill: Not specifically in those terms, but we have had a lot of engagement with the Federation of Small Businesses, the Chartered Institute of Payroll Professionals and that sort of thing about our approach more generally.

Jim Harra: Just to be clear about how far the segmentation approach goes, it identifies what we think is the right initial contact to have based on what we think the impact is. We know from the payment rates we are getting from those different groups that the segmentation is broadly right. We are getting higher payment rates from the low impact group than from the high impact. Once we engage with the taxpayer, we then look at them on an individual basis. If someone has been put into the low impact group but we look at them and see the impact has not been low, we will treat them according to their specific circumstances.

Chair: Perhaps we will come back to some of this.

Q59 **Dan Carden:** Mr Gill, one thing the pandemic has left us with is larger tax debts. I think the NAO says 2.4 million more people have tax debts. Has the caseload of vulnerable people and people with unmanageable debts increased, and how are you dealing with that?

Marc Gill: In terms of the number of our customers who use our extra support team, which the National Audit Office Report commended us for as a leading creditor, if you like, or collector of debt, the numbers remain fairly constant. We have a caseload of about 1,400 customers who access our extra support. We support them through collections for about £10 million-worth of debt. It has stayed relatively small. It is my opinion that it has stayed small because of the universal offer that we have made available across the whole of the operation. We talked before about the empathetic approach—the way the letters land, and the way that my frontline collectors deal with customers with an empathetic approach and then get into debt negotiation.

We have also introduced the Money and Pensions Service debt advisor referrals. That is just for tax credits at the moment, but we are rolling it out for self-assessment this year. Take-up is modest, to say the least, but we are trying to be really transparent about what we do, to make the guidance really clear on gov.uk externally so that people know what to expect, and to engage with stakeholder groups. When customers come in, we take an empathetic approach. The short answer is that we have not seen a spike in the number of customers coming forward as vulnerable and needing our extra support services, but they are there for those who need it.

Q60 **Dan Carden:** So on the ground, if someone presents with issues around deprivation, not being able to afford the basic cost of living and having debts to repay, what would you expect the response to be?

Marc Gill: First and foremost, income and expenditure is about understanding a customer's means to pay. For those who engage with us and who simply do not have any means at all to pay, we will not ask them to do so. We will put the case in review and contact them later. In those cases where we identify that they have, and we take into consideration all of their income and expenditure, our aim is always to set up a payment arrangement—a time to pay—that will endure and that we expect to complete. As I said before, the proof is in the numbers, because well over 90% do pay, complete successfully and get the customer out of the debt position.

Jim Harra: Just a couple of things to add to that. All debt management staff who deal with customers have been trained in how to identify a customer who is vulnerable and needs extra support. If they can provide that support, that's fine. If they cannot, they have the ability to escalate it to the extra support team, who, in turn, have the ability to refer people to mental health charities, if they need to do so. We have that in place, but I would say that I would expect a significant number of the new debtors or people with increased debt to be businesses. Mr Mackinlay is not here to hear me praise the tax profession, but many of those customers are represented, so they are not just reliant on HMRC helping them. They will have an accountant or a tax advisor who is also helping them through the process.

Q61 **Dan Carden:** Thank you. I want to move on to another issue around staffing at HMRC. For the first time, you have published the return on investment for debt management—I don't know who wants to come back on this—as £205 collected for every £1 spent, which I think is quite a good investment. How can it be justified to see the number of staff decline over the years, from 6,200 in 2008 to just shy of 4,000, when we know this is such a good investment for the taxpayer?

Jim Harra: You're right: right across HMRC, as you would expect, we have a high rate of return for our budget, because we bring in about £609 billion. However, like all Government Departments, we are expected to make efficiencies.

Q62 **Dan Carden:** But they are not efficiencies, are they, if the investment brings in £205 for every £1 spent?

Jim Harra: In the case of debt management resource reduction, yes, they are. Throughout the period where we have been reducing resources, we have made efficiencies so that we are maintaining the same level of performance with less resource. We then have an opportunity at fiscal events to go to the Treasury and say, "If you are willing to reinvest some of these efficiencies, we can give you a return on that." We call it spend to raise. We very frequently make such bids at Budget time, and we very frequently get that investment. Indeed, in the 2020 Budget, we got investment in debt management on that basis. We work on the basis that, like any other Government Department, we must make efficiencies, and then it is a choice for the Treasury whether it takes those efficiencies in the form of a saving or whether it reinvests them for greater revenues. But I think we can demonstrate in relation to the reduction of resources in debt management that that was matched by genuine efficiencies so that we were maintaining the performance.

Q63 **Dan Carden:** Do you think it makes sense to outsource debt management when there is such a good return on the internal debt management service?

Jim Harra: We do use external debt collection agencies as part of our debt management response. The bulk of the resources are in-house, in Marc's area, but Marc also manages our relationship with external debt collection agencies that give us extra capacity, and they really perform exactly the same function as our debt management staff, in terms of contacting customers from a desk. They do not do field visits—we retain those for our in-house staff only—but they do contact by telephone or by post, and they do engage in setting up Time to Pay arrangements and reviewing affordability using exactly the same qualities as us. As chief executive, I am neutral about the extent to which I use in-house or outsourced resources. It is whichever gives me the best—

Q64 **Dan Carden:** What does the data say?

Marc Gill: Since 2015, we have collected £2.3 billion in taxes through our use of the debt market integrator. We calculate that at about £1.5 billion additional tax that we would not have collected had we used our internal resources. We target specific segments of debt by value and by customer type. It is an expansion of capacity, but it also allows us to use private sector data technology. We have placed debts with specific debt collection agencies that have a particular skillset in collecting particular types of debt with, as Mr Harra said, all of the tone, the controls, the guidance and access to Time to Pay that we have internally.

In numbers terms, it has a return on investment of something in the region of 20 or 21:1, so it is good value for money.

Q65 **Dan Carden:** You mentioned field visits, which have dramatically reduced because of the pandemic, down from just shy of 400,000 to 3,600. Do you expect those to get back to similar levels?

Jim Harra: Yes. As Marc mentioned earlier, it has already gone back up, with 110,000 visits since we restarted collection activity.

