HOUSE OF COMMONS

Treasury Committee

Oral evidence: The work of HMRC, HC 1095

Wednesday 2 February 2022

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Harriett Baldwin; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1 - 135

Witnesses

I: Jim Harra, Chief Executive, First Permanent Secretary and Accounting Officer, HMRC; Angela MacDonald, Deputy Chief Executive and Second Permanent Secretary, HMRC; Penny Ciniewicz, Director General for Customer Compliance, HMRC.

Examination of witnesses

Witnesses: Jim Harra, Angela MacDonald and Penny Ciniewicz.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee hearing on the work of HMRC. We have three witnesses before us this afternoon. I am going to ask them to introduce themselves very briefly to the Committee.

Jim Harra: I am Jim Harra, First Permanent Secretary and chief executive of HMRC.

Penny Ciniewicz: I am Penny Ciniewicz. I am the director general for customer compliance in HMRC.

Angela MacDonald: Hi, I am Angela MacDonald. I am the Second Permanent Secretary and deputy chief executive.

Q2 **Chair:** Welcome. Thank you very much for appearing before us. Perhaps I can start, Jim, with yourself and go straight to error and fraud in the coronavirus support measures. Just let me walk through the numbers so that the Committee is very clear that we have the right figures. As I understand it, the total amount of support across furlough, SEISS and eat out to help out was £81.2 billion. Of that, furlough was £60.7 billion. You were expecting originally between 5% and 10% of that to be E or F, and it is now currently pencilled in at 8.7%, so it is within that range. SEISS was £19.7 billion of the total, with 1% to 2% expected to be error and fraud, and you are now expecting about 2.5%, which is outside of that range. We might come back to that. Eat out to help out was £840 million, with 5% to 10% expected to be error and fraud, and about 8.5% now expected.

If you add up the total error and fraud on your current expectations, it is about £6 billion. I think I am right in saying you are expecting to bring in about £1 out of every £4 of that, meaning that there would be an overall expected loss of about £4.3 billion across those three support measures. Is that an accurate understanding?

Jim Harra: That is pretty close. I have an update on what our expectations are in terms of recoveries of error and fraud. In the 2020-21 financial year, we recovered £536 million from our post-payment enforcement action. In addition, we recovered £350 million when we prompted employers to double-check and correct—

Q3 **Chair:** Are you talking about across all three support measures there, or is that just furlough?

Jim Harra: This is across all three, although the £350 million relates solely to furlough. We prompted employers to check their own claims and they corrected and returned £350 million to us. Over the course of this financial year and the next one, we expect to recover about £1 billion with the additional funding that we have been given. Beyond that, we are not giving up on this. We are continuing to seek to recover everything we can. We do not recognise any claims that we have written off any money. We definitely have not, and we do not intend to do so. That net figure will be lower than you have quoted.

Q4 **Chair:** Where would that leave us, then, if you get the £1 billion and you have already got £536 million and £350 million? Where does that take the £4.3 billion down to?

Jim Harra: On what we have currently achieved and what we expect to achieve this year and next year, you are approaching £2 billion of recoveries. As I say, first of all, we intend to try to beat that if we possibly can, but beyond the next two years we are also not giving up on that at all.

Q5 **Chair:** No, I understand. If those figures that you have suggested are met, the £1 billion et cetera and that which you have already brought in, that would mean you would still be left with about £2.5 billion to chase.

Jim Harra: Yes.

Q6 **Chair:** Let us just focus on that. There is this distinction between saying, "It is at risk and we are going to chase it", and whether we get it in or not. Are you sitting there, thinking, "We might get quite a lot of that £2.5 billion in"? It is a large amount of money.

Jim Harra: We have made a realistic forecast of the amount that we expect to get in with the additional resources we have been given. As time goes on, it becomes more challenging. There are two challenges to this. One is the nature of the error and fraud. We believe that the controls that we put in place were very effective at preventing criminal attack.

We are not talking about money that is in the hands of criminals who we are chasing, because we were largely able to prevent that. What we are talking about is overclaims by real employers and self-employed people. Often these are fairly small amounts. They are often quite difficult for us to establish. While we have estimated that global amount, that does not mean we can just issue the bills to people, because we do not know who they are and we have not demonstrated, case by case, the non-compliance. Some of that non-compliance would be very difficult to determine and prove, even though we believe it may be in there spread across the population.

Q7 **Chair:** From what you are saying, there is this £2.5 billion that you have not given up on. Perhaps you will never give up on it, but there is not a high expectation or any real expectation that that money is going to be retrieved. Would that be fair?

Jim Harra: It certainly would not be realistic for me to say that we expect to collect all of it or even to find all of it in that population.

Q8 **Chair:** Are you satisfied with that figure of £2.5 billion? A lot of people feel that is a very large amount of money. Notwithstanding the point that you may be about to make around having to get the money out quickly and that, therefore, there was always going to be some error and fraud associated with it, is that an acceptable outcome?

Jim Harra: No error or fraud is acceptable, hence why we will not give up on any of it. It is not acceptable for people to make incorrect claims, but it was inevitable.

Q9 **Chair:** You feel it was inevitable for it to happen at that level.

Jim Harra: Yes. When I appeared before this Committee in April 2020, just after we launched the schemes, I did say that our expectation was that error and fraud in the furlough scheme, for example, would be in that 5% to 10% range. There are a number of reasons for that. First of all, whilst we had to build in as many controls as we possibly could to prevent error and fraud, we could not do so to an extent that would then have prevented the scheme from achieving its objective to get help to people and to protect jobs and businesses as fast as we possibly could, which was the point you were making.

It was also inevitable that we were going to be reliant on an element of self-assessment of entitlement, particularly by employers. They are the ones who know whether their employees are being furloughed. That is not information that we were ever going to be able to verify before paying out on claims. It was inevitable that there was going to be a level of error and fraud, which I am afraid applies right across the tax and tax credit system that we administer as well as these schemes.

Q10 **Chair:** I am just doing some of the maths on what we have just worked through. If the progress you expect to make is made, you would be left with £2.5 billion outstanding, for want of an expression. Divided by the total of £80 billion, that would seem to me to be about 3%. Would that be roughly where you might end up or expect to end up? I am not looking for a promise. I am just asking whether that analysis is right, if that is what you achieve.

Jim Harra: I have set out what our best provisional estimate is of the error and fraud and what it is that we believe we can achieve. Yes, we will recover some of that and therefore that 8.7% figure in the furlough scheme will be reduced. It is early days yet. If we can do better, we will.

Q11 **Chair:** I am just wondering whether I have misunderstood, because there is a big difference between 8.7% and 3%, which is the figure I have just arrived at. After the additional measures and the significant investment in chasing down some of this error and fraud, the £2.5 billion that is left is about 3% of the £80 billion-odd. If all goes to plan, is that the likely end point?

Jim Harra: Going back to the figures again, roughly speaking, in terms of what we have already recovered in 2021 and what we believe we will recover from the Taxpayer Protection Taskforce over two years, that is roughly about £2 billion.

Q12 **Chair:** That would take you to about £2.5 billion. Divided by the £80 billion-odd, you would be at about 3% at the end of that process.

Jim Harra: What we are focusing on is what we can get back rather than percentages and everything. From our point of view, there is now a practical operational exercise around making sure we achieve that level of performance from the taskforce.

Q13 **Chair:** This question is to Jim, but do please come in, Penny or Angela. What are the lessons learned from this? What would you have done differently with the benefit of hindsight?

Jim Harra: First of all, we are using quite a lot of hindsight now. At the time we were up against a time constraint. We were up against a very serious chilling effect on employment and on small businesses, if we had not acted fast. Therefore, some very difficult decisions had to be made about the level of controls that we would introduce. Some of the controls that we introduced because we felt we could not tolerate the error and fraud risk did of course mean that some people who we would have wanted to help were excluded. Those are the kinds of trade-offs that we were having to make.

If you look at the difference in the levels of error and fraud in the schemes, one of the key lessons from that is that, where we have good referential data and we can make the assessment of entitlement, we get a lower level of error and fraud than where we are reliant on claimants' self-assessment.

Q14 **Chair:** Are there any areas where you could or should have done that but did not and therefore could have had a better result as a consequence?

Jim Harra: If we had had the luxury of more time, we may have been able to collect more third-party data against which we could have verified what we were being told in the time that we had to turn claims around. When we were up against it, it was not really realistic for us to have done much different.

If I can explain what we did, for the furlough scheme we created a control framework in which we identified all the key control risks in that scheme and identified how we were going to mitigate and manage those risks. We then identified the extent to which we were going to be able to do that pre-payment through the policy design of the scheme, the controls that prevent criminals getting into our systems or through the pre-payment checks after we have received a claim but before we make the payment, and we also identified the extent to which we were going to manage those risks post payment.

If we had had the luxury of more time, we might have changed the balance between pre-payment and post-payment checking, but I gave Penny's people 72 hours to check—

Q15 **Chair:** Nobody is saying that if you did not have enough time to do something, you should therefore have done it. Clearly, by definition you cannot. The question is slightly different. Looking back with hindsight, were there instances or examples where you would have had the time to have done thing differently but did not do it? If so, what were they? What were the consequences of that? Was it all perfect and you could not possibly have done it any better?

Jim Harra: My firm view is that we did a very professional job. We risk assessed all of those claims in a 72-hour window from receipt to payment. Without extending the time it took to pay it, I do not believe we could have done more.

Penny Ciniewicz: I would agree. We risk assessed 22 million claims within a 72-hour window pre-payment, with a very clear view to eliminating as much as possible of the risk of criminal attack. In CJRS, we estimate that that was as low as 0.3%. There was really active working between all of our cyber, intelligence and other capabilities to make the strongest possible defence against that type of attack on the schemes. Seventy-two hours is not very long in which to do all of that work, so I am really proud of the teams that did it.

The hypothetical of, "If you had had longer, what would you have done?" does not—

Q16 **Chair:** That was not quite the question. It was not if you had had longer. It is, looking back, given the time you had and what you had to achieve, would you have done anything differently?

My feeling, which I will share with you, is that I totally get the pressure that you were under. I do not underestimate the achievement of having supported the labour market in the way the Treasury and HMRC did. It is an extraordinary achievement. If you end up, if I have got the numbers right, having 3%, or thereabouts, error and fraud across an £80 billion-plus support scheme put out of the door very quickly, that is probably not "shock, horror" territory. That is possibly towards what one might expect.

If you are also saying, "However, there was nothing that we could have done differently to make anything better. If we had our time again, we would not have changed a thing. We got it absolutely spot on", that slightly troubles me in itself. When you are doing all these things, it surely must occur to you that there are a small number of items that you might have done differently if you were to do it all again.

Jim Harra: I honestly cannot think of anything. We had to make judgment calls. You could have made them differently depending on what your priorities were. You could have had systems already in place or data already in place, which might have given you a richer intelligence set with which to risk assess these claims.

Certainly, although our cyber defences are effective and have kept organised crime to a minimum, the reality is that some taxpayers do get their credentials compromised or stolen by criminals. We saw some evidence of that in the self-employment income support scheme, although not really in the furlough scheme. We are constantly working on trying to keep those cyber defences as up to date as we possibly can, but they really are around the margins, frankly, of what you could have done against the priorities that we had around time constraints and reaching as many people as possible.

Q17 **Chair:** You mentioned SEISS, Jim, where the initial estimate was 1% to 2% but that has now risen to 2.5%. What lies behind that?

Jim Harra: Penny can elaborate a bit. A key difference between the self-employment scheme and the furlough scheme is that we calculated the quantum of the claims ourselves. We did not rely on the claimants providing us with data. We were dependent on making sure we really had the gates guarded against getting into the scheme.

