

Public Accounts Committee

Oral evidence: Tax Reliefs, HC 1155

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Members present: Margaret Hodge (Chair); Mr Richard Bacon, Guto Bebb, Jackie Doyle-Price, Chris Heaton-Harris, Meg Hillier, Mr Stewart Jackson, Fiona Mactaggart, Austin Mitchell, Nick Smith, Ian Swales, Justin Tomlinson

Amyas Morse, Comptroller and Auditor General, National Audit Office, Gabrielle Cohen, Assistant Auditor General, National Audit Office, Rob Prideaux, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Witnesses: Sir Nicholas Macpherson, Permanent Secretary, Her Majesty's Treasury, and Lin Homer, Permanent Secretary and Chief Executive, Her Majesty's Revenue and Customs, gave evidence.

Q1 Chair: Welcome. This is a wide-ranging discussion we are embarking on this afternoon. It is examining the effectiveness of an issue that kept coming back to us, as you will be aware, Lin, when we had all our early hearings on tax. We wanted to have a more systemic approach to our work and this is our first attempt to do so.

It is difficult to know where to start and I have lots of Members with lots of interest and no doubt the discussion will be very widespread. I will start by asking you to focus on where I think there is the greatest interest, which is tax expenditures. Do you know how many there are?

Lin Homer: I know the value of the tax expenditure.

Q2 Chair: No, how many are there? How many different tax expenditures are there? Let me see if my interpretation is the same as yours. Tax expenditure is where you introduce a change to encourage a behavioural change in some way. How many of them are there?

Lin Homer: There is about £101 billion-worth of relief.

Chair: How many?

Lin Homer: I think the OTS looked at about 159.

Chair: Yes. There is a figure in the Report of more than 1,100 tax reliefs. The value is a different question. How many are there?

Lin Homer: OTS looked at about 159.

Chair: That's not the answer to the question, is it?

Lin Homer: No, but what I was going to try to explain is that all these definitional issues are slightly soft. So, if you look at the NAO Report, there are some international comparisons. One of the challenges there is that none of us quite uses exactly the same—

Q3 Chair: I deliberately used your terms; you talk about tax expenditure. I think it is useful from the point of view of this Committee, because obviously we are looking at value for money for expenditure, so I deliberately used that term, which is yours, to try to establish how many there are under your definition.

Lin Homer: If you looked at around 150, I could—

Chair: No, I want you to look at all 1,100 of them.

Lin Homer: About 150 of those would be the definitions we apply to tax expenditure. I can give you the broad headings. There is a clutch under “income tax”, which would include a significant number of pension schemes and small things like the seafarers’ earnings deduction. There are corporation tax ones, capital gains tax, inheritance tax, value added tax and some smaller ones.

Q4 Chair: Ironically—we talked about this a little before you came in—value added tax is one that I would not call a tax expenditure. That is where you decide not to have a tax rate because you don't want people to pay, which is a very different issue.

Lin Homer: That is an example.

Sir Nicholas Macpherson: That actually is an important point. One person's tax expenditure can be another person's tax relief, and could be another person's tax allowance.

Q5 Chair: Explain that.

Sir Nicholas Macpherson: These things tend to merge into each other. They are very much in the eye of the beholder. For example, I remember in the old days—

Q6 Chair: I am looking puzzled because I am trying for simplicity's sake to use HMRC's own definition. They talk about tax expenditure, so I was interested to know; I was not trying to make up a term, Nick. It seemed to me that the definition was—I can perfectly

see that a personal allowance is a policy saying, “We don’t want you guys to pay under £10,000” or whatever it is. That is a decision. An expenditure—we on this Committee are particularly interested in expenditure—is where you say, “We’re going to do this because we think it will change behaviour.” The great one that we have talked about is film tax relief.