Marc Gill: To the end of December, clearing £1.2 billion, those continue. Those have not been paused due to the current variant and will continue. There were very few instances of enforcement action, and one of the things we pride ourselves on is that a very low percentage of enforcement visits end up in enforcement. Most of the money is cleared through the visit, either through payment in full or Time to Pay.

Q66 **Peter Grant:** Mr Gill, you have been answering questions from Mr Carden about how you deal with vulnerable taxpayers. How confident are you that you are identifying the vast majority of debtors who are seriously financially vulnerable?

Marc Gill: On confidence, what I would say is that we try exceptionally hard, so we work with, as Mr Harra said, the Cabinet Office on training, guidance and awareness for staff on the frontline in debt management. We are working with the debt function in the Cabinet Office on best practice. We are rolling out the vulnerability toolkit—we started in one site and we are rolling that out across all the debt management teams. That means that, at every interaction with every customer, we are alert to and trying to identify all of the characteristics that might identify a customer as being vulnerable. It is a huge priority for us and we continue to make sure that we do our very best to spot them. When we do spot them, as the Report indicates, we have a comprehensive and very strong offer to support customers through collection.

Q67 **Peter Grant:** Does that guidance for your staff include always proactively probing whether the debtor or the debtor’s household has other financial worries as well as HMRC?

Marc Gill: Yes is the short answer. We would expect our frontline colleagues, when asking for payment, proceeding to income and expenditure, to probe those areas to gather that information. As I said before, if somebody is genuinely unable to pay anything, we wouldn’t ask them to pay in those instances. We are rolling out the means to refer directly to a debt charity, through the Money and Pensions Service, for self-assessment customers this year—it is already in place for tax credit customers—and they would have access to that.

Q68 **Peter Grant:** Thank you. One of the concerns I had was that if a business—especially a one or two-person business—got into bother, there might previously have been a good chance that there was another income coming into the household, but during the pandemic there is a good chance that the other income has dried up. From what you are saying, that is a situation that you are maybe not entirely on top of, but you are as on top of it as you can reasonably be. You are not concerned that there is a significant number of vulnerable tax debtors out there you have not picked up on.

Jim Harra: I think our instincts are that the numbers look lower than you would expect. Take-up of breathing space, for example, which was introduced earlier this year, dipping a toe in the debt advice service, has been fairly low. My instincts are that there is actually more demand to be tapped than we have done so far. However, when we do engage with taxpayers who are in debt, particularly when we are setting up Time to Pay arrangements, my debt management staff look at their whole financial situation when determining affordability, and that includes other debts that they might have to service.

Q69 **Peter Grant:** Thank you. Another area of concern that has mushroomed during the pandemic is the various scams that have been either resurrected or invented. Certainly, some scams are a lot more common now than they were before. Have you become aware of any increase in impersonation of HMRC officials by potential fraudsters—for example, cold calling businesses and trying to get them to pay their tax debt to the fraudsters instead of to HMRC?

Marc Gill: I will start. It is a scourge on society, isn't it? I think we would all agree on that. Yes, of course there are impersonation scams. There are a number of things: we are consistent in what we send out in letters, and we do not put links in SMS text messages that go out to customers. The Department as a whole—perhaps Jim will comment—goes to great lengths to take down rogue websites, and we have done so in significant numbers over the period.

Q70 **Chair:** Would you like to remind us of the email address that we are supposed to send it to, if we get a phishing scam email? I have it saved in my phone. Do you have it in your mind to remind people?

Jim Harra: Sorry, I don't have the email address to hand.

Chair: I think it is phishing@hmrc.gov.uk.

Jim Harra: That's right. If you get a phishing email, you can report it to us. We have put a lot of effort into making people aware of scams as well as trying to tackle the scammers. We have seen a marked reduction in the impersonation of HMRC, and in fact we have now dropped out of the top

100 organisations that are scammed, when we were way up at the top. We have recently carried out a joint exercise, for example, with the Indian police, which closed down a call centre in Delhi, resulting in a very dramatic drop in the number of cases of these kinds of calls being reported to us by taxpayers. We are, I think, quite proud of how effective we are, but it is an arms race. Some of these people in India have now gone away—

Q71 **Chair:** It puts a whole other spin on the India-UK trade agreement, doesn't it?

Jim Harra: It was very good co-operation with the authorities there, and it appears to have been very effective. Of course, it is almost certainly a temporary effect, so we have got to stay on top of it. I feel that we are being effective. We have seen ourselves, as a scammed brand, go way down that pecking order.

Q72 **Peter Grant:** If my experience is anything to go by, Carphone Warehouse has got a problem, as do a lot of mail order delivery companies, perhaps not surprisingly. Is that something that you are routinely monitoring? Do you get alerts from the police, Ofcom or anyone else to say, "We think there has been an upsurge in attempted impersonation of HMRC"? The reason I am asking about that is that the fraudsters tend to focus on where they think the weak points are. If they are not going for HMRC, that is good, because they think that people are wise to those scams. If they start to come back to pretending to be HMRC, it means that they think the public are maybe more likely to believe that. Do you get early warning if these things are beginning to increase, so that you can increase your publicity to warn people what to expect?

Jim Harra: I believe so. Quite apart from having our contacts right across crime enforcement, we have got the phishing service, which gives us warning from our customers themselves about what they are seeing.

You mentioned mail order firms. I should say that HMRC is involved in that, in that—

Q73 **Peter Grant:** You are involved in a mail order company?

Jim Harra: The introduction of customs controls between the EU and the UK is one of the things that the scammers have been trying to take advantage of, because they are telling people, "You've got a parcel which is being held", and of course in the run-up to Christmas I think we did see a spike in that kind of scamming. While it is mail order firms and delivery firms that have got the problem, HMRC has to—

Chair: Everything comes back—every problem lands on your desk, Mr Harra, in the end. Very last question, Mr Grant.

Q74 **Peter Grant:** To be clear for the record, HMRC is involved in combating that particular scam; you are not involved in the scam itself.

Jim Harra: No.

Chair: That would be an interesting sideline for Her Majesty's Revenue. On that point, we will move on to Sarah Olney MP.

Q75 **Sarah Olney:** Mr Gill, when you put payment plans in place for individual tax debtors, how do you ensure that they are affordable for those taxpayers?