Penny Ciniewicz: I must admit I cannot remember the precise detail that has led to the increase in the assessment on that particular issue. Essentially, yes, the constant risk is that someone has their credentials compromised, as Jim says. We are as vigilant as we possibly can be against that and are constantly seeking to tighten those defences as best we may.

Jim Harra: The main reason that I recall for the slight increase in that error rate was that we did find, particularly in the early days of the scheme, that some taxpayers came forward to make a claim and found that a claim had already been made in their identity. Their identity had effectively been stolen. That is not because our systems were hacked; it is often because the taxpayers have been duped into revealing their credentials through a phishing site or whatever. We have put in cyber defences to protect against that, but that is a key reason as to why in that particular scheme it was slightly higher.

Q18 **Chair:** There is one final question from me. I am just going to go to the tax gap. I know it has always been a source of some pride at HMRC that the tax gap has been kept low by international standards. I know grant relief of the type that we are discussing is not necessarily about the tax gap, but what has the pandemic done to the tax gap? What are the latest numbers? What is your latest feeling about where it is headed? What would underlie any changes in those numbers or any shifts in those figures?

Jim Harra: Penny can elaborate from the coalface. I know there is not a direct parallel between the impact of Covid-19 and the financial crisis, but, when we look at how taxpayers behaved following that crisis, when their incomes were really hit, and what we expect to happen after Covid-19, we did not really see a significant change in people’s behaviours in terms of their attitudes towards avoidance or evasion. Therefore, following the bounce-back from Covid-19, I would not expect to see any fundamental change in the tax gap.

We are running a much higher level of debt as a result of the pandemic, mainly as a result of policy choices to allow people to defer VAT and self-assessment payments. Therefore, the element of the tax gap that is made up of non-payment is likely to be higher than it previously was.

Q19 **Chair:** Can you quantify the size of the deferred tax element, if you might call it that?

Jim Harra: It is looking like the losses from that are going to be a lot less than the Office for Budget Responsibility predicted. The OBR made public forecasts about how much of that deferred VAT and self-assessment debt would get lost. Our collection has already exceeded that level. We are left with about 5% of the deferred VAT to collect and we are still bringing that money in, so it will be significantly below that.

I am sure that is testament, to some extent, to HMRC's performance, but, frankly, it is also testament to the bounce-back of the economy, because it means that businesses that might otherwise have found themselves insolvent and unable to pay that debt are in a position to do so. We expect to recover the vast majority of that. At its peak, the debt balance reached about £68 billion in August 2020. Going into the pandemic, it was about £15 billion to £16 billion. That is a massive increase. By the end of September 2021, it was down to £42 billion, and £11 billion of that was in a payment scheme. Providing that those taxpayers maintain compliance with those schemes, we do not have to take any enforcement action to collect that.

That continues to go down month on month. What we found initially when we restarted collection action and contacting the debtors was that quite a lot of it was quite soft. A lot of businesses responded by paying. We got a very good engagement with our Time to Pay offer. That included an automated offer, where businesses could go online and select a payment plan. We are down to a balance that is probably going to be tougher to work through.

Q20 **Chair:** As a technical point, how do you account, in terms of the tax gap, for the situation where the deferral ends up being in relation to a business that goes out of business altogether and would therefore not be in a position to pay the deferred tax? How does it work? Does that go into the tax gap?

Jim Harra: It does, yes. One element of the tax gap is non-payment. Where debtors go insolvent and do not pay their debts, that is in our accounts. We score that as a write-off. In the tax gap, we count that as non-payment. Given the increased size of the debt balance and the fact that insolvency enforcement was non-existent during the pandemic, you could expect that part of the tax gap to temporarily increase. Otherwise, unless Penny has anything to add, I do not expect behaviours to change.

Q21 **Kevin Hollinrake:** I may have missed this but, of the £2.5 billion that you thought would be left in terms of fraud and error, how much will be fraud and how much will be error?

Jim Harra: We did publish in our provisional estimates how much of it we thought was fraud and error by scheme. I do not know, Penny, whether you have the figures.

Penny Ciniewicz: I have. In CJRS, we thought 2.3% would be error, which is £1.4 billion. In eat out to help out, it was 1.5%. The estimate in SEISS was negligible. I am sorry that I cannot monetise the eat out to help out one for you.

Jim Harra: We will get better data on that as the taskforce works through cases. In the case of the furlough scheme, we also have a random enquiry programme where we pick up cases that are not risk-selected. It is possible that we will see a different balance between error and fraud. If I had to guess which way that would go, it would probably be more error and less fraud.

Q22 **Kevin Hollinrake:** Less than 50% of that £2.5 billion will be fraud.

Penny Ciniewicz: That error number is not the number left over. It is the number in the total figure. For instance, in CJRS it is not £1.4 billion of, on your maths, two-point-whatever. It is £1.4 billion out of the total CJRS scheme.

Q23 **Kevin Hollinrake:** Yes, I get that. You said that there would be roughly £2.5 billion that would be defined as error and fraud. I am not saying you have written it off, but that is what you have predicted.

Jim Harra: Just to get clarity on the numbers, we estimated that the level of error and fraud in the furlough scheme, before we take post-payment enforcement action, was about £5.3 billion. Of that, we estimated that £1.4 billion was error. Those are numbers that we will be then refining as we carry out the random enquiry programme and the post-payment compliance work.

In terms of our approach to risk-assessing cases and picking them up for enquiry, we are trying to focus on the most egregious end of that error and fraud. We are not trying to find cases where someone made a genuine mistake. If we do find those cases we expect people to correct them, but our approach to that has been to ask employers to double-check their claims. That is where that £350 million recovery has come from. We are aiming to focus, as far as possible, on abusive and fraudulent behaviours. What the eventual balance will be and what is in the residue is unclear, but my instinct is that, as Penny's people work through the cases, we will find that there is more confusion and mistakes from people dealing with an unfamiliar scheme in a hurry and in a stressed situation than fraud. That is our current best estimate at the moment.

Kevin Hollinrake: It would be good to get some figures on that at some point. I still do not understand what the answer to that question is.

Q24 **Chair:** We will write to you after the session, perhaps, and nail down exactly what it is we are after. You can respond to that, if that is alright.

Jim Harra: Yes.

Q25 **Dame Angela Eagle:** The Taxpayer Protection Taskforce, which has been announced, will have 1,265 staff. Are they new or redeployed?

Penny Ciniewicz: They are redeployed, but as part of setting up the taskforce we had funding to bring in additional staff, who we are training now.

Q26 **Dame Angela Eagle:** How many additional staff are you bringing in?

Penny Ciniewicz: For the Taxpayer Protection Taskforce, from memory, around 1,000 staff will be trained to replace the yield that would have been lost over the scorecard period from the staff that we have redeployed into the taskforce.

Q27 **Dame Angela Eagle:** How long will it be until those new people are in place? Are you saying that the Taxpayer Protection Taskforce is now in place and doing its job and you are backfilling so that nothing else gets missed?

Penny Ciniewicz: Yes.

Q28 **Dame Angela Eagle:** How long will it take before you are back up to scratch in terms of staffing?

Penny Ciniewicz: It is a complicated picture in terms of staffing, because we also received investment in spending review 2020 for additional staff as well as other investments. This year we are bringing around 4,200 new staff into compliance, which we have been bringing in throughout the year. They are not earmarked for one or the other of the purposes; they are just new staff who we are training.

In general, it takes around 18 months to train a compliance officer. They start doing active work in a supervised context as part of their training in the first nine to 12 months. The way it is calculated is that we look to recover any loss of yield over the scorecard period through the investment of those additional resources.

Q29 **Dame Angela Eagle:** You are confident that you have enough staff to deal with this fraud issue and some of the losses that have happened because of the circumstances.

Penny Ciniewicz: Yes, we are not at this point seeking more staff. It is a very considerable injection of new resource into the compliance arena. We are looking forward to having those people fully trained, on board and up to speed.

Q30 **Dame Angela Eagle:** I want to ask Angela MacDonald a question. When you gave evidence to the Public Accounts Committee in December about customer service, you were basically saying that you were going to get things back on an even keel and the numbers were going to get better in terms of customer service. Can you tell us what has happened with the latest publication of numbers?

Angela MacDonald: Yes, when I shared that at that Committee, we were talking about the fact that in this last year we have been trying to get ourselves back into a position where, from the start of next year, we will be able to deliver pre-pandemic levels of service. We are on track or a little ahead of our plan. An on-target position would see us with a head of work of about 2 million items. I know that sounds like an enormously large number, but we get about 1.8 million to 2 million pieces of post every month so it is the right kind of figure.

Q31 **Dame Angela Eagle:** Things have got worse, have they not, since you talked to the PAC? Your latest publication showed the numbers getting worse.

Angela MacDonald: There is always an interesting question on the statistics. Our reporting shows the percentage of stuff that is cleared in 15 days. When you are clearing all the stock, every single thing that you are doing is not making any difference to that target because the 15 days is long past. Therefore, it is over. You have two choices when looking at improving your service. You can start at the back, which means those who have been waiting the longest get done first. That is one way of doing it, but it means that every clearance you are making is making no difference whatsoever to your latest statistics.

Q32 **Dame Angela Eagle:** There is no incentive, because your performance measurements are about time. If that time has gone, there are no incentives whatsoever for you to deal with the backlog, because it makes your performance stats go down. Is that what you are saying?

Angela MacDonald: No, forgive me. I am trying to explain to you how the maths work and why the stats look as they do. There is a really good reason why it is important to deliver service within targets. When service is delivered outside of targets, it becomes more expensive because customers ring you, chase you and ask for more. It simply makes your work stack higher. If you are going to deliver any kind of decent service, you have to be able to deliver within something that the customers think is a timely amount.

It is not simply because it is the right thing to do; there is every financial incentive for us to make sure we are delivering the service, because it is actually the cheapest and most effective way of delivering a service. As we get ourselves back through this period, we will bring that old stock down.

Q33 **Dame Angela Eagle:** That is the backlog, essentially.

Angela MacDonald: Yes, absolutely. We are bringing all of that down, which is exactly where we are at, so that when we get to the beginning of April—that is when the maths starts again and we are back within our normal head of work—and we start at the back of the queue, it is simply stuff that is well within that appropriate timescale.

Q34 **Dame Angela Eagle:** You are expecting to get the backlog, if I can call it that, down by the end of the financial year.

Angela MacDonald: Yes, absolutely. We are ahead of our plan for that. You are quite right: because of that oldest thing, you do not see it in the stats. What is going to be quite interesting is that, by that measure, things might look one way in March and then in April it might look like it has stepped up quite considerably. That is because, as I say, the clock starts again.

Q35 **Dame Angela Eagle:** It might be a good idea to have a measurement of backlog so we can make better sense of the performance stats.

Jim Harra: I am quite happy to look at that. Certainly, we have that management information.

Angela MacDonald: We have that, yes.

Jim Harra: We give quarterly performance against the target. As we have been clearing that backlog, we have not been making an impact on that target. We certainly have information about the size of our stockpile and its average age and everything.

In terms of what we have tried to do to get back to an even keel this year, first of all we got our phone performance up to a level that is giving a decent service. As we got more and more resources free after that, we did not use them to make the phone service even better; we used them to get the post stockpile down.

Similarly on Penny's side, getting compliance back on an even keel has been the key thing. The one area of our work that will not be in an even-keel position at the end of the year, which is a key piece of work, is the debt balance, which is still going to continue to be much higher than in a normal time. That will take a couple of years.

Q36 **Dame Angela Eagle:** Jim, when you gave evidence to the Public Accounts Committee, you said something quite surprising. You said that you were not resourced to give brilliant customer service; you were resourced to give decent customer service. Do you want to spend a little bit of time telling us what the difference between "decent" and "brilliant" is?