Lin Homer: Yes. We are slightly more purist than some other countries. We put zero and reduced-rate VAT into that £101 billion of tax expenditure-type reliefs, and other countries do not. If you look at the £101 billion and the big headings in it, £37 billion is zero-rated VAT, £5 billion is reduced-rate VAT, which is mainly relief on domestic gas and electricity, £34 billion is the relief on pension schemes and £10 billion is exemption from capital gains on main homes. So 86% of the sum we are talking about is in the field where, if I am honest, I think most people would look at it and think of it as more like the structural reliefs you mentioned, such as personal relief. About 15% of it is—

Q7 Chair: Why do you call them tax expenditures, then, just out of interest? What is purist about that?

Lin Homer: Because France, for instance, does not put zero-rated VAT—

Chair: Yes, but why is it purist to do so?

Lin Homer: Because we have tried to capture the widest range possible in this space, on the basis that we do accept that reliefs and tax administration are of interest to people. It is not a completely definite international definition. I think with all of these, the question about what we are trying to do and how we are trying to do it is a matter of some definition. I think the NAO accepts that in the Report. Certainly, there are strong encouragements not to use the international comparisons too lightly, because you can be, classically, comparing apples and pears.

Sir Nicholas Macpherson: I totally respect HMRC’s historical focus on tax expenditures. Conceptually, it is useful to have something called tax expenditure. At the margin, tax expenditures can merge into public spending, especially around the tax credit space, but when I look at these things, there are genuine grey areas. You used the example of using a tax relief to incentivise behaviour. The coalition has recently reintroduced a relief for marriage. Is that allowance really designed to encourage people to go off and get married, or is it just a value judgment that married couples should have a slightly lower tax burden or be relieved of rather more tax? I cannot remember off hand whether this counts as tax expenditure or a conventional allowance, but I hope you will understand that there is some ambiguity.

Q8 Chair: I hear what you say. It has rather puzzled me, because I had taken the narrower view of tax expenditure as being the one to change behaviour. The reason it worries me—we will get to some more specifics about behaviour—is that, if we are to test the effectiveness of your policies and ask whether they meet the purpose for which they were intended, which is what we are here to do, it would be useful to know how you define that. I thought it was quite neat to say, where you are trying to change behaviour, we can test whether you have done that. You ought to be able to test whether you have done something.

So, when you introduce a film tax relief, does it mean that more films were made here? We will come on to avoidance and evasion in a minute.

It puzzles me a bit that your definition is so opaque that I am not sure you can test the effectiveness. Not testing the effectiveness of policy is of huge concern, particularly where you are talking about literally billions and billions of pounds.

Sir Nicholas Macpherson: A lot of those points are good. Just to draw on my own experience of working around tax for the past 30 years, I have seen a number of Governments and Chancellors come and go. You have no doubt seen the annual theatre of the Budget speech, which involves a whole series of announcements. Often, the objective of tax policy is very broad indeed. It is not some specific, targeted thing; it may just be a reflection of the fact that the Government of the day regard an activity as rather more worthy than some other activity, and so decide to tax it less.

It is quite rare to have policy that has detailed objectives set out. Taxation is the most political of activities. It goes back thousands of years. The House of Commons came into existence because of taxation. I do not think it is something that you can reduce to the same sort of clarity in terms of objectives as many areas of public spending.

Q9 Chair: That's true. Because it is so complicated, there is some truth in that. But there is also some truth in what I said, Nick. I have been there both as a parliamentarian and as a Minister, and I can give endless instances. Take the games tax relief, which this Government brought in, which we in the previous Government were lobbied about. There was a completely clear purpose behind it, which was to provide additional support to the games industry, so that we maintained a competitive edge. We kept the games industry here, and they did not disappear to New Zealand or Canada, which had a more benign tax environment. So it was a perfectly clear purpose.