Marc Gill: For individuals, we will go through an income and expenditure process—a structured conversation. We will also accept the single financial statement that is accepted by other creditors; it is typical across the marketplace, if you like. We will calculate with the customer how much they can pay, test that and then we will set up the Time to Pay arrangement based on that.

What I would add is something that Jim mentioned earlier. Last year, we significantly expanded our digital offer. We had a sort of beta service, if you like, for our self-assessment—self-serve Time to Pay. Only hundreds, or low thousands, had used it in previous years. Last year, 125,000 customers used that service at the last self-assessment peak. That allows them up to 12 months, up to £30,000, to schedule that debt through a Time to Pay arrangement over the year.

I haven't got the exact average length to hand; I could provide it to the Committee afterwards, but it is not 12 months. The default is not that customers take the full amount. They use the tool to calculate what they can pay and set up a Time to Pay arrangement.

This year, so far we have set up—I haven't got the exact figure; we are currently in the middle of the self-assessment peak, but we are ahead of where we were last year. Almost 150 customers actually set them up on Christmas day and Boxing day. So we know that they are accessible and useable; this is an easy way for customers to interact with us. We think the digital service is the way forward.

We have seen breakthrough on repaying the VAT through a digital service—the new payment service for the £33.5 billion that was deferred. There has been a really good uptake; about 160,000 customers used that. We are aiming to stand up a service for business digital channel later this year. That will start with pay-as-you-earn before moving on to VAT.

However, in the meantime, when we deal with businesses, we will again have a structured conversation. The conversation will be about the cash flow of the business, and means and access to funds. We will aim to set up a Time to Pay arrangement that is affordable and sustainable. As I said, 90% of them complete and pay in full.

Q76 **Sarah Olney:** Can we talk a little bit about phoenix companies? I think this might be one for you, Mr Harra. Phoenix companies have increased during the pandemic. We think they have a significant role to play in fraud and in non-payment of tax. How much taxpayer money do you think is at risk in phoenix companies?

Jim Harra: It is not actually clear that phoenix companies have increased during the pandemic. The National Audit Office Report recognises that there is potentially an increased risk. The greater part of that risk is not from an increased number of phoenix companies but from them being able to endure for a longer period of time, because during the moratorium on insolvencies they could just keep going and keep building up debt. I think it is potentially the case that, as they emerge, we will have incurred a higher loss than we would in a normal time.

It is a minority game. These are people who go into it knowing what it is they are going to do on a repeat basis. That means that we have the opportunity to identify them, and also to identify the insolvency practitioners they tend to use on a repeat basis. Our effectiveness involves trying to identify them as early as possible in their behaviour and stepping in, for example, to replace the insolvency practitioners with ones that we believe will be more stringent in looking at imposing the liabilities, for example, on the directors. We use the rules where, if you use the same business name in a new company, the liabilities can be transferred as well. We use director disqualification, and increasingly we have two powers that are really HMRC-specific. One is the ability to attach tax liabilities to an officer of the company, and the other is, where we see the same business by the same people being carried out by a new company, to require them to give us financial securities before they can be registered in the tax system.

Q77 **Sarah Olney:** Are you starting to use those powers?

Jim Harra: Yes, indeed. Some of them are relatively new, but we have, in 2018-19, issued over 1,000 notices of requirement to provide security. In phoenixism cases, in '19-'20 we issued 550 notices. In 2021, only 93 notices, but although the number has gone down, the amount of tax protected has, broadly speaking, stayed up at about £370 million.

Q78 **Sarah Olney:** Are you keeping records of phoenix companies and the number that you suspect are out there? Are there targets for reducing their use?

Jim Harra: Yes. As the National Audit Office Report recognises, we need to get more strategic about this, and we are putting together a strategy that will be completed in the next couple of months. But, yes, tackling phoenix companies requires you to keep track of the players who move from company to company, because it is the same people setting up the same businesses, often with a very similar name and often, as I said, using the same insolvency practitioner for the repeated insolvencies, so those are patterns that we look for so that we can identify the phoenix behaviour and then apply these techniques.

Q79 **Sarah Olney:** But you do not have an estimate at this time of how much taxpayer money is at risk in phoenix companies.

Jim Harra: No, I don't.

Q80 **Chair:** Can I just ask what measures you have to check whether someone is, for example, using a family member to be a director when they have been disbarred, so that they have a phoenix company that is not theirs but they are controlling it.

Jim Harra: We try to look for the controlling mind, not just the officers of the company. Where we think there is the same controlling mind, that is when we can apply the security.

Q81 **Chair:** There have been issues with the rag trade in Leicester, which some of the MPs there have raised with us. Are you making any progress there, because it seems to be endemic?

Jim Harra: Yes. We were part of a joint taskforce looking at the textile industry in Leicester specifically from the point of view of labour market abuse, but phoenixism was a part of the behaviours that we saw. The outcome of that is that, while there are some problems in the Leicester textile industry, it was not a hotbed that we found. We found a certain level of activity that we need to police, but this is a more general problem.

Q82 **Sarah Olney:** Just going back to the point about the affordability of outstanding tax repayments, what do you know about the wider financial position of people who are in debt? For example, do you have data on household finances or is it dependent on the self-declarations that you talked about?

Marc Gill: It is self-declaration. I think that is pretty standard around a collection of organisations. We are exploring that. A recommendation of the Report was to look at perhaps even buying in external data. We are trialling on a slice of our customers whether credit reference agency-type data would help us, something we have done historically in the past. We did not see value in it at the time. It is a good recommendation in the Report, and we are going to explore it. I would expect to see the results in a few months. If there is genuine value in doing that, and we are able to one, collect more, and two, provide a much better assessment—a more customer-focused assessment—of real affordability, then it would be something that we would explore, but at the moment, we do not use external data to do that. We take the information from the taxpayer themselves.

Q83 **Sarah Olney:** I suppose you are saying you are not, but is there any possibility that you might be sharing information across Government, for example with the DWP? They will have information on different households and the extent to which they can afford to pay their tax debts.