Jim Harra: I certainly should not say anything surprising at Select Committees. Let me unpack that. I stand by what I said. For example, we have got our call handling performance up to 80% adviser attempts handled, which means that 80% of calls that are put through to an adviser are picked up by an adviser. The other one in five callers have to call back, because their call does not get picked up the first time. Ideally, I would like to get that to 100%. That would be a brilliant service. I do not have the resources to do that, but I believe the level of performance that we have reached gives taxpayers a decent service. They can contact us; they can transact with us. At peak times some of them may have to phone back, but they will get through.

We can tell from our customer satisfaction levels, which we measure, and our Net Easy score that we are getting fairly high levels of satisfaction, particularly with the digital services, but also when we bring that phone service up to that level, we are getting a good level of satisfaction.

Q37 **Dame Angela Eagle:** What about post clearance? What is the difference between "brilliant" and "decent" there?

Jim Harra: My post-clearance target is to reply to 80% of post within 15 working days. In this day and age, I suspect some people would say that that is not brilliant and that they would expect to see a quicker turnaround than that. With 2 million pieces of post coming in every month, that is realistically what we can achieve if we manage it really well. If I look at the spending review settlement that we have had for the next three years, I am satisfied that, while it is a tough settlement, it gives us enough to maintain that decent level of service over those three years.

Q38 **Dame Angela Eagle:** You cannot move towards "brilliant" with the spending review settlement; all you can do is maintain "decent".

Jim Harra: We are in the process now of agreeing what targets we can achieve. When I say I am not funded to deliver a brilliant service, I am not funded to be on a track to deliver a brilliant service. If I were a Treasury official, which I am never going to be—

Dame Angela Eagle: Especially not after this.

Jim Harra: If I were a Treasury official, this is maybe not what I would spend spare funds on, if I had them, because I would have other things that I need to do. Even as chief executive of HMRC, if I were given additional funds internally, I do not know whether that is what I would choose to spend them on when we have error and fraud and everything else to deal with. It is a balancing act.

Q39 **Dame Angela Eagle:** That is fair enough. Thanks for your very open response to that. What about VAT registrations? Why are they taking so long at the moment?

Jim Harra: VAT registrations have now recovered to within service levels. What we have seen, however, with VAT registrations is an enormous increase in the level of registrations. We have seen a tenfold increase compared with normal times.

Angela MacDonald: Yes, it is about that.

Jim Harra: That is primarily as a result of the new VAT rules for online sales, which have prompted huge numbers of overseas sellers to register for VAT. It is a good news story, because it points to those measures bringing in much more of the previous lost VAT yield that we had anticipated, but it did mean—"overwhelmed" is a strong word—that we had a level of registrations far in excess of what we had forecast. We are now back on turning those around.

Angela MacDonald: We absolutely are.

Q40 **Dame Angela Eagle:** How bad was it at its worst and where are you now with it?

Angela MacDonald: I will correct the figures afterwards if I am incorrect, but at the worst you were waiting 12 to 16 weeks for a VAT registration. We are now back within the target, which is within 30 days. The reality is that an awful lot of this is digital. Once the customer gets through that initial phase, all of the subsequent signing up is all digitally done and it is instant. Our aim is to get things done a lot faster than that. We are very aware that both registration for VAT and de-registration for VAT are incredibly important parts of the business process, so we always seek to outperform. It is a backstop measure and not an ambition measure, if that makes sense.

Q41 **Dame Angela Eagle:** Given the fact we have had this huge one-off bulge in applications, presumably because of changes at the border, can you give us reasonable assurance that that will not happen again and that you can keep up with it?

Angela MacDonald: We absolutely can. These kinds of changes in the economy help us to learn those lessons and therefore to think about how we change our forecasting. As things move around, it is always about matching that to the volume of colleagues that you have available for the work. Insight tells us that the economy is moving around, in which case we train more people and therefore we keep that target there. We will take that learning in, flush that through the forecasts for next year and increase the volume of colleagues that we need in that group, if necessary, to make sure we deliver the target.

These are the kinds of processes where, when you get behind, they have ripple-down effects not only for the business but for the rest of the servicing. As you can imagine, we have hundreds and hundreds of different work types. Some of those are quite stand alone, but for others, if you get behind there, other problems occur. VAT registration is one of those, so it is incredibly important that we stay on top of it. We are at the minute, and that is where we will stay.

Q42 **Chair:** Can I ask a quick follow-up question or two? Angela, I remember when I was the Minister you dealt with. We used to discuss these very issues of customer backlogs and everything.

Angela MacDonald: We did.

Q43 **Chair:** I was always impressed with the way you handled things, I have to say. We always used to discuss channel shifting, which is getting people out of using telephones or writing and interfacing via the internet, et cetera. Can you talk to us a bit about that and how that programme is going? In particular, one of the things that I recall focusing on quite a lot and pushing hard on was the quality of guidance that there is online, which of course in turn can head off a lot of problems that you otherwise accrue in terms of demand if the guidance is not very good.

Angela MacDonald: Yes, you will be pleased to know that we are still making progress. HMRC is already an 85% digital organisation. It is interesting. We focus on customer service in terms of phones and post, but the reality is that by far the majority of our taxpayers never have to have an interaction with us as HMRC because it all moves through digitally. Transformations like making tax digital and the transformation for VAT are extra parts of that overall digital progress.

On the specifics that you talk about there around things like online guidance, in the last couple of years it has been interesting to see how technology has shifted to allow us to do some really quite interesting things, such as putting digital assistants on to parts of our manuals. At the minute, if you do not ask quite the right question when you go in, you do not get quite the right information back. There is an enormous amount of tax information available through the manuals and the guidance that we put out. We have invested in some really new and very innovative technology to do something a little bit more innovative in terms of finding out what it is that you want to know. The artificial assistant will offer you back the guidance you want rather than you having to navigate through the indices and hope you are going to land on the correct part.

We are at the early stages of that bot-type implementation, but we have big plans for that as part of our work as we go through this next spending review period. We need to continue that journey on digital, not only because our spending review settlement assumes that we will, because then you become more no-touch—we have efficiencies that we need to deliver—but also because that is what the customer expects from us. It is what they get from everybody else and they expect it from us as a tax authority as well. It is a win all the way around.

We need to be mindful that we have a whole load of people who are digitally excluded, and HMRC has to service the entirety of the population. We do need to make sure that our other channels are available, but, where a customer or a business can serve themselves and can go digital, we want to focus on how we can remove the barriers to helping them do that, so that the human interactions are reserved for the people for whom going digital is not something they are going to manage.

Q44 **Chair:** That is helpful. Is there anything that you can share with the Committee after this session to demonstrate that the delivery side of that aspiration is being achieved and what the plans are around that? That would be helpful, because it is so vital.

Angela MacDonald: Yes, we would be happy to.

Jim Harra: We can demonstrate that, as a result, the volume of phone calls that we get year on year, for example, is going down.

Q45 **Chair:** Jim, I do not want you to dwell on this now—perhaps you could write to the Committee on this—but, during the course of your answers to Angela, you mentioned the debt in passing. You said you thought it would take two years to get the debt down. Could you write to us just to let us know what is in that debt? I assume it is the deferred VAT and various other items. How much is involved? What resources are you applying to get that debt down? It would be useful for us to get a handle on the size of the issue, how much money is at stake and what you are planning to do to get that money in as fast as possible.

Jim Harra: Yes, that is fine. The National Audit Office recently did a report on it. I can certainly give you the information on that. We will shortly be publishing the most up-to-date information.

Q46 **Alison Thewliss:** I have some questions around tax debt management. Some of these follow up on answers to my colleagues. Jim, you told the Public Accounts Committee that you would get debt down in a couple of years. Can you elaborate on exactly how long that will take and what your aim is there?

Jim Harra: Yes, I can feel myself being increasingly locked in to this forecast. Now we have stopped administering the Covid support schemes, subject to managing the error and fraud, we need to get back on an even keel; that is an objective that I have for the organisation. In the next financial year I want to start running the tax, customs and tax credits systems in a pre-pandemic way and have levels that we recognise, but the exception to that will be debt.

Normally we would have a debt balance between £15 billion and £19 billion on our balance sheet. That is not what I will have on my balance sheet at the end of this year. The tax debt will probably be somewhere between £33 billion and £36 billion. It will take us time to work through that and get it back down to a normal level. My estimate is that it will take us a couple of years to do that. That is in part because there was a pause on insolvency action, for example. We start from a standing start on some of that debt. It is also quite uncertain, because it depends on what the economy does. For example, we previously forecast that the debt balance at the end of this financial year would be £33 billion. That was before Omicron and Plan B. That has caused us to revise that figure. It could now be between £33 billion and £36 billion. Having said that, the economy is now opening up again. It may well be that things will get better. There is quite a lot of uncertainty, but that is the reason why it is going to take a bit longer for that part of the business to get into a normal situation.

In terms of our approach to that, our principle is that we are not trying to get the debt out of the taxpayer; we are trying to get the taxpayer out of debt. In particular, we do not want any viable business to go to the wall because of our collection activity. We want to encourage debtors to engage with us, to pay what they can afford to pay and to get their debt out of an unmanaged position into a managed position.

In the last year, both for self-assessment and VAT, we have been quite successful at opening up digital services that enable taxpayers to go online and say, "I cannot afford to pay this off in one go. This is what I can afford to pay", and then to set up payment arrangements. They do not have to speak to an HMRC adviser. Anyone who could not cope with that standard offer was able to speak to an adviser and get a bespoke payment arrangement. There are still quite a few of those taxpayers in debt who have just not engaged with us. That is what we need to get them to do.

Q47 **Alison Thewliss:** I will go back to that point, but would you say that the tax debt might be at pre-pandemic levels in two years' time? Would you be as bold as saying that? Is it going to be longer than that? "A couple" is quite vague.

Jim Harra: By "a couple" I do mean two. I would really like to see my debt balance back to a normal level at the end of two financial years. That will be through a combination of collection and enforcement action, but we also did not do the writing-off of debts last year that we would normally do, because there were very few insolvencies. Some of that will be going through that process with taxpayers, which has now restarted and is returning to about pre-pandemic levels.

Q48 **Alison Thewliss:** You talked about the steps you are going through with the softer debt and getting to those people. Presumably that means you are now at the harder end of that debt.

Jim Harra: We are. When we started collection activity, we segmented debtors for the first time, which we have not traditionally done. We looked at data that we had and we determined whether the impact of the pandemic on that taxpayer was high, medium or low. We applied different approaches to those three segments and, sure enough, we found that those who our data predicted had had a lower impact were more likely to respond and say, "Yes, here is your VAT and here is your pay as you earn" whereas the higher impacted ones were more likely to contact us and say, "I cannot afford to pay this", or, "I can only afford to pay a small amount of it on an ongoing basis".

Now, that segmentation is just for our initial approach. Once we get engaged with the taxpayer, we abandon our assessment of them. We do that on an individual and tailored basis. That is the way we approach it. We are now probably looking at the higher-impact people.

Q49 **Alison Thewliss:** That is interesting. How did that segmentation work?

Was it by sector?

Jim Harra: No, it was not sectorised at all. In fact, we have found that attempting to do this by sector does not really give you good results. If I take, say, brewing as an example, some brewers were very severely affected by the pandemic. If they were on-sales brewers with tied premises, they could not sell their beer. Others quite quickly pivoted to off sales and were not so severely affected, because the British public enjoyed drinking at home during the pandemic. We abandoned sectors.

What we did was we looked at the data that we had on things like the turnover from their VAT returns compared with pre-pandemic levels or the extent to which they had or had not furloughed their staff according to their furlough claims. We stratified them on that basis.