I accept that there are some cases of which you can say it is completely, utterly and totally a political decision—for example, personal tax allowance—and we would not attempt to comment on that, but there are others where there is a specific policy intent. I then think that it is up to this Committee—the Public Accounts Committee—to say, “Okay, you had that policy intent. How much did it cost you to put it in? How much have you gained: is there more games industry here, or are more films done here? How much did it cost you in abuse?” Those are important and legitimate questions, in areas where we are talking about billions of pounds. Trying to put it all into the framework of some prevents us from looking at others where I think there is a series of questions to be asked. Do you agree?

Sir Nicholas Macpherson: That is a perfectly reasonable point of view. When it comes to taxation, as an official my role is to advise Ministers on tax, and then, with Lin's help, to seek to implement those decisions. We have quite good feedback loops in terms of whether an allowance or relief is costing as much as we expect. We have now got an independent Office for Budget Responsibility, which at least—

Chair: Predicts—

Sir Nicholas Macpherson: —impartially and independently the cost of that relief. So, using your example of film, I think the original relief was brought in in 1997. This is something where there was endless iteration, you will remember, through the 2000s. It is one of those very difficult areas, which the well advised would rapidly home in on as a way of reducing their tax liability. So there were several iterations. On the one hand, the Chancellor—no doubt encouraged by at least one Department, which I think you were a Minister at in the 2000s—wanted to support legitimate film activity, and then you would get tax advisers manufacturing avoidance products. We began to get feedback from the Revenue about how the relief was being abused. Then we tried to make further policy changes. Obviously, if a Government is keen to help an industry, sometimes it is a little reluctant to go into reverse gear too quickly, but, over a period of time, we have ended up with a tax relief for the film industry that is more effective than the one that was introduced in 1997. That is not because we were all stupid back in 1997. You learn by how reliefs actually work in practice, as opposed to in theory.

Q10 Ian Swales: I just want clarity on something you said. Were you suggesting the OBR has a responsibility to review the tax reliefs? I thought you were, but is that right?

Sir Nicholas Macpherson: The OBR has a responsibility to forecast tax revenues. If an allowance or relief turns out to be costing a lot more, that should show up as part of the forecasting process, and that should happen reasonably quickly.

Q11 Ian Swales: But their responsibility, as in their title, does not extend towards the questions that the Chair was asking around the efficacy of the actual relief.

Sir Nicholas Macpherson: No, absolutely not. They look at the prosaic issue of cost.

Q12 Chair: Okay. One more question on film tax, then I will go to Guto. It is a good one, which figure 23 in the Report demonstrates. It is where my concerns lie. If I may use my interpretation of tax expenditures, I think there is an intent to change, although I accept I define it somewhat differently from the way you define it. So we brought this in. The OBR was not around at that time, but we thought it would cost £30 million. That was the original cost figure that was put on it. If you look at this chart, it goes up to nearly £700 million in 2005-06. It goes up massively—much more than any of us had dreamt when we first brought it in.

The Treasury Committee starts expressing concern in 2002-03—I don't know why they left it so late—so it had already been in for some time. Then, by the time you take action, years have gone by, so there are concerns. First, on the work that was done before, how on earth could all of us have got it so wrong that we thought it would cost only £30 million, and then it zooms up like that? If it was open to tax abuse, why on earth did we not design it a different way?

Chris Heaton-Harris: Who gave you the advice that it was just £30 million? Was it officials, the industry, or—

Chair: Officials.

Lin Homer: So, if you take that example—

Chair: It's designing, monitoring and then taking action.

Lin Homer: I think Nick is right that there was a clear policy intent, which is for Government, not for us. It was very evident from very early on that the old film relief was drawing in forms of behaviour beyond what Parliament expected—I know you remember this period well, Chair—so a number of steps were introduced, and I think it is right that that took some time. This balance is the point that I would be keen to make. This is not a simple case of saying something is good or not good. It is a movement towards something effective and, in the case of film, by the time of the final changes in 2007, we have not, we believe, seen any abuse of the new film relief at all. Therefore, after a difficult birth—I will give you that—we are in a position where the original intention of a number of Governments to take some steps that would support British film has been very successful.