Marc Gill: Sure. It continues to be an ambition across Government to have a more single view of customers and their debts. As I said before, we continue to work with the Cabinet Office debt function on how we might do that and what the legal gateways would be, and test the processes. What I would say is that it is early days. The Cabinet Office are leading on a couple of trials, I think through the Digital Economy Act, which gives them the legislation to do that. We are engaging and leaning in really proactively. We take our responsibilities as the largest debt collection organisation very seriously, and we are leaning in to share best practice, as well as take part in the pilots and the trials.

Q84 **Chair:** One question from me, picking up a bit on what Mr Mackinlay was saying about what is actually happening out there with businesses: do you have any inkling of whether some companies have taken bounce back loans to pay their tax debt, or indeed taken bounce back loans that they are not using to sit there as a cash reserve when they could be using them to pay tax debts? How deep are you getting into that element of it, Mr Gill?

Marc Gill: I will start out; I think Jim might have some comments. It is acknowledged in the Report; it is something we are mindful of. We work closely with Treasury and, indeed, colleagues in business. From the data they have that shows those trends, it certainly does seem to be the case that some businesses drew down on the support that was available and deposited the money in their account. Perhaps just to triangulate that position, as Mr Harra said, we deferred £33.5 billion of VAT. We expect to recover all bar 2%. We may even recover more than that, because we have not given up on collections, and for self-assessment customers, there is very little of that £6.6 billion outstanding.

Jim Harra: As Mr Mackinlay identified, there was a certain degree of softness or liquidity out there, which is one of the reasons why I think you see the big reduction from the peak of tax debt when we started collection activity. When we contacted a lot of the low-impact segment who had deferred VAT and said, "Our assessment suggests you might be able to pay this," actually, a significant number of them just paid. I think that was an indication that there was softness and liquidity there, and that would have come from the range of sources that they could get finance from during the pandemic, including—I guess—bounce back loans. I do feel that what we are left with now is debt that is tougher for people to repay, which is why you see that repayment rate having reduced from that very high level early on.

Chair: And now going down slower—inevitably so. Thank you very much. Over to Sir Geoffrey Clifton-Brown.

Q85 **Sir Geoffrey Clifton-Brown:** Mr Harra, I want to ask one or two questions about staff that Mr Carden started on. Given that, as he said, paragraph 3.19 says that every £1 spent returns £18, there is obviously a lot of good investment in both staff and using the private sector, so could I ask questions around those two, please?

In paragraph 3.10, it says that you had a shortfall of 300 full-time equivalents in 2021, and that you are going to recruit another 600 full-time equivalents. According to my maths, that is 200 extra a year over the next three years, so you are not even going to recover the shortfall that you have. But if you look at the appendix in the NAO Report, it says that a combination of extra staff and using the private sector is likely to be the most successful method of debt collection, so how many extra staff do you intend to recruit over the next three years?

Jim Harra: At Budget 2020, we were given additional funding for about 600 additional staff over three and a half years from—

Q86 **Sir Geoffrey Clifton-Brown:** That is 200 a year. That does not even cover the shortfall, as I said.

Jim Harra: It is 600 FTE for three and a half years, so it's about 600 additional staff, but we were recruiting over 1,000, because we have constant attrition, so as well as filling the additional posts, we have to backfill for—

Q87 **Sir Geoffrey Clifton-Brown:** So it is 600 in addition to the extra 1,000?

Jim Harra: No, there are two different figures here. Six hundred is the number of additional staff that we have been given funding for; 1,000 is the total number that we were recruiting this year, which was to ramp up for those additional posts and also to backfill for vacancies that just arise through natural wastage all the time as staff resign or retire—whatever—because we are in a constant recruitment position. But the effect of Budget '20 is that we end up with 600 more staff than we would otherwise have had.

Q88 **Sir Geoffrey Clifton-Brown:** I am mesmerised by those figures. Just tell me in simple, layman's terms: over the next three years, how many additional staff, over and above those that you have lost, will you have?

Jim Harra: Six-hundred.

Q89 **Sir Geoffrey Clifton-Brown:** Over and above the ones you have lost?

Jim Harra: Yes.

Q90 **Sir Geoffrey Clifton-Brown:** Is that enough, given the scale of the task?

Jim Harra: The National Audit Office Report recommends that we look at increasing our capacity further. And as you say, that can be a combination of in-house resources and outsourcing. In our spending review settlement, as well as being given funding to maintain our baseline, we were given additional funding, on a spend-to-raise basis, of £40 million, £60 million and £90 million over the three years of the spending review. That money arrives on 1 April, and we are currently going through the process with Treasury of planning what we will deploy that funding on, based on what rate of return we can get from it. Debt management, alongside other compliance activity, will be considered as part of that.

Q91 **Sir Geoffrey Clifton-Brown:** As Mr Carden said, you can't think of many other areas of Government where you spend £1 and get £18 back. It seems to me that you should be able to make a pretty easy case to Treasury for increasing either your number of staff or the amount you are spending on external, private sector debt collection agencies.

Jim Harra: I think we have already succeeded in making that case, which is why we have the £40 million, £60 million and £90 million of additional funding, but we have to go through, between now and the money arriving on 1 April, identifying what is the best way to spend that money. Debt management is one of a number of areas where we can raise additional tax revenues, but we are currently going through that process. In the meantime, we have increased our use of debt collection agencies, because that was paused in the same way as all our other enforcement activity; we are now increasingly using them again.

Q92 **Sir Geoffrey Clifton-Brown:** I was coming on to that. You probably haven't caught up with it, but in evidence submitted for our bounce back loan session last week, we heard from a firm called Equifax, who are working with the Cabinet Office. Their subsidiary, Indesser, has recovered more than £2.5 billion for over 50 public sector clients. I don't know whether they work for you or not, but that is the sort of thing that can be achieved by the private sector, so what budget do you have for the use of private sector debt collection over the next three years?

Jim Harra: Marc manages that relationship.

Marc Gill: Yes, and of the £2.5 billion that you quote, £2.3 billion is for us.

Sir Geoffrey Clifton-Brown: Well, that's very good.