Q50 **Alison Thewliss:** That is interesting, thank you. I had seen the National Audit Office say that the rate of return for your debt collection is £205 for every £1 spent yourselves, but the rate of return for the private debt collectors that you use is £18 for every £1 pound spent. At which point do you turn things over to those private debt collectors? Is it really worth the money, if that is what you get back for it?

Jim Harra: I do not know whether you have seen the Public Accounts Committee discussion on that, but we have some more work to do to get a like-for-like comparison. That metric of £205 to £1 is just if you compare the cost of my debt management function with the money that comes in that was allocated to the debt management function. In there is a whole range of debt that is very different from the debt that we give to debt collection agencies. It is not a like-for-like comparison. If we were to do a like-for-like comparison, our best view is that it would probably turn out that we are as efficient as the debt collection agencies and we, broadly speaking, achieve the same turnaround. We have to do a bit more work to validate that.

In terms of what we do, first of all we try to make an initial contact with the debtors ourselves. If they engage with us, fine. If they do not engage with us, we parcel up debts and we pass them to a debt collection agency to try to make contact with the customer on our behalf. We parcel those up according to the skillset of the particular debt collection agency and the datasets that they have. We then expect them to follow our policies and processes. The debtor will get the same service in terms of Time to Pay arrangements or whatever it is. At the end of that, if the debt collection agency cannot engage with the debtor or get them into an agreed payment plan, they hand that residue back to us and we take our own action.

All of the activity around debt collection is desk-based. They do telephone calls, SMS and post. They do not do any visits to premises and they do not take any enforcement action on our behalf.

Q51 **Alison Thewliss:** That is useful to know. Turning to a slightly separate issue, the Government have brought forward proposals that will be in the Finance Bill later today on a public interest business protection tax. Clearly, that is going to be an additional thing for you to do. I wondered what the operational impact of this would be on HMRC. Are you able to tell us that, given how quickly this announcement has appeared?

Jim Harra: That tax is intended to be a backstop to protect the Exchequer from some activity that utility firms could undertake that would not be fair to the public purse. I very much hope that it is not going to have any operational impact on me at all and I very much hope to report that I am going to collect zero from it in due course, because it is intended to deter some behaviours that we do not want to see. It is there in the Finance Bill for me to enforce in the event that any utility firm undertakes the activity it is intended to deter.

Q52 **Alison Thewliss:** That was my suspicion, but that is useful to know, particularly ahead of the Bill later on.

Jim Harra: It is very unusual to have a tax that I expect to collect zero from.

Q53 **Alison Thewliss:** Yes, it is unusual. On another slightly different matter, it has been brought to my attention that the HMRC website has been amended. It says that the rates for working tax credit, child tax credit, child benefit and guardian's allowance for the 2022-23 tax year are provisional and may change between now and 6 April 2022. Do you know something that we do not?

Jim Harra: I do not. Do either of you know something I do not? I will have to take that away. I know you would want an early answer to that.

Alison Thewliss: It would be useful, yes.

Jim Harra: I do not know what lies behind that.

Alison Thewliss: That is helpful.

Q54 **Julie Marson:** I have some more questions on making tax digital. I will ask you, Jim, but if Angela or Penny want to come in, please feel free. You announced that making tax digital for income tax was going to be delayed for another year in September. What was the reason for that?

Jim Harra: It was primarily to give businesses more time, particularly with the impact of the pandemic. We suspected that taxpayers, tax agents and software houses would not be able to devote the time you would have expected to getting ready for MTD, so it was decided to give an extra year to people. That year gives us more time to work with them, pilot that and get it right. It was really to enable businesses to focus on recovering from the effect of the pandemic.

Q55 **Julie Marson:** You mentioned the pilot. How many businesses have signed up for the pilot?

Jim Harra: At this stage we have now marketed the pilot or attracted people into it, because we want to start with a small number initially. We have nine people in initially. Broadly speaking, this is the approach we took with VAT as well back in 2019. Our approach will be to start by doing a handheld approach with a very small number of people, which will not mimic the real world when millions of people are using it, to prove all of the processes and then to invite more people to come in to the pilot and start doing it at a larger scale. Our way of doing that will be via the software providers. We are unlikely to go out directly to the taxpayers and ask them to come in. We are likely to invite software providers to bring their clients into the pilot so they can test their products and test their own service models as well as ours.

Q56 **Julie Marson:** It is nine to start with. Can you give us a bit more detail about the milestones in there? What will your next number look like and when will that be, for example?

Angela MacDonald: I will have to write to you on that. I apologise. I do not have the step-up plan, but I am very happy to follow that through with you.

Q57 **Julie Marson:** Thank you. Yes, because there is a point where there is critical mass. Otherwise it does not become meaningful.

Angela MacDonald: That is absolutely right. Forgive me. If one of my colleagues had been here, she would have been able to say it all off the tip of her tongue. You are absolutely right: there are well-worn standards about what looks acceptable when you move from an alpha to a beta and then out into a full delivery. We follow those methodologies through, so I will happily share that through. It would be exactly as you would expect to be robust enough to give us the learning that we need to have.

Q58 **Julie Marson:** Can you give us an idea of the timescales that you are looking at for the pilot at all? If you cannot and you want to do that separately, that is fine.

Angela MacDonald: We are going to take that extra period to pilot for longer. Even when you eventually go live with a really good-quality digital service, you are still in a learning phase. I will include all the details when I follow it all through with you. We are not doing nothing for a year and then going, "Now we will do the pilot". The pilot is starting and we are therefore using that extra time in order to make the most of that pilot period.

Q59 **Julie Marson:** I will ask Jim again. The programme as a whole has been delayed quite significantly over time. Given this extra delay, pandemic notwithstanding, how confident are you that there will not be more delays to the programme?

Jim Harra: First of all, I want to get it implemented as quickly as possible, because it is about helping taxpayers to get their affairs right and reducing the scope for them to make mistakes. It does have a positive effect on the tax gap, but it is more important that we get it right. In particular, we need to manage the transitional impact on businesses and get them on the right footing going forward.

Taking time on the VAT one has paid dividends. As well as getting the vast majority of the mandated businesses in, about a third of the non-mandated businesses have voluntarily joined that. It has gone pretty smoothly from the point of view of administering the VAT system. It has not caused any disruption. We have to balance time against that, but the quality of the implementation is really important.

Having said that, it is important that we get on with modernisation. Other countries are doing this, and the UK has to keep up in terms of having a modern way of administering the tax system. We have been affected by quite a lot of engagement with stakeholders in the early days about getting acceptance of this programme—we are in a much better position now—and then also by the pandemic. We have definitely lost time and we have changed the order in which we have implemented it. At the outset we did not intend to start with VAT. We went about it that way in response to stakeholder requests. In my view, the UK needs to be faster at modernising its tax system or it is going to increasingly get left behind.

Q60 **Julie Marson:** As a distinct programme, what does the end look like? When will we see an end? Will we ever see an end?

Jim Harra: After income tax, there are more streams of tax that are not yet in making tax digital. Over time, as a live service, we will want to deepen its functionality, because it gives us a real opportunity to engage with taxpayers and constantly improve the way we communicate with them and the way that digital solutions can support them to get their tax right.

One of the challenges is around moving from a programmatised approach for implementing this to carrying on investing in it as a digital solution that has to constantly evolve. As well as extending beyond VAT and income tax into other taxes, we want to increasingly look at how we can enrich the nudges, prompts and playbacks to businesses that are provided by MTD and the proprietary software that it uses, which will give us a way of managing the tax gap that is different to deploying thousands and thousands of tax inspectors to investigate it.

Q61 **Julie Marson:** One of the things that MTD is supposed to do is to reduce the tax gap overall, but the figures that we have seen show that the tax gap for self-assessment is widening. Does that mean it is not working? Are we putting resources into something that is not working?

Angela MacDonald: Yes, one of the challenges on the self-assessment number is because the pounds number is shifting, but as a proportion of the overall tax take it is actually going down. The self-assessment tax gap was £6.1 billion in 2015-16 and £7 billion in 2019-20, but it was actually 15.1% of the liability in 2015-16 and only 13.4% of the liability in 2019-20. The tax population and the tax take are getting larger, so therefore as a percentage of the liability the self-assessment tax gap is going down; it is not going up.

Q62 **Julie Marson:** Have you got any projections going forward from now?

Angela MacDonald: Shall I add it to the list of things I am going to write to you about?

Julie Marson: That would be really helpful. Thank you.

Q63 **Chair:** Very quickly on MTD for income tax, presumably it is much more of a challenge to bring it in for income tax than it was for VAT back in 2019, because businesses are already interacting, or were at that point, with you regarding VAT returns, whereas they are not in this case. Could you comment on that?

Secondly, within the MTD income tax project, is there a subset in there of particularly difficult individuals, partnerships, whatever it may be, that is going to be quite difficult to squeeze out at the end and get to work? Are there any subsets that are difficult?

Jim Harra: You are right: VAT payers have a more regular contact with HMRC than self-assessment payers do, because they tend to make quarterly or, if they are repayment cases, often monthly VAT returns, so they were much more used to a cycle. We also started with businesses that had turnovers above the VAT threshold of £85,000, so they tended to be the larger end of small businesses. We did not initially mandate it for the smaller VAT businesses. You would expect those larger businesses to already have a higher take-up of digital accounting tools, but also to be that bit more sophisticated about that. We are now mandating all VAT payers, so we are going into that lower-turnover group next.

The self-assessment population is much larger and quite different. As well as the self-employed who are not registered for VAT, it includes the landlords as well. They are a different group. On the other hand, several million of them will already be using digital products to keep their records and will be filing VAT filings that way. They will already be familiar with MTD, so it is just that additional group that has the task from a standing start of getting there.

Yes, it is a different population and there will be different challenges. Certainly there are some people in there who are not necessarily represented taxpayers who are used to using digital products. We will have to manage that with them.

In terms of more difficult groups, we are going to bring on general partnerships in a later phase. We did this in VAT as well, where we brought the bulk of people on straightaway, but there were one or two unusual groups whose VAT returns look a bit different. We had to bring them on to a slightly different timetable. General partnerships would be the key ones for self-assessment, where we are going to take a year longer to bring them on board.

Q64 **Gareth Davies:** Jim, I want to ask you a couple of questions about staff engagement at HMRC and the pay deal that you recently secured. In the Civil Service people survey, I understand that HMRC consistently scores pretty low in terms of staff engagement. Last year was no different. In your annual report, you flagged staff engagement as an amber risk. It was a risk that you flagged as a serious concern. Why do you think HMRC staff engagement is so poor compared to lots of other Departments across Government?

Jim Harra: First of all, you are right that, historically, in Whitehall, HMRC has been one of the Departments with the lowest staff engagement. However, that has significantly changed in recent years. I am proud that, in the two years since I have been chief executive, that has increased by 10 points. Last year, we scored an increase that only one other Department succeeded in achieving. Our engagement levels have been going up, both in absolute terms and relative to other Departments in Whitehall.

When you compare us, I do not tend to compare us with all Departments. I tend to compare us with the big operational Departments like Home Office, Department for Work and Pensions and MoJ, because they have workforces quite similar to mine. We have made significant advances.

Having said that, it is not good enough. I want HMRC to be a great place for people to work in, not least because we are in quite a tight labour market and I need to be able to attract and retain the right skills to deliver what we have to do. My executive team and I are still completely on this and see this as a key priority for us, hence what we have put in our annual report. There is pride in what we have achieved but also we have to keep on at that and do better.

The pay and contract reform was a key thing. I think that, when I appeared before this Committee shortly after being made chief executive, I said that one of my top priorities was to achieve that. I am proud that we managed to do that last year. The headline is that we got a 3%, 5% and 5% rise for our colleagues on average, but we also got reforms to our terms and conditions, which mean that I now have contracts of employment that fit much better with what I need to run the business and give the services to taxpayers that we want.