Q13 Mr Bacon: The effectiveness point is that to get to the point that you have just described took 10 years and several billion pounds.

Lin Homer: No, not necessarily.

Mr Bacon: According to the chart in the Report.

Sir Nicholas Macpherson: Can I have a go at answering this one? I originally said it was introduced in 1997 and it wasn't. Actually, the original scheme was introduced in 1992, and that allowed revenue expenditure to be written off over three years. If I had to describe what often happens with tax reliefs, this would be a classic case study. It was introduced in 1992. It was not regarded as generous enough and did not have very much impact. A new Government comes in in 1997 and it wants to be seen to be doing something far bigger for the film industry. You then introduce 100% first-year write-off, and suddenly investors see a chance and go for it.

Q14 Chair: Why didn't you see that? Why weren't you able to predict it?

Sir Nicholas Macpherson: Officials are, historically, always cautious about new reliefs. The very first point you mentioned in this hearing was that there were 1,000 reliefs and allowances out there. And every single one of them not only complicates the tax system more but, either individually or in conjunction with other reliefs, provides an opportunity for avoidance. One person's avoidance is another person's incentive, so you need to be careful about what language you use, but my point is that we would have been aware of risks back in '97, although I can't remember precisely the extent to which they were identified in the advice at the time. But Governments, perfectly legitimately, are prepared to take risks in these areas, and the question then is how you manage the risk. In an ideal world, we would have spotted this in 1998, '99 or 2000. HMRC set up a specialist team of investigators in 1999, and actions were identified thereafter, but it was only in 2007, when the whole

structure of the relief was changed and the new tax credit was introduced, that we seem to have ended this as an avoidance opportunity.

Q15 Mr Bacon: With respect, you still haven't really answered my point. The chart doesn't go back to 1992; I'm talking just about what we can see. Perhaps the NAO can tell us. If you take it from 1999, which Sir Nick just mentioned was the point when HMRC appointed special investigators, it was already five times what was predicted then. This is the first point on the line before it starts to really shoot up. What is the value from there, when it's probably about £140 million or perhaps £150 million? It goes up into the region of £630 million or £650 million, and then goes down again, to about £120 million I guess, in 2007. What is the total value of tax reliefs—tax forgone—represented by that line on the chart? Is it a couple of billion pounds?

Rob Prideaux: It's in the order of £2 billion, yes.

Q16 Mr Bacon: Yes, so what I'm saying is this. You got it right, as you yourself said, by 2007 or 2008, but it took the giving out of £2 billion of relief, a very significant proportion of which was not for the purpose that the policy was designed for or the intention of Parliament. It cost you nine or 10 years and a couple of billion pounds to get to that point.

Sir Nicholas Macpherson: That is fundamental. What would have happened during that period is that every year we would have published the value of that tax relief. It was open to Ministers or to Parliament to do something about it. The reality is that tax is not managed like public spending, and actually it is quite different from public spending.

Q17 Chair: But had this been a grant—you could run it either as a grant or you could run it as a tax relief. We chose at the time, goodness knows why—probably because we were worried about how we would choose the winners—to run it with tax relief. Had it been a grant, things would have gone ballistic at this overspend.

Sir Nicholas Macpherson: Exactly. You raise an interesting issue. You will recall individual learning accounts, which were closed down pretty quickly when they started—

Q18 Mr Bacon: Oh, really? I don't think so, actually. It took about 12 months after the *News of the World* started writing about it before you called the police.

Sir Nicholas Macpherson: Okay, so 12 months; but you are identifying a line which is rising exponentially from 2000 through to 2005.

Q19 Ian Swales: Figure 17 shows that you have got eight people, with a total cost of £390,000, monitoring this whole thing. We heard in previous hearings that this film relief was going to already-finished American films, for example. Surely the Revenue should have been investing in enough monitoring resource to make sure this relief actually worked as

intended. It is okay saying, “People saw a big hole and ran through,” but shouldn’t your unit have been making sure it was only being used for what it was intended?