Marc Gill: Obviously, it is the company we use: Indesser was the joint venture between Government and TDX/Equifax. It's known as the debt market integrator. We work in partnership with them. It is a genuine partnership. This year, I think the budget is around £26 million to recover not far short of half a billion pounds-worth of tax debt. We restarted those collections in about May/June time 2021, and we will continue to work with them. There is an upper band, I think, in terms of how much debt we can place. The reason for that is the customer service offer. Because the debts are placed individually, and the private sector debt collection agencies would not have access to the systems and be able to compare customers with multiple debts and so on, it is not sensible to place all debt types with them. Rest assured, within budget, there is no shortage of ambition to use a strong-performing private sector contract to work in partnership and in parallel with what we do internally.

Q93 **Sir Geoffrey Clifton-Brown:** What is your budget for private sector debt collection over the next three years?

Marc Gill: I would have to check with Mr Holliday, but this year's budget was £26 million.

Q94 **Sir Geoffrey Clifton-Brown:** Is that likely to increase over the next two or three years?

Marc Gill: It is my understanding that it is fairly stable, but because the return investment is so strong, we are working on a more flexible funding model that would allow us to go further, if it were sensible to do so, protecting customer service and recovering at a strong rate of investment. Would you like to come in, Justin?

Justin Holliday: Historically speaking, the rate of return using the private sector has not been dissimilar to using in-house services, which I think is an affirmation of both sides—

Q95 **Sir Geoffrey Clifton-Brown:** Paragraph 3.19 says it is £18 to £1.

Justin Holliday: Yes, which is not un-adjacent to our in-house—

Q96 **Chair:** Which does beg the question about why you outsource it. What are these companies offering that you can't do in-house?

Justin Holliday: Using the market provides three advantages. The first one is comparison: being able to compare our in-house performance with market performance is useful. Secondly—

Q97 **Chair:** Do you think you have to do that in your own organisation in order to benchmark? Couldn't you benchmark in other ways?

Justin Holliday: Can I give the three reasons together? That reason is probably the least of the three.

The second reason is about bursts of activities. It is a more flexible resource, so we can do bursts of activity. Thirdly, there are certain debt sectors in which particular debt collection agencies specialise, which is also advantageous. Taking those three things together, it is helpful to have a mix of in-house and out-house activity.

In terms of the future, we have spent about £20 million a year on private sector debt collection for the last number of years, and I anticipate roughly that level continuing.

Q98 **Sir Geoffrey Clifton-Brown:** One more question on this. Equifax make great play of the fact that they use very good data and analytics. I imagine that they must be covering all sources of data to get that data and analytics, yet somewhere in the Report—I'm sorry, but I can't source it just at the moment—it says that you, as HMRC, don't regard purchasing data from the commercial sector as economic. I bet they collect data from the commercial sector, do they not?

Jim Harra: First, when it comes to using data ourselves, obviously we have lots of data within the Department already, which gives us indications about people's financial capability and propensity to pay. We are currently trialling the use of private sector data from credit reference agencies to see if that will be a worthwhile thing to boost our debt management performance.

You might assume that more data is bound to be better, but there are costs of acquiring the data from the private sector. It is also quite costly to ingest it into our systems and analyse it, so it is not a slam dunk that it will be the best use of our resources, but we are trialling that to make sure.

More generally, I regard using debt collection agencies, as Justin says, as a benchmark. As you would expect, given that HMRC is a major debt collection agency, we are pretty efficient and we are finding from our benchmarking with them that, while there are certain things we can use them for, we are really efficient in-house ourselves.

Also, they are a means of increasing my capacity when I need to. Earlier, we mentioned the recruitment of 1,000 people. When you add together all the recruitment that I have to do across the Department, it is quite a big strain on the Department to recruit and train all the people that it needs. Being able to call up people from the private sector who already have those skills can be an easy way for me to increase my capacity at relatively short notice.

Sir Geoffrey Clifton-Brown: I would like to come back to this Chair, but I know you want to get Mr Carden in on this point.

Q99 **Dan Carden:** Just on the data point, you are a Government Department and I would have guessed that you had more data on people than a private organisation.

Jim Harra: Within my organisation, I keep making that point myself. I have people in my organisation who constantly want more data, and I push back and ask, "I suspect that we have a lot already; are we sure we are making the best use of it?" On the other hand, there are data sources to which we do not have access, but which can be valuable. That is why we are trialling this approach.

Q100 **Dan Carden:** There will be data sources that they would not have access to, but you have access to. Is that right?

Jim Harra: Yes, but in relation to debt collection agencies, we do those data analytics in house to identify and package up the debts that we pass to those agencies to collect. Using our own analytical resources, we identify those debts that we think they are best placed to pursue. We pass those to them, and very carefully control the policies and processes that they use, so that the customer is getting the same treatment as if HMRC were dealing with the matter.

Q101 **Dan Carden:** To try to clarify the point about the rate of return, my understanding from the NAO report is that outsourced debt collection returns £18 for every £1 spent, and that internal HMRC debt collection returns £205 for every £1 spent. Can we clarify that?

Jim Harra: It is not really a like-for-like comparison. Marc can possibly give you more information—

Q102 **Dan Carden:** It's just whether those figures are right.

Jim Harra: The range of things that Marc's people do in debt management is wider than for the debt collection agencies.

Marc Gill: I think so. I would have to check the £200 figure; perhaps it is divided by total revenue, or something like that. Jim mentioned a score at 20-plus to one. The return investment is higher than we would see with external debt collection agencies, but it is not by a factor. We would need to check that out.

Justin Holliday: I think it is the difference between dividing the total debt by the total cost of debt management, and the incremental pounds spent. When you look at spending the next pound, you get about £20 back.

Q103 **Chair:** So you are including the base costs? Your overheads are included in your figure, but the extra pound you spend obviously does not include the overheads for the private sector. Is that what you are saying?

Justin Holliday: For both in house and out of house, in the decision making, the right thing to look at is how much money you get for the next pound you spend. It is the marginal cost for the marginal benefit.

Chair: We definitely need to bottom it out. On one reading it is very stark. We can perhaps get some support from our NAO colleagues on this point.

Q104 **Sir Geoffrey Clifton-Brown:** Mr Carden and I must be coterminous in our thoughts at the moment. Everyone assumes—even the ordinary man in the street—that HMRC has more data than anybody else. When you ask these private sector firms to recover the debt from Geoffrey Clifton-Brown—by the way, I am about to make a payment to you, before the end of the month; I have still got time as it will be done electronically—do you give them that data? Or do you say, "Here is the debt with Geoffrey Clifton-Brown, go out and get the money from him"?