For example, when we look at telephony performance, prior to these reforms, I did not have contracts that enabled me to deploy colleagues in line with the opening hours of my call centres. I was reliant on volunteers to say, “Yes, I will work into the evening”. You saw a big drop-off in our telephony performance at a certain time of the day, when colleagues who were not prepared to do that left for home. Now I have contracts where I can deploy colleagues in the evenings. I can deploy them on Saturdays. We have agreement to that and that will help me to deliver the business better, as well as giving people the flexible ways of working and better pay that they want. That is an important achievement for us.

In the last people survey, we saw, I think, a 45 point increase in the number of people who are satisfied with their pay. On the other hand, I am about to give them the last pay rise of that three-year deal in June, so I am pretty sure people will be wanting to know what happens after that.

Q65 **Gareth Davies:** Why is engagement so important to the taxpayer and to you as a chief executive?

Jim Harra: I need colleagues to be engaged because there is plenty of evidence that engaged workforces perform. Also, they need to be willing to be flexible for the organisation. If the pandemic has taught us one thing, it is that we are completely reliant on a flexible workforce that is willing to switch its skills on to whatever it is we need it to do. Also, we are in a tight labour market. Young people looking for a job want to see an organisation where they think, "I want to go in there and do a good job, but I want to be happy in there". Those are the reasons why it is important to me.

Q66 **Gareth Davies:** I take what you are saying about the fact that you have improved the engagement, but there are still 104 different Government departments that had better engagement scores than HMRC, so it is right that you flag it as a risk. I completely understand what you are saying about pay. I read your comments at the Public Accounts Committee and I know you have said in this Committee as well that you are very proud. Given the fact that inflation is now at 5.4%, how happy are your staff with that pay deal, given the levels of inflation that are currently being reported?

Jim Harra: I know that economic circumstances have changed around people. Everyone is affected, not just my colleagues. I think colleagues recognise that it was an achievement for the Department to be able to land that pay offer and get it approved by Cabinet Office and Treasury in very difficult times. As you would expect with Treasury and Cabinet Office, I had to show a payback for that rise, which we were able to do with the changes in terms and conditions and the way we could deploy people.

We saw an overwhelming majority of colleagues in the ballot voting in favour of the deal. We brought it back for them. Colleagues knew that they had to give something in return for it and, in overwhelming numbers, they signed up to doing that. Despite the disruption of the pandemic, we are seeing colleagues working in the new working patterns and delivering.

Q67 **Gareth Davies:** I get that and it was an achievement, and I am pleased that they were pleased, but I am asking whether the staff are still pleased, given that, in real terms, their increase will not mean a great deal because of inflation. If their pay is such a big factor to their engagement, do you feel that your engagement will increase next year, as a result of the pay increase?

Jim Harra: I fully intend to carry on increasing my engagement levels. I want to see that happening. That is despite the difficult times in which everyone is living. My colleagues know that they live in the same times as everybody else, so they know what it is that everybody in the country has to cope with in terms of cost of living. That applies to them as it applies to everyone else.

Of course pay was important to people but, when we looked at what colleagues wanted, it was not just the level of pay. It was a sense of being valued and a sense of fairness between colleagues. We had ended up in a situation where we had dozens and dozens of different contract types. I suspect it was more than dozens, actually.

Penny Ciniewicz: Yes, it was more than dozens.

Jim Harra: You had some colleagues who felt that their contract caused them to be deployed in a certain way that other colleagues were not and gave them different leave entitlement than other colleagues. It was not just about pay. It was a sense of, "I want to know that I am valued and treated fairly with my colleagues". I now have the whole organisation on a common footing, in terms of the terms and conditions that they have.

Q68 **Gareth Davies:** You are not going to be going back to the Treasury asking for more money to pay your staff more.

Jim Harra: It is open to me to do so, but you have to make a case for that. I was able to make the case last time round. It is more challenging, because I have taken those benefits out of the organisation, so I cannot take them again, but it is open to any Permanent Secretary, if they can make a case, to do so.

Q69 **Harriett Baldwin:** I want to ask you to put yourself in the position of someone who has been self-employed over the last few years. You have had the changes announced in terms of IR35. Then you went through the pandemic and obviously that was a very challenging time, particularly if you paid yourself through your own personal service company.

I notice that, since the economy started to recover and employment is recovering strongly, it is mainly payroll employment that is above its pre-pandemic peak. I wondered if HMRC had any insight into whether that bounce-back is because people are choosing now to go on payroll, whether it is a reaction to IR35 or to the way that self-employed people were treated differently from people who were on payroll during the pandemic. Do you have any thoughts or data on that?

Jim Harra: To be clear about tax definitions, people who are self-employed for tax purposes are not affected by IR35. IR35 affects people who work like employees and ensures that they pay taxes like employees. Many of those people regard themselves as freelancers. They work in temporary gigs, if you like, but, strictly speaking, from a tax point of view, they are not self-employed and the self-employed are not affected by that measure.

IR35 has been in place for a very long time, well over 20 years. What has changed in the last five years is the way that we administer it in response to very high levels of non-compliance with the rules. That does not change the amount of tax that people are liable for, but it means that we are administering it in a different way to tackle that non-compliance and make sure that we get that tax.

We started in 2017 with contractors who work in the public sector and then, last year, extended that to large and mid-sized businesses in the private sector as well. What you are saying is correct. That measure is one of the reasons why we are seeing a reduction in personal service companies. We are seeing those workers either go on to the payroll of the businesses that engage them, or go on to the payroll of an umbrella company, which the engager then gets the temporary worker from.

That is a reaction to the arrangements in response to those measures. It is not unexpected and I do not think that we are concerned that that is a problem. It is a logical choice that engagers and workers are making, following the change in the administration, where having your own personal service company is now not so attractive.

Q70 **Harriett Baldwin:** I am sure that colleagues and yourselves will have been contacted by people who are affected by these changes. There are a lot of people who are concerned and allege that there have been suicides linked to these changes and some of the arrears. Are you comfortable with how you are treating the individuals who have been through such a tough time during a pandemic anyway, in these circumstances?

Jim Harra: There may be two slightly different issues at play there. In the case of the off-payroll working reforms, I am not aware of that generating distress among people. I know that it is a big change for people. I know that it means that, going forward, people are going to be paying tax that those arrangements were liable for in the past, but that they were not paying.

There is a separate part of the tax system where we have seen, over a number of years, people using disguised remuneration avoidance schemes. These may well be similar types of workers to workers who have personal service companies, where we have been taking action to recover the tax lost under those schemes. We have been implementing a measure called the loan charge for people who have not settled their use of those schemes with us.

We know that that involves life-changing bills for people who did not think they were going to get those bills. It means that we have to watch out for people who need extra support or who are mentally distressed and need care.

Q71 **Harriett Baldwin:** Sir Amyas Morse did a review of the implementation. Is it time to look at it again?

Jim Harra: That would not be a matter for me. There was an independent review. There were something like 20 recommendations. I think the Government accepted all but one of them and have implemented them, including enacting them where legislation was required. We are now in the process of collecting the loan charge from people who are liable to it. We are doing that in the most sympathetic way we can, taking account of the circumstances of the individual taxpayer.

As I said, if anyone presents to us that they cannot afford to pay the big tax bill, we have tried and tested ways in which our debt management service gives people time to pay and makes sure they have affordable payment arrangements. If anyone that we deal with displays signs of distress, which means that they need extra support, Penny has an extra support service, which gives them a special service. In addition, our people are trained to identify that and, if necessary, refer to bodies who can help those people.

Penny Ciniewicz: Yes, all my counter-avoidance caseworkers have been trained to support people who need extra help and to identify those. We would put particular measures in place to support people, making sure they had named contacts and were given regular contact in advance of us taking any steps in relation to their particular situation. As Jim has said, we reach out to ensure that people understand the options available to support them to pay, in a manageable way, the liabilities that they have accrued.

It is a very difficult situation. We recognise that. We do everything in our power to support people in that position. One thing I would really encourage is that people who are in that position get in touch with HMRC. It is often the hardest thing for people who are worried about their tax affairs to do, but we are here to help them resolve that position. Having it hanging over them is very difficult.

Q72 **Harriett Baldwin:** Given that your Department is in regular contact with these people, you can assure the Committee that there have not been any suicides then.

Penny Ciniewicz: We are aware of a number of cases in which people who have been involved in tax avoidance have taken their own lives, very sadly. In those circumstances, we report that to the Independent Office for Police Conduct, as we are bound to do, as our enforcement activities are overseen there. It will make a decision about whether to seek an investigation or ask us to investigate the circumstances. We take that very seriously.

Q73 **Harriett Baldwin:** Can I turn to this implementation with the public sector, which was rolled out first? I noticed in the annual reports and accounts of various Government Departments that they are now having to pay you extra money because of discovering that they were affected by these rules. Do you anticipate that, when this rolls out to large and medium-sized businesses, you will find similar amounts of money? Can you share with the Committee how much so far you have found that people were liable to pay?

Jim Harra: The public sector bodies that the 2017 rules apply to are obliged to report in their annual accounts any liabilities or provisions that they are having to make for underpayment of taxes. Several of them, as you say, have declared that in their annual accounts. That reflects either action that HMRC has taken to look into how they implemented those measures, or internal steps that they may have taken themselves to review things.

We certainly learned from the 2017 implementation and made changes and improvements to how we implemented things for the private sector businesses last year. It is still too early to say what we will see in post-implementation compliance checking. That will obviously be an ongoing thing. Our priority so far has been to support them to get it right, but we will, over time, be going in audit and check what businesses have done.

Q74 **Harriett Baldwin:** Do you know how much it has raised so far?

Jim Harra: I think overall the total was £215 million in year one and £250 million in year two, after the 2017 measures. The Office for Budget Responsibility will have published how much additional tax it expects to come from that measure, including the extension to the private sector. There was a very high level of non-compliance with the IR35 rules and these changes are intended to bring in that tax that we were not succeeding in collecting before.

Q75 **Harriett Baldwin:** It is in line with the forecast that you had at the time when you brought in the changes.

Jim Harra: Yes, I believe so.

Q76 **Harriett Baldwin:** Penny, in terms of the umbrella companies themselves, are you comfortable with the way that they are operating, or are you concerned that some are actually promoting tax avoidance schemes, not just to contractors but to other workers?

Penny Ciniewicz: There are very many compliant and capable umbrella companies out there. However, there is a subset of umbrellas that are involved in disguised remuneration as well as what we call mini umbrella fraud. We certainly move to educate individuals and contractors about the dangers of that, as well as employers about the warning signs they should look out for.

Q77 **Harriett Baldwin:** Where can people check to see whether this is one you approve of or not?

Penny Ciniewicz: We do not approve umbrella companies. We put a lot of information out directly on to gov.uk. We have had a big communications campaign, which involved social media. Also, we write to individuals where our data shows they may have got involved in disguised remuneration. We have written to 33,000 people in the last year and three quarters to say to them, "We think you might be involved. Would you like to get out of this? If that is the case, get in touch".

We are trying to address that risk in a whole range of different ways. We also work with the Advertising Standards Authority to make sure that the advertisements that might be online are accurate and are taken down if they are not accurate. We have a hugely wide-ranging programme to tackle that small subset of non-compliant umbrellas.

Jim Harra: I should add that HMRC, Treasury and the Department for Business, Energy and Industrial Strategy have issued a joint call for evidence on the activities of umbrella companies in relation to tax compliance but also in relation to the labour market and how they treat their workers. As Penny says, there is a range from very compliant umbrella companies through to ones that abuse the tax system and their workers. That call for evidence will hopefully give us a deeper knowledge of what might need to be done to address that. The Government have committed that they are going to regulate umbrella companies under the labour market single enforcement body.