Jim Harra: No. We do some analytics in house to identify the debts that are best packaged up and given to the DCAs. We give them that debt and a set of processes to follow. Generally speaking, what we want them to do is engage with a customer who has not engaged with us, and then go through the process of understanding whether that customer can afford to pay, and if so, taking payment. If the customer cannot afford to pay, they will go through our Time to Pay process and get that set up. We don't give them a whole range of data.

Marc Gill: That is absolutely right. We place a debt only after we have contacted the customer. They have recourse to come to us first. We inform them that we are placing the debt with the debt collection agency. As you say, that is the value-add. For the slice of debt, or customer segment, we will have made the attempt to collect, and the private sector can bring its data sets to bear to place the debts with the right debt collection agency to target to get the best possible return. They would pay by results.

Q105 **Chair:** You keep talking about the data that they can get. Maybe we haven't quite bottomed this bit out either. Presumably you have the potential to see across different Government Departments. Can you get access to a basic credit check as HMRC?

Marc Gill: We can on an individual basis. We can pull a report when we are heading into enforcement processes, but not routinely.

Q106 **Chair:** You could find that out, but would you be able to find out whether someone had a payday loan—that might come up in the credit report—or a county court judgment? Presumably you get access to those.

Marc Gill: If a debt arrives on our systems, we run our campaigns to contact the customer with letters—

Q107 **Chair:** You rely on the customer to tell you what their debt is. Is this why you are using some of these debt collection agencies, because they have access? Picking up on the point that Mr Carden was trying to get out of you, what exactly do they have access to that you cannot get access to?

Marc Gill: At scale, it is personal credit file-type data.

Q108 **Chair:** At scale. So you could do it individually for an individual taxpayer.

Marc Gill: They will take the file, the customer records and the debt values that we have sent across, and they will wash that through their credit bureau information.

Chair: Fine. Basically, they put an algorithm through their credit information. That is the bit that they have.

Q109 **Dan Carden:** So HMRC do not have a basic credit check. Experian would tell you what you have on your credit cards and things like that, but you haven't got that.

Marc Gill: As I say, we have access to that when we need it for determining enforcement action, but we do not do that in our processes batch at the point that we identify customers and contact them in the first instance.

Q110 **Chair:** Is that partly for confidentiality reasons?

Marc Gill: Traditionally, it has been around, as Jim said, cost and value for money, but also being able to ingest that in a meaningful way into our systems, to be able to make a meaningful difference to how we target customers. Remember that as we described the segmentation, it is only to prompt the customer to come forward, not to predetermine the outcome and the payment plan that they will get when they engage with us.

Q111 **Chair:** Do you have the statutory powers, though? You can do it on an individual basis, but if your systems had the capacity to wash data—the equivalent of what a credit agency has—would you have the statutory powers to do that, or do you need a change in the law?

Marc Gill: I believe we would.

Jim Harra: It is commercially available, and this is what we are trialling at the moment on a small scale, to see whether the costs of doing it would be worthwhile, in terms of the additional marginal result it gives us. It is commercially available, and we have the power to use that if we wish.

Chair: £1 to £18 suggests there may be a commercial opportunity, but I suppose it depends.

Q112 **Sir Geoffrey Clifton-Brown:** So, theoretically, with the amount of data that you hold on an individual, if your data and analytics were as good as those of the private sector, you should be able to do the job better than them.

Jim Harra: This is what it comes down to. We already have a significant amount of data from our own systems, which we have been able to use to segment debtors to some good effect, and we have been able to demonstrate that in recent months. If we add to that data, does that significantly enhance our ability to manage debts and give us a good return? That is what we are testing with the credit reference agency data at the moment.

Q113 **Sir Geoffrey Clifton-Brown:** Why do you need to test it, when we know that the private sector can do it effectively?

Jim Harra: We need to test it because it will cost us money to acquire that data and it will cost us money in our systems to ingest it and analyse it. Before we spend that money, we need to be sure that it will give us a marginal improvement in our debt management, over and above what we already achieve, that will make that worthwhile. In the past, we have looked at it and concluded that it didn't.

Q114 **Sir Geoffrey Clifton-Brown:** So do you access all publicly available sources? I don't know whether you have seen the evidence from Mr Geoff Bantock, one of your former debt collection people. He said, "It would have helped me greatly if I could have had direct access to all DWP benefit and welfare systems." Presumably there are other Government databases, such as the Land Registry and numerous others that one could think of if one had time. If you collected all the data from them, you would know how indebted a person was and, therefore, what the chances are of recovering that debt from them would be.

Marc Gill: First, I think there is opportunity. I said before that having a much more centralised view of debt is an ambition that I think every debt-collecting department across Government has. In the first instance, we are trying to modernise our system so we can see that across tax, so we give our collectors and feed in to our campaigns a single view of what people owe on all of the different tax regimes. If we are able to do that, we are able to do things like automatically setting off credits against debts, and so on, in a seamless way. We are talking about coding out, but doing that much more seamlessly.

If we are then able to layer into that other debts from other Departments, then you could see an advantage from that. I have to be really honest, though—that is not something within the next spending round horizon of three years. It continues to be a longer-term ambition.

Q115 **Sir Geoffrey Clifton-Brown:** Given that we have raised the subject now, given that there are these possibilities out there and given that the private sector seem to be able to do it better than you can, can we have an assurance that at least in your future corporate planning HMRC will consider how it could better collect data and analytics across the piece, to improve—

Marc Gill: If I can just come back, I do not necessarily agree that the private sector can do it better than we can. The size and scale, and the use of segmentation in customer campaigns that we do in debt management—we will come back on the true ROI figure internally, but I think that we do better and at a larger scale.

The private sector plays an important role in expansion and flexibility in capacity, adding not just capacity but also niche skills, and the blend of the two makes us the biggest and best in Government.

Being able to introduce that segmentation within literally weeks during the pandemic, to create a tailored approach to contacting customers, is something we are proud of. In the medium-term future, what we are working to is using the ability-to-pay data and propensity to pay to have a much more targeted and individual journey.

I will bring it to life with an example. If we can see in our data that a particular business only pays when we visit, why are we sending them four letters? We will get out and visit, and we will try to educate, and so on. That is what we are striving to in the data. That is not behind where the private sector are; I think we are really leading the way.

Q116 **Sir Geoffrey Clifton-Brown:** Fine. Thank you very much. This is the final question from me. Could I take you to figure 21 on page 62 of the Report, which is a very interesting international comparison made by the NAO? It basically compares the increase in debt over the pandemic in a variety of countries. The highest increase in debt of all those countries was in Moldova—36%—but there are a number of what I would call slightly bigger economies, such as Australia, in that figure. However, the increase in debt in the United Kingdom was 159%. I really wonder what that tells us. Does it tell us that the reliefs that we gave to the UK taxpayer were more generous than those of other countries, or is there something else going on here?

Marc Gill: The biggest driving factor, as we have covered, was the £33.5 billion of deferred VAT, from quarter 1 in 2020; that amounts to almost half of the debt balance. Plus there is the £6.6 billion for self-assessment. Those two taken together are the vast majority of the debt.

I cannot quickly do the maths, but the figure net of those is significantly less. We talked just before about how much of that is already in, or is due to come in by the end of the tax year. I think a true comparator would be net of the policy interventions that were really quite specific to the UK, but I don’t know if you want to add anything, Chair—

Q117 **Sir Geoffrey Clifton-Brown:** What I am wondering is whether this figure indicates that the UK economy was hit harder than most, or was it just those reliefs that you are talking about?

Marc Gill: In numbers terms, I really believe that has been what has driven the figures, but it wouldn’t be for me to speculate on whether the policy intervention was correct or not.

Q118 **Sir Geoffrey Clifton-Brown:** No, I am not asking you to do that; I am just asking you to tell us what the figures mean.

Jim Harra: Certainly in our case, as Marc said, if you look at the increase in tax debt, you see that went up to £68 billion at its peak, in August 2020. The vast majority of that was as a result of the policy decision to defer payment of VAT from the spring, and to defer the self-assessment payment that was due at the end of July. That accounts for the vast bulk of the increase in tax debt, which obviously has fallen quite sharply as that deferral period has come to an end, but that was the cause—the reason for it.

Q119 **Sir Geoffrey Clifton-Brown:** Final question—at the beginning of the session you said to me that it is going to take, I think you said, at least three years to get back to your normal tax collection percentages. Is there anything you can do to shorten that period, particularly if the economy starts to pick up?

Jim Harra: I think I said a couple of years.

Chair: A nice, general "couple" there. Sir Geoffrey is just reflecting the cynicism of what "a couple" means in civil service language.

Jim Harra: Yes. There are a number of factors involved. First, there is the uncertainty of how the economy will come back. All the signs are that it has bounced back quite quickly. If you compare it with the 2008 financial crisis—that took about five years for GDP to recover to the pre-crisis level, whereas by the end of November, according to the ONS, UK GDP had already recovered, although that was obviously just before the plan B restrictions were introduced. That is reflected in the reduced impairments that we have put in this time, compared with after that financial crisis, and the rate of repayment.

If we see a good bounce back of the economy, we should see the level of liquidity that enables debtors to repay that tax. On the other hand, if there continue to be strains in the economy, we will have to temper the rate of recovery so that we support the economy, and that is an unknown factor; I cannot guess that.

The other factor is just the sheer operational ramp-up—getting back to using insolvencies in the way that we did. That just takes a bit of time.

Q120 **Sir Geoffrey Clifton-Brown:** Sorry, I have one last question—the absolute last question. We have been over this field before, but as chief executive of HMRC, you had to employ a certain number of extra staff to deal with Brexit. Presumably that requirement is now reducing. Is it not possible to redeploy some of those staff on to debt collection, or do they not have the right skills?

Jim Harra: It might not surprise you to know that the Treasury also spots when the requirement comes to an end, so they do not leave me with resource. Indeed, I suspect that one of the challenges for the Treasury across Government has been that as you no longer need extra staff for Brexit, you don't get to keep them.

The way it works is that obviously that resource—that funding stream—ends, but we can make a case to the Treasury for additional funding in return for additional tax revenues, and we very frequently do that on the spend to raise. We have got the £40 million, £60 million, £90 million additional funding already built into our spending review, which will enable us to do that. We are going through the process now with Treasury officials of sort of signing off on what is the best use of the additional funds. That does not prevent us from saying at the next Budget, "We could also do more with more." HMRC frequently does that.

Chair: Thank you very much, Sir Geoffrey. A quick-fire last few questions, starting with Peter Grant MP.

Q121 **Peter Grant:** Mr Harra, when Mr Gill was speaking earlier, at one point he came very close to talking about what I think we call the single taxpayer account. We have been talking about that for a long time. Where has it gone? Is it still going to happen, and if so, when?

Jim Harra: There are two aspects to this. First of all is a single or unique customer record, because, as the National Audit Office Report identified, never mind ingesting and using private sector data—our systems at the moment do not even pull together all of our own data about debts against a customer. That is one key underpinning of the single customer account, which is an online account that enables a customer to see all the data that we hold about them, and to take transactional action on that.

We have made advances in recent years with the personal tax account and the business tax account, which do pull some of that data together, but we have been given funding, both in the 2021 Budget and then in the spending review, to advance that. We have got funding over the next three years to introduce that account and also to do more work on the unique customer record. At the end of the three years, we will not get to the point where we have completely pulled together everybody's data on every tax stream, but I do believe that we will have done so on the major streams.

Q122 **Peter Grant:** From looking at the information that different Government Departments hold about the people that you might be interested in, it strikes me that very often, Companies House has a lot of information that would be of use to you, and a lot of it is available publicly—there are not even data protection issues. How much use do you make of the public Companies House registers in your work?

Marc Gill: We use that through our processes, typically beyond the initial contact phase, but when we visit, one of the first things that our field collection officers do will be to have a look at Companies House—see the status of the directors, the latest filing and so on—and that is used all the way through our enforcement processes. We absolutely use it.