Q78 **Kevin Hollinrake:** I would like to deal with prosecutions of tax fraud, which follows on from Harriett's points. Why are there so few, and a reducing number of, tax fraud prosecutions?

Penny Ciniewicz: We are increasingly focusing our fraud investigations on the more complex and sophisticated frauds. We have a very wide range of civil powers that we deploy to tackle fraud. We have a policy of making sure that we use prosecutions in cases where there is no alternative means to tackle that particular fraud, where it is going to have a deterrent effect, or where it is a strategically important approach.

We are increasing the number of investigations of the wealthiest and most sophisticated tax offenders. That has risen from around 50 in 2016-17 to around 430 at about March last year. We are trying to focus our efforts on tackling the more egregious frauds, using those criminal powers, or places where we cannot go without the use of criminal powers in order to gather the evidence to settle that particular matter and bring those to book who have been perpetrating fraud.

Q79 **Kevin Hollinrake:** You accept that there is a reducing number of cases. At the first hearing at magistrates courts in 2016, there were 791. That has gradually reduced to 476. That is pre-pandemic.

Penny Ciniewicz: We tackle a massive number of fraud cases each year. Last year, my fraud investigation service tackled 8,200 civil cases, alongside launching 212 new criminal cases. The criminal cases that we launch are reducing. They are complex. They are going to be tackling the most severe harms. We have a range of other powers that we use to tackle non-compliance, including things like taking proceeds of crime action, asset freezing orders. There is a whole range of powers that we deploy that are not just about criminal prosecution to bring people to book.

Q80 **Kevin Hollinrake:** The civil route is code of practice 9. Is that right?

Penny Ciniewicz: It is not just code of practice 9, but code of practice 9 is absolutely one of the ways in which we tackle fraud.

Q81 **Kevin Hollinrake:** That is reducing as well. That was 549 cases in 2016 and has gradually reduced to 425 cases pre-pandemic in 2019.

Penny Ciniewicz: Yes, and, as I say, that is far from being the only means that we have for tackling fraud. That 8,200 cases that we have launched use a broad range of powers. We continue to bring in large sums of money for the Exchequer, as well as tackling really serious harms that range from serious and organised crime through to individuals defrauding the tax system in multiple ways, unfortunately.

Q82 **Kevin Hollinrake:** You can understand the concern here. On code of practice 9, I think somebody has to admit to tax fraud to be under that particular code of practice, so it is serious stuff under this, but the numbers seem to be reducing, in terms of prosecutions and use of that civil course of action.

Penny Ciniewicz: Everything our fraud investigation service investigates is serious, by its very definition. We are trying to use our powers to best effect to bring the proceeds of fraudulent activity into the Exchequer. We brought in £3.5 billion in the last year that we reported in our annual report. We will continue to focus on bringing in the proceeds of fraud. There is absolutely no reduction in activity. We try to use the powers that are most appropriate for the particular crime we are trying to tackle at that particular point.

Q83 **Kevin Hollinrake:** I am worried about the focus and the message that sends. In your annual report, you say that your focus is maximising compliance—obviously then you gain revenue back—rather than chasing arbitrary targets for arrests and prosecutions. Jesse Norman, when he was Financial Secretary to the Treasury, told an APPG seminar that HMRC's job is revenue collection, not to pursue long and expensive court action to collect money. Does that not send the wrong message to people? It is like saying to a burglar, "You have stolen stuff out of that house, but give us it all back, maybe a little bit extra, and we will let you carry on"? Is that not what we are saying to people?

Penny Ciniewicz: Our powers are quite far-reaching. Certainly if people get caught, they will give us a lot back. They will not just give us a little bit extra back. They will give us a lot back.

Q84 **Kevin Hollinrake:** How much? What is the penalty?

Penny Ciniewicz: It is double.

Q85 **Kevin Hollinrake:** Is double typically what is charged?

Penny Ciniewicz: I cannot give you the answer up front on that, but I would be happy to explore that one. We continue. We charge penalties. We take securities for potential fraud. We work with the Insolvency Service to disqualify directors. There is a really large range of powers. We take asset freezing orders. We brought in more than half of the total UK money from the Proceeds of Crime powers last year as well, so I can assure you that we are not leaving any stone unturned.

Kevin Hollinrake: The trend does not look like that, but okay.

Jim Harra: It is important to make sure we land this. In the case of prosecutions, the reduction in prosecutions is the result of a deliberate decision by HMRC that we would not do what we call volume prosecutions of low-level fraud and that we would concentrate on that as a tool for tackling the most serious fraud. We need to demonstrate that that is what we are actually doing. As the number of prosecutions goes down, we have been measuring, as Penny said, the proportion of our criminal investigations that are on the wealthier taxpayers. You can see that the value of the money involved in our criminal cases has increased fivefold from 2016 to 2021.

Q86 **Kevin Hollinrake:** I get that completely. It is like you saying that some crime is not important. This is tax fraud. It is like you are saying, "Okay, we will just go after white collar criminals that are stealing loads of money", rather than saying, "Low-level crime is also important".

Jim Harra: Picking up what Penny said, criminal investigation and prosecution is only one of a number of tools that are available to us.

Q87 **Kevin Hollinrake:** Yes, but the other tools are decreasing in volume too.

Jim Harra: We do not leave the rest unattended. We are all over it, in terms of our fraud investigation service. If we were to use the number of criminal investigations, prosecutions, as a measure of our success, that would not be an effective way of measuring that.

Q88 **Kevin Hollinrake:** If somebody made a settlement with you under code of practice 9—say they were a tax adviser, accountant or something, because you can use that route, I think, for those people—would they be allowed to continue practising?

Penny Ciniewicz: I would sincerely hope not. It would depend on their professional body, not on us.

Q89 **Kevin Hollinrake:** Do you instruct the professional bodies to strike them off or something? Is that what happens?

Penny Ciniewicz: We certainly share information with professional bodies.

Jim Harra: If we identify misconduct by a member of a professional body, we will share that information with the professional body and expect them then to follow their own misconduct proceedings against that person, which can result in them being struck off by the body. We then liaise with the bodies to make sure that the quality of the information we are giving them is right from their point of view and that, from our point of view, we can see effective action being taken.

Q90 **Kevin Hollinrake:** Would you be able to tell us how many of the people you refer to the professional bodies have actually been struck off and how many have not?

Penny Ciniewicz: I am not sure we would hold that information. I can definitely go back and see.

Kevin Hollinrake: It might be worth asking the professional bodies. I do not know if that is possible.

Chair: We can certainly look at that.

Jim Harra: We would have information about the number of referrals, for example.

Penny Ciniewicz: We would, yes.

Q91 **Kevin Hollinrake:** Can we talk about promotors? The loan charge has brough this to prominence and you talked about the difficulty some of these people are in, who were probably duped in many cases. Some have taken their own lives, which is catastrophic. Do you know how many people since 2016 have been convicted for crimes relating to promoting tax avoidance schemes involving disguised remuneration?

Penny Ciniewicz: I know that I have that number somewhere, but not offhand. We need to be clear that promoting tax avoidance is not a criminal offence. There may be fraud associated with the—

Q92 **Kevin Hollinrake:** Lucy Frazer, Financial Secretary, said in November 2021 that there are a range of offences that might be committed by those who promote tax avoidance schemes.

Penny Ciniewicz: There might be a range of offences, yes, but it is not in and of itself a criminal offence. I am sorry; I do not know if I can find the number here.

Q93 **Kevin Hollinrake:** In terms of the numbers of people who have been convicted in relation to promoting tax avoidance schemes, which include disguised remuneration, since 2016, would it surprise you if that figure was none?

Penny Ciniewicz: As I say, the promotion of tax avoidance is not, in itself, a criminal offence. If there has been fraud associated with the promotion of tax avoidance, we would see a criminal investigation in relation to that.

Jim Harra: You may be right about disguised remuneration, but, since April 2016, more than 20 people have been convicted of offences relating to arrangements that have been promoted and marketed as tax avoidance. They have received over 100 years of custodial sentences. We have more inquiries under way. We use prosecution against promoters where there is criminality involved in their promotion of avoidance.

Q94 **Kevin Hollinrake:** Is it not cheating the public revenue? Is it not? That is an offence, is it not? Is that not what these people are doing? These people are, effectively, taking people's lives and destroying their lives. Is it not worth taking some cases forward for promoters of disguised remuneration schemes to set the tone that this is not acceptable?

Penny Ciniewicz: I can assure you that, if we can find the grounds to do so, we will do so. We are as outraged as you by the activities of promoters, but we are tackling them in the most effective ways that we can find, including strengthening the legislation that is contained in this Finance Bill and was contained in the last Finance Act to help us to do that.

Q95 **Rushanara Ali:** Good afternoon. My questions are about the Northern Ireland border checks. The Government said that they would ensure that HMRC is sufficiently resourced to deal with abuse of customs arrangements in Northern Ireland. Do you have enough resources for that?

Jim Harra: Yes, I believe I have. In the case of EU exit, as I probably have told this Committee before, we have prioritised that. In 2021, I effectively had three priorities. One was to deliver the Covid-19 support and one was to deliver EU exit. The third was to keep the essential parts of the tax system going. It continues to be a priority for us, both in organisational focus and in the deployment of resources.

Q96 **Rushanara Ali:** What abuses of the regime have been prevalent so far?

Jim Harra: There has been very little, because the purpose of the Northern Ireland protocol is to protect the EU single market while enabling goods to flow within the UK single market effectively. It is not a revenue-raising protocol. In fact, we expect there to be no revenues involved in the movement of those goods. It is not an area that is ripe with abuse.

However, it is burdensome for businesses to comply with and can be disruptive to the economy. Our focus has been on helping businesses to navigate their protocol obligations and continue with their flow of trade, for example through the Trader Support Service, which the Government fund. That gives education and support to traders moving goods into Northern Ireland, but also makes the declarations on their behalf, if that is what they want us to do. It is not an area of the code that I see as having a high risk of abuse. I see it as having a high risk of causing undue burden for businesses.

Q97 **Rushanara Ali:** Our understanding is that businesses in Northern Ireland have to use two IT systems, the CDS system for movements from the rest of the world and the older CHIEF system for the rest of the UK. Can you talk us through why that has to happen?

Jim Harra: The CHIEF system, which is our old customs system, is being phased out completely between now and 2023 for all businesses. In the case of Northern Ireland, the more modern customs declaration service is the one that needs to be used for the movement of goods where there could be an EU or a UK tariff, because it is the only system on which we can operate that, which is obviously a unique thing relating to the Northern Ireland protocol. That meant that traders moving goods into Northern Ireland that could be subject to that tariff had to make their declarations under CDS.

For goods moving into Northern Ireland from the rest of the world, we operated a temporary easement whereby they could use CHIEF if they wished. We know that, at this stage, some businesses cannot directly use CDS, because they do not have the software that supports it, but the Trader Support Service can make the declaration on to the system for them if they wish. The Trader Support Service has now been extended to cover rest-of-the-world goods as well.

We need businesses moving goods into Northern Ireland to use CDS, because that is the only system that enables us to comply with our protocol obligations. We have that free service to enable them to do that. In any event, they are getting ahead of the game that other traders are going to have to catch up with because, by 2023, we will not be using CHIEF anymore.

Q98 **Rushanara Ali:** What are the sorts of pressures businesses are facing in using that system? How burdensome and costly is it? What sort of support are you providing them?