Q123 **Peter Grant:** Do you have any issues about the timeliness and reliability of that? I understand that one of the issues with Companies House records is that the penalties for late submission, and sometimes the penalties for non-submission, if a company has decided to wind up, are that they get wound up. Are you confident that if you need to find information from Companies House, it will be there and it will still be accurate?

Marc Gill: Again, it is an input. Particularly at things like visiting stage, it is information gathering. We would proceed on the information that we have confirmed through contact with the customer, but, Jim, you want to come in.

Jim Harra: One of our standard processes, for example, is that we get the striking-out data from Companies House, where it is intended to strike a company off the register. Obviously, we look to see whether we've got any debts that mean that we do not want that company to be struck off, so we use that data at that time.

Q124 **Dan Carden:** I know that you want quick-fire questions, Chair. You are recruiting and training 1,000 staff, largely to backfill roles. Are you concerned that you have a staff retention problem?

Jim Harra: No. We have had this with the Committee before: we are in a constant recruitment cycle. For example, already this month we have brought 1,300 new staff into compliance and started them through our training programme. In the case of debt management, some of that was to fill additional posts that we have been given the funding for from Treasury, so it was not a case of people having left: those posts hadn't existed. We are in the position, as a large employer of a fairly vintage workforce—that is how I would describe them—of seeing a level of wastage—

Chair: I think "expert" is the word you are looking for.

Q125 **Dan Carden:** Are those 1,000 posts permanent roles?

Jim Harra: No, some of them have been funded for three and a half years by Treasury.

Q126 **Dan Carden:** That is the 600.

Jim Harra: Yes, and then whether they are funded beyond that is to be decided in a future spending review, for example.

Q127 **Dan Carden:** Each one of your debt collectors brings in, or has done over the pandemic, £19 million per full-time official. That is more than the value of some premier league footballers. What rate of pay are they on?

Jim Harra: My debt management staff would love to hear you compare them to premier league football players, but I am not going to pay them that much money. They are mainly at accounting officer grade and AO grade, yes?

Marc Gill: They are administrative—

Chair: Can you give us salaries? We do not all understand civil service grades.

Q128 **Dan Carden:** How much would a debt collector earn?

Marc Gill: Ballpark, it is about £20,000 a year.

Dan Carden: Bringing in £19 million.

Chair: They are sweating for their—

Q129 **Dan Carden:** I know you have to negotiate with Treasury for these roles, but I would have thought that an organisation the size of HMRC could provide decent, well-paid, permanent employment for its staff. I wonder, when you go into these meetings with Treasury, are you batting for your workforce—for good, decent employment?

Jim Harra: I certainly do. Last year HMRC was, I think, unique in Government in having a pay deal with staff that was supported by an overwhelming majority of them in ballot, and which gave them pay rises of 3%, 5% and 5% over three years, which—as I say—I do not think happened anywhere else in Government, as well as changes to terms and conditions. I am committed, obviously, to retaining our skills and also having the flexible workforce that we need.

Q130 **Dan Carden:** Are you really happy having staff on £20,000 a year?

Jim Harra: Our pay scales are what they are. We are able to attract and retain the skills that we need. We had high levels of dissatisfaction among colleagues about their pay, as you would expect, which had been frozen over a number of years. I secured a 3%, 5%, 5% rise; in the times, I was very proud that I was able to do that for colleagues, and I was very pleased that the overwhelming majority of them voted in favour of that deal.

Q131 **Chair:** I am sure we could look at pay scales in London compared with other parts of the country and so on. I know that lots of people get paid different rates for different, very challenging jobs, but we could debate that forever.

I just wanted to ask one last thing. You are now of course the first-tier creditor if someone has a debt. Does that mean that you have other creditors who are waiting for you to enforce a court action? Has that had an impact on what you are bringing in or the behaviour of other creditors?

Jim Harra: I think what you mean is we have been given preferred creditor status in relation to pay-as-you-earn and VAT debts. That means that we rank above unsecured creditors but not above the secured creditors. In practice we account for about 10% of all insolvencies. In normal times about 80% insolvencies are voluntary, and about 20% are creditor-led, and of the creditor-led we account for about half.

Q132 **Chair:** Half. So you are pushing that action?

Jim Harra: In the sense that we lead them. We may well be a creditor in other insolvencies as well, but we are the lead creditor that leads things.

Q133 **Chair:** Has that gone up?

Marc Gill: I had a look at these figures before I came in. In a normal year we recover about £100 million through dividends through the insolvency process. As Jim just explained, there is potential—in fact, we have a scorecard that indicates we will recover more. Those taxes that we will recover are those that were withheld in good faith—were paid by the individual and held by the business—and we would recover them through the insolvency ahead of those with without fixed charges.

Q134 **Chair:** So it is working out for you. I am just thinking about the balance of costs of taking the action versus what you are going to recover if you are being the body that has to lead on this.

Marc Gill: Two things, if I could, Chair. One is it's too early to say how much we will recover, because of where we are with insolvencies. The second thing is that although we will protect more revenue for the Exchequer, that is not our main driver. In fact, it is not particularly a consideration in our decisioning when petitioning for insolvency. It is just a consequence, post insolvency, that we may recover more money.

Q135 **Chair:** Okay, so it is more about going for the action rather than the amount—

Jim Harra: Obviously it's still quite difficult to discern the impact of being preferred creditor, because in the meantime the moratorium on insolvencies has been enforced, but we don't expect being a preferred creditor to change our behaviour in terms of pursuing insolvencies; it's just that in insolvencies we will get a larger dividend than we previously did.

Q136 **Chair:** That's interesting. Given that you get more, you're not thinking of taking more action?

Jim Harra: No. That is something that I will need to monitor to make sure that we don't, but it would not be our policy to do that.

Chair: Okay, thank you very much indeed. I thank our witnesses very much indeed for their time. Obviously this is a challenge. Every pound that HMRC brings in is a pound the Government doesn't have to borrow or that can be spent on other things, so we want you to do well in your work, but we will continue to hold your feet to the fire to make sure that you're recovering the debt that has been mounting as a result of the pandemic. We look forward to the update on that figure at the end of March and beyond.

Our transcript will be up, uncorrected, on the website in the next couple of days thanks to our colleagues at *Hansard* and our report will be out in due course.