Jim Harra: The primary thing with CDS is that is a new system. International traders have got very used to using CHIEF. It has been there since the mid-1990s. In a weird way, they love it, because they are very familiar with it. Any change, of course, involves transitional cost for people. In particular, they have to acquire new software that interfaces with CDS, rather than CHIEF. We have been working for a number of years now with the community system providers and software houses to make sure they have the products ready for CDS.

We have had to accept that CHIEF would have a longer life than we originally anticipated, because EU exit meant that those organisations had to focus on something different. Also, declarations on CDS involve not just different software. They gather different data items and therefore you have to re-engineer some of your business processes that gather the data that feeds into the declaration, as well as changing your software.

On the other hand, it is a modern platform on which we will be able to make improvements in the future, in contrast with CHIEF, which was very stable but very old and we could not really change. That was one of the reasons why we could not put the dual tariff on it.

The Government have invested, in this spending review, £180 million to enable us to make progress on implementing a single trade window for trade in the future, as part of their border transformation strategy. HMRC will be delivering that on behalf of all Government Departments. The fact that we are moving on to a more modern, flexible declaration service will help us to do that.

Q99 **Rushanara Ali:** Has anyone done any assessments of what the cost burden is on businesses?

Jim Harra: I think I have spoken to the Committee before. We have published a sort of impact assessment.

Q100 **Rushanara Ali:** Could you remind us? Apologies; I cannot remember the numbers.

Jim Harra: I think that was £7.5 billion each way as the additional costs of the extra declarations that would have to be made as a result of EU exit. We have not since refreshed that assessment, so those remain the figures. However, our experience of the year since the transition period ended on 31 January last year is that the number of declarations that we have received is significantly lower than forecast, which would then mean that the admin burden increase would be lower as well.

Obviously, we have had a non-typical year of trading because of the pandemic, so it will probably take us a bit longer to understand whether that is a real longer-term decrease. I suspect that it is, because our assessment of the number of extra declarations we would receive was based on a model of how international trade would behave and the types of declarations they would make. You can see how traders between the UK and the EU, for example, have been changing the size of their consignments. I would expect the figures to be lower than that impact assessment when we revise them, but at this stage we have not done so.

Q101 **Rushanara Ali:** It is £7.5 billion each way.

Jim Harra: That was the impact assessment we published in 2018.

Q102 **Rushanara Ali:** It would be helpful to get an update on what those changes might be.

Jim Harra: We intend to do one in due course, but we do not feel that we have the data at this stage that would enable us to give a revision.

Q103 **Rushanara Ali:** When do you think you might be able to provide something up to date with the data, once you have the data?

Jim Harra: I am not sure what plans are, but two things have now happened that mean that we should be able to collect more stable data. First, on 1 January this year we implemented that final phase of full import controls or customs controls. Secondly, trade appears to be stabilising. I know we are not post-pandemic, but trade appears to have been coping with that and has rationalised itself. It may be that we will have a better set of trade data going forward that has less interference from noise from other things.

Q104 **Rushanara Ali:** The Infrastructure and Projects Authority marked your CDS programme and your border systems transition programme amber in July 2021, meaning there are significant issues. Is that still the case?

Jim Harra: In terms of the functionality of the system and its scaling, that is all in place. We had to make changes to cope with the changes that were introduced on 1 January. In terms of the system, that is much lower risk than it would have been then. However, in terms of the migration of traders on to it, that is still something we have to achieve over the next 15 or 16 months. That has taken longer and been disrupted by events compared with our original plans. I do not have a crystal ball, but I am hoping it will be a smoother run over the next 15 months to get there. That is the key challenge to us now: the migration of traders.

Rushanara Ali: Would anyone else like to come in on any of those points?

Jim Harra: My colleagues leave customs to me, I am afraid.

Q105 **Siobhain McDonagh:** I would like to look at the high-income child benefit charge. To you, Penny, why do you think so many people do not understand what they need to do when their or their partner's income exceeds the limits for child benefit?

Penny Ciniewicz: A huge number of people do know what to do. We have around 90% of people who pay the right amount of tax without prompting. We work hard to make sure that people are brought up to speed on that as early as possible in the journey that they might go on for child benefit, including having amended the forms to make the high-income child benefit charge much more visible in the forms and the circumstances, therefore, on people's minds as they fill it in. It is a population that is not necessarily used to being involved with HMRC. They are largely middle and high-income taxpayers who may not otherwise interact with us. We work very hard to try to bring people into compliance as soon as possible for those who do not realise.

Q106 **Siobhain McDonagh:** You do not write out to them and say.

Penny Ciniewicz: We do. Over the last few years we have written between 70,000 and 90,000 letters to people to remind them of their obligations in relation to it. We can do that only where we have the data. Obviously, we do not have detail on household formation. If people's details are not up to date with us—for instance, if we do not know that households have combined or split—we may not be in a position to nudge people to be compliant. It is a change we put in place from a different approach to compliance, which was more investigative, in 2018, with the intention of trying to get people on the right track as early as possible and help them to comply with the charge.

Q107 **Siobhain McDonagh:** What proportion of people do you think you are not contacting to let them know?

Penny Ciniewicz: It is very difficult to know what you do not know. As I say, we plumb our sources of data as much as we reasonably can, but the thing I cannot know about is household formation and changes to the household. Where that occurs, people sometimes will not be made aware by us in a proactive way. We try as hard as we can to make it possible for people to comply with that easily and in a straightforward way.

Q108 **Siobhain McDonagh:** There appear to be significant numbers of people who do not know and are not contacted, and the first they hear of it is when they are asked for a large sum of back payment. Is that a system that really works?

Penny Ciniewicz: As we nudge people, sometimes we come cross people who have been out of the system for a period of time. That process may uncover that they owe us that charge for a previous set of periods, which is really unfortunate. As I say, we try very hard. We have worked with partners to publicise the conditions for high-income child benefit charge as best we may, but unfortunately we do uncover people who have previous years owing.

I cannot say I have a silver bullet for that, because if I knew how to solve it I would solve it. As you say, the cases that I see, that come across my desk, are ones where people have seen a change in the household, but that has perhaps not been evident and we have not been able to get to them as soon as we would like.

Q109 **Siobhain McDonagh:** I have a number of quick questions about the whole process. Does HMRC charge interest and penalties for failure to pay back child benefit?

Penny Ciniewicz: If it is prompted disclosure. There is a scale of penalties depending on whether people have come forward of their own volition, whether we have nudged them or whether they have not paid for a period of time in a knowing way. Interest, yes, is charged.

Q110 **Siobhain McDonagh:** In what circumstances would you not charge interest or fine people?

Penny Ciniewicz: We do charge interest, because it is tax that, in truth, those individuals have had the benefit of while others have paid the tax that was owed. Those individuals have had the benefit of that tax in that period while other people have been paying the tax that was due and should have been in the Exchequer.

Jim Harra: To be clear, from our point of view, interest is not punitive.

Penny Ciniewicz: It is not a choice.

Jim Harra: We do not really have discretion to disapply it. If you have had the enjoyment of money that should have been in the public purse, you have to pay interest. Penalties, on the other hand, do relate to culpability. If someone's failure to pay their high-income child benefit charge was not culpable, there is no question of us charging them a penalty, but interest will apply just for any late payment, as a matter of course.

Q111 **Siobhain McDonagh:** How much do you think is outstanding that you are owed because people actually earn too much?

Penny Ciniewicz: I do not have a figure for that, to my best knowledge. We do not have a specific tax gap for that tax. The tax gap measures a whole bundle of taxes at quite a high level. I am sorry; we just do not have a figure for that.

Q112 **Siobhain McDonagh:** Have you ever considered an amnesty?

Jim Harra: First of all, HMRC tends not to have amnesties, but I can understand their value if there are people who have had a long pattern of non-compliance and we need to get them to sort out their affairs and join the club. Certainly, in areas like the hidden economy, we look at how to incentivise people to do that.

Here, we are more likely to be looking at a range of behaviours. Some people just have not taken sufficient care with their tax affairs; some genuinely did not realise that they were liable for this. Asking them to just pay the tax that they should have paid if they had known we regard as a reasonable thing to do. However, if they then get a bill that they find they cannot afford to pay off in one go, we will agree an affordable payment plan with them, like any other taxpayer.

Q113 **Siobhain McDonagh:** Have you estimated how many families will be brought within the high-income charge because of fiscal drag?

Jim Harra: HMRC has not, I do not believe, no.

Q114 **Siobhain McDonagh:** Could some of those people not be higher-rate taxpayers?

Jim Harra: You have to be earning at least £50,000 to be liable for the high-income child benefit charge. By the time you get to £60,000 income, the charge is equivalent to the child benefit, so there is actually no advantage to you receiving child benefit if your income is over £60,000 because the charge will be equivalent to it.

Q115 **Siobhain McDonagh:** How many people write to the HMRC a year to ask for an assessment of their partner's claiming of child benefit or their partner's income?

Penny Ciniewicz: I really do not have that number; I am sorry.

Q116 **Siobhain McDonagh:** Is this not really that tax is based on the individual but child benefit and support of children is a whole-household responsibility?

Jim Harra: This is one of the challenges, both for us of administering this charge and for the taxpayers of complying with their obligations, where the tax charge falls on the earner if they or their partner have been receiving the child benefit. That is a complication, from our point of view, because, as you say, tax is an independent matter. We do not tax people on a household basis, but we are now looking at the circumstance of a partner of a taxpayer to determine that person's liability. That is undoubtedly the challenge that lies behind the level of non-compliance that we see, but also our difficulty in finding and communicating with the relevant people.

Q117 **Siobhain McDonagh:** How many people are brought into self-assessment by the high-income child benefit charge who otherwise might not have been?

Jim Harra: I will check if this is incorrect, but from memory about 150,000 people have to complete a self-assessment return in order to return the high-income child benefit charge to us. In other words, they are people who otherwise we would not ask to complete a return. That is a figure that is in my head, but if it is wrong I will let you know.

Q118 **Siobhain McDonagh:** What would be the cost of that to HMRC?

Jim Harra: The cost of administering a self-assessment return?

Siobhain McDonagh: Yes, 150,000 of them.

Jim Harra: I suspect the marginal extra cost is virtually nothing.

Angela MacDonald: Yes, it is virtually nothing, bearing in mind that more than 95% of the people who file a self-assessment do so digitally, in which case it is a hands-free activity for us.

Q119 **Siobhain McDonagh:** Jim, is it fair for HRMC to rely on the Government moving the goalposts after the recent court judgment about your pursuit of higher taxpayers' child benefit because you failed to run the scheme properly, as seems to have been the case?

Jim Harra: We will find out probably after we leave here today whether indeed we have been given that power, because it is in the Finance Bill that is going through the House today. Yes, there was a case called Wilkes, which concluded that we did not have the power to use what we call discovery assessments to recover the tax that was due. There was no dispute that the liability was due, but where a taxpayer does not return that on a self-assessment return we use discovery assessments to assess them for the tax. The court ruled that actually that piece of legislation does not apply to the high-income child benefit charge.

Now, we are appealing against that judgment and I would hope that we will overturn it on appeal, but the reality is that, in the meantime, there is uncertainty for people. Therefore, the Government concluded that they would legislate to put beyond doubt that discovery assessments do apply and also legislated to apply that retrospectively. The Government's view is that that is fair, because otherwise people who had complied with their obligations would find themselves at a disadvantage compared with people who had not. I recognise that any retrospective legislation is controversial and it is not something that the Government undertakes likely. I am sure you can have differing views on that, but that was the view that the Government took.

Q120 **Siobhain McDonagh:** I have some related questions about national insurance credits and the higher earners' child benefit. The Office of Tax Simplification made recommendations about child benefit and the high-income child benefit charge, including that the Government should review the administrative arrangements for the charge. What are you doing about that?

Jim Harra: It is important that, if someone is eligible for child benefit and could benefit from a national insurance credit, they claim the child benefit. They can, if they wish, claim the benefit but not receive it. For example, if you are the partner of someone who is earning over £60,000 a year and you would benefit from a national insurance credit, you can put in the claim. That gives you the credit. You can say, "I do not wish to receive the benefit", and then that way your partner does not have to make one of those self-assessment returns to return the charge.

Q121 **Siobhain McDonagh:** That strikes me as a really complicated thing to work out.

Jim Harra: I agree that people have to make the right choices. Even before the high-income child benefit charge came in, it was important in a couple that the person who could benefit from the national insurance credit was the person who made the claim. There is some complexity for families here in terms of making sure they make the right choices, and it is our job to make sure that that is communicated and as many people as possible are aware of that. It is made a little bit more complex by the high-income child benefit charge but was already there as a complexity before it.

Q122 **Siobhain McDonagh:** Do you have any idea of the scale of people who are missing out on national insurance credits because of it?

Jim Harra: That is really difficult for us, because it is trying to know something that we do not know. First of all, a lot of people would not benefit from the credit because they are working or they have a full contributions record. They will get a full contributions record and be eligible for a full state pension, in any event. There are other people for whom it will be important, but I cannot put a number on it, I am afraid.

Q123 **Siobhain McDonagh:** If we could just look at grandparents, as you know, grandparents may also benefit from national insurance credits arising from child benefit if nominated to do so, because they are caring for a child part time, but the parent is already paying national insurance. To what extent do you think the particular benefit is underclaimed?

Jim Harra: I do not have that information. I will check after this whether we have that information. You are right that there can be several people who are eligible to receive child benefit in respect of a child. Only one of them can claim it. It is important that the right person in that group claims it who would benefit from the national insurance credit.

Q124 **Chair:** I have a quick technical question, Jim. You may not know the answer to this. In terms of somebody falling due to pay their high-income child benefit charge by virtue of their partner earning £50,000-plus, how do you define "partner" in that sense and how do you define them both as forming part of the same household?

Jim Harra: Do you know that?

Penny Ciniewicz: I do not know that off the top of my head; I am sorry.

Chair: We will add that to the letter of questions. I would just be quite intrigued.

Q125 **Alison Thewliss:** I have a quick supplementary on this. Could you tell me a bit more about how you approach domestic abuse, financial abuse and coercive control with relation to the high-income child benefit charge, if one partner will not tell the other what their income is, for example?

Penny Ciniewicz: Again, I am going to have to write to you on that one. I am sure that we will thoroughly investigate the circumstances of those kinds of situations, but I cannot honestly tell you the answer here today, so let me get back in touch with you about that.

Q126 **Alison Thewliss:** It is fine. It was just in relation to the point about penalties as well, if that might be a situation where a penalty may not be levied.

Penny Ciniewicz: Absolutely, let me get back to you on that.

Q127 **Anthony Browne:** I have questions about research and development tax credits and then a couple of questions about probate and inheritance tax. My first question on R&D tax credits should be aimed at Jim. Your accounts were qualified by the Auditor General because of error and fraud in research and development tax credits. Why is there such a problem with research and development tax credits that it leads to your accounts being qualified?

Jim Harra: R&D tax credits are one of a range of tax reliefs, but they are quite different from most tax reliefs in that they can result in a payment out to the claimant as opposed to just a reduction in their tax bill. Probably, from an auditor's point of view, they are quite special in that way, because some of them involve expenditure.

Q128 **Anthony Browne:** Sometimes the relief is higher than what they are spending.

Jim Harra: Yes, so the nature of the relief, the incentive, is that in some cases you will make a payment and there is a payment of public expenditure rather than a tax relief. There has been concern about the potential level of error and fraud in R&D over the years.

This scheme has become more and more generous, and we have seen changes in the behaviour of the market, which Penny might be able to talk to you more about, in terms of boutique firms generating claims for taxpayers and really pushing at the boundaries of R&D. In the last Budget, for example, the Government announced a set of measures intended to reduce that. Some of them are policy changes to how much relief people can qualify for, but some of them are administrative changes to help HMRC to police the system.

For example, just covering a couple of the administrative changes, in the future you will have to notify us in advance. Companies will need to notify us in advance if they are going to make the claim. They will have to have a nominated person in the business who is accountable for the accuracy of the claim, and they will have to tell us the name of any firm that they have used to advise them in compiling the claim. That will help us to risk assess cases because we know how some firms behave in that market.

I will give you an example of why we are introducing those changes. We have seen cases where an adviser comes in and helps a company to make a claim, we go in afterwards to investigate, and actually no one in the company has any idea how the claim was compiled because they just relied on the adviser. We were concerned that that means that officers of companies are not taking the care that they should take. In addition to that, there are policy measures being looked at to target the relief more effectively at achieving its policy objectives, as well as protecting us from error and fraud.

Penny Ciniewicz: Jim has given a very comprehensive answer there. We do see agent behaviours we would sooner not see. We are working with the professional bodies as part of our work to tackle that. We are also looking at making sure we educate people on what the purpose of the relief is and what a legitimate claim looks like, but also those measures that Jim described are designed to give us much more information to be able to risk the claims that come in more effectively. Enabling us to have a digital footprint for those claims will help us to do that more swiftly. As Jim says, people taking more ownership of those claims within the organisation will make sure that there is a better oversight of those within the organisations that are doing the claiming.

The number of claims has risen quite considerably in the last few years and, in response to that, obviously we have had to increase the resources. We will continue to look at increasing the resources in the compliance directorates responsible for tackling those particular misuses of the R&D tax credit.

Jim Harra: While it is important that we focus on error and fraud and driving it out of the scheme, it is 3.6% of the claims. We have to find a way of tackling that that is proportionate in terms of its impact on the vast majority of legitimate claimants, because this is a very important incentive in the economy that we need to make as easy and fast to claim by legitimate claimants as possible, while protecting ourselves from what looks like a growth in abuse of the scheme. I should add that we are also, which is very unusual from one particular aspect of the tax system, carrying out a random inquiry programme into R&D credits, so that we get a more defined estimate of the error and fraud and better insights into the behaviours that are driving it.

Q129 **Anthony Browne:** You called it abuse of the system, which is a good catch-all. Do you know how much is actually deliberate fraud and how much is error? Presumably that error would be because people do not quite understand what qualifying research and development is and what is not, and they are not quite sure and they stick it in.

Jim Harra: I would not characterise much of what we see here as error. There is a combination of what I would call boundary pushing and fraud. Boundary pushing is where we get advisers who are constantly testing the definition of research and development.

Q130 **Anthony Browne:** It is normally for plants and equipment, and stuff, is it not?

Jim Harra: It can be for a whole range of activities. It can be software development; it can be product and packaging development—a whole range of things. We have to deploy quite a bit of resource, quite apart from trying to prevent fraudulent claims, but also protecting the definition of the relief.

Anthony Browne: Pushing back on the boundary.

Jim Harra: Yes, and making sure it that stays targeted on those activities that we are actually trying to incentivise. It is in the nature of tax reliefs that try to incentivise behaviours people would not otherwise undertake that they want the tax relief but they do not want to undertake the behaviour that they would not otherwise undertake. R&D relief is not unusual in that. Other tax reliefs that are designed to address market failures or incentivise people to spend money on things they would otherwise not have spent it on meet similar challenges.

Q131 **Anthony Browne:** It is 0.25% of GDP that is spent on tax credits. As you say, it is a large amount of money, but actually the UK does not have a particularly good track record by international comparisons on research and development. There has been some debate about how effective these tax credits are. That is a really big debate about the service-based economy and all sorts of things. I was just wondering, from your frontline experience, whether there are changes that could be made to the tax credit system to make it more likely to target the sort of behaviours that you were talking about just now. Do you get consulted by the Treasury on the design of it, because those incentives are very granular?

Jim Harra: We definitely do. We are in a policy partnership with the Treasury. In the case of R&D in particular, it is a good example of how there is, from a Treasury perspective, an interest in making sure that this achieves the changes in the economy that we want, but from an HMRC perspective also an aim to make sure that people are compliant, that it is going to people who qualify for it and that it is also achieving that effect. There is a good exchange of information between the Departments to enable Treasury to make the best calls about the targeting, but also for us to identify the kinds of administrative measures that can make a difference.

If I pick up, for example, the advance notification point, it is arguable that if an adviser goes into a company and says, "You know this expenditure you have had for the last four years? Well, actually, I could put in an R&D claim for that", that relief has not incentivised that behaviour.

Anthony Browne: It is dead weight.

Jim Harra: It is a dead weight cost. As the scheme has become more generous, we are increasingly identifying ways of protecting the boundaries of it and the targeting of it.

Q132 **Anthony Browne:** I have another question about probate. In fact, my mother died last year, so I have first-hand experience of this in terms of inheritance tax and getting grant of probate. There seems to be a Catch-22 that, if you are selling a house, which often happens after the death in a family, you can get probate only if you have paid inheritance tax, but you can pay the inheritance tax only once you have sold the house. You are in this Catch-22 that you cannot sell the house without paying inheritance tax and you cannot pay inheritance tax without selling the house.

There are workarounds to that. You can get a loan from HMRC and pay interest on it in order to pay the inheritance tax before selling the house, or you can try to persuade a bank to give you a loan for the inheritance tax—an unsecured loan that would be very expensive. I know from various advisers on this that they think it is a rather complex, roundabout system. I wonder whether you have thought about easier ways of doing it, for example so that the payment of inheritance tax happens at the moment of completion in the same way that payment of stamp duty does.

Jim Harra: I recognise that it is a complexity. There is a long-standing rule in inheritance tax that you must estimate and pay the inheritance tax at a certain point, regardless of whether you have actually completed the estate and realised the assets. We do not make loans, but what we do is allow people to postpone payments.

Q133 **Anthony Browne:** You can defer payments and pay interest, in a practical sense.

Jim Harra: We should be constantly looking at whether we can improve that, but we are not looking at that more fundamental option of changing the timing of payment of IHT. It is a pretty fundamental part of the design.

Q134 **Anthony Browne:** It is not a question about the timing. The payment of IHT is within six months of death and it is not a question about that. It is a question about the sequencing of paying IHT, getting the grant of probate and being able to sell the house that causes the complication. Obviously, you have to have a cut-off date for inheritance tax and six months sounds perfectly reasonable. Obviously, you need to get inheritance tax before you allow people to sell a house. I totally get that, but you could do it at the moment of completion. They get the sum of money from the sale of the house, some of which they give, probably, to you. Do you collect stamp duty?

Jim Harra: We do, yes.

Q135 **Anthony Browne:** They pay fees to the conveyancers, pay the estate agents, and also pay inheritance tax at the same time. Then you would stop this roundabout money-go-round, which causes a lot of people real confusion at a time of great vulnerability.

Jim Harra: We will bear in mind the suggestion. We are well aware of the difficulty of doing this and will take account of the suggestion.

Anthony Browne: It could be simplified quite radically and it would help a lot of people at a time of vulnerability.

Chair: That concludes this session, you may be pleased to know. Can I thank all three of you for coming and appearing before us? It has been a very useful conversation. You have very kindly agreed to write to us on certain matters, probably best handled by me writing to you in the first instance, setting out those questions and perhaps one or two others. Can I also thank you and your colleagues in HMRC for all the hard work you do? Nobody thinks you are perfect; you are well aware of that. At the same time, that is not the same thing as saying we should not recognise that, particularly during the pandemic, a lot of very good work was carried out under extreme conditions. For that, this Committee is grateful.

Jim Harra: I will pass that on to my colleagues.

Chair: Thank you. That concludes this session.

House of Commons