Lin Homer: I think there are two major issues here. One is that Parliament remains the organisation which chooses what to do. You are absolutely right. Figure 23 starts in 1997. If it had gone back to 1992 it would have shown a period of relatively modest spend on support for films, aimed at paying for the production of films. The change that was made in ’97 was to pay for production or investment; and in the period from ’97 to 2007 the relief was accessible via investment. Those were choices made after some lobbying as the legislation went through Parliament. I think during that period what was happening was, if I want to put it that way, a consequence of the policy choices made. The change in 2007 was to change back to relief that was focused on production.

Q20 Chair: Our challenge to you, Lin, is that it just took too long. I was there on this one. It was not that Parliament through its Ministers was saying, “Let’s carry on wasting money on this, because we know it is being exploited and abused by a group of ne’er-do-wells.” Nobody was saying that. Nobody was putting pressure on you. There wasn’t a political pressure to waste money in this way. So something else was going wrong, which allowed this to go on for that long. That is getting underneath it, back to what this Committee is about—the effectiveness of these policies.

Lin Homer: I think there is a broader debate about whose role it is to determine the effectiveness, but I would disagree with you. I do not think during that period there was a lack of knowledge or understanding. Indeed, if you look at the graph, there were a series of steps, all the way through from ’97 to 2007, where various restrictions were put in place, but each of those was made after some consideration from a policy perspective. At the end of the day, HMRC implements the policy the Government of the day wants it to; and I am afraid I think that is the separation.

Q21 Ian Swales: Going back to my question: are you saying, therefore, that this unit you have, with a handful of people, always, throughout that period, only let through exactly what the policy said? I can see people shaking heads behind you. That is my question. Your job is to police and to see that it is done.

Lin Homer: We will go on to talk about tax avoidance. You know we still have a significant number of cases outstanding in the tribunal. They are all for the old film relief. Some 43,000 of those cases will receive a notice to pay under the new accelerated provisions. We think as many as 17,000 of those are to do with old film relief, yes; so they are not all decided.

Ian Swales: But they got through at the time. That’s my point.

Lin Homer: No, they did not all get through. Many of them are still heading towards tribunals.

Q22 Mr Bacon: Did you say 17,000?

Lin Homer: About 17,000—

Mr Bacon: That is the backlog of cases.

Lin Homer: —of the old film relief, not the new, remain to be determined.

Q23 Mr Bacon: How many of those do you think will eventually go through a tribunal?

Lin Homer: I hope, with the changes that we have put in place through the recent Budget, that many more will be settled, because we will be expecting them to pay up front, and the advantage of delay, which has been one of the main reasons for holding on to those old cases, will disappear. We will change the balance of benefit in disputing.

Q24 Ian Swales: Are you suggesting that they have not been given the relief yet?

Lin Homer: No, not all of them.

Chair: They have not paid the tax.

Lin Homer: They have withheld tax that they believe is to be offset and we are disputing it.

Q25 Meg Hillier: There is a more general point arising from this. When you are setting up the tax relief, how much behavioural input is there? I am thinking of Ireland, for example, where tax relief was given on building hotels, so now you can get a €59 room very easily, which is great for the consumer but devastating for some of the businesses, but it was over seven years. Those hotels are hanging on because they will get the tax relief at the end of the seven years, so that is a long period, which is not going to enable behaviour change within that. There are two questions from that: first, how much do you analyse at the beginning; and secondly, what is a good time frame for allowing Government to make a change to the policy without having a big impact on businesses?

Lin Homer: Two very good questions that go back to something the Chair said a while ago. We have a lot of collaborative input at the design stage of tax reliefs, and that is clearly—

Meg Hillier: Collaborative with the Treasury?

Lin Homer: Yes, and indeed with other parts of Government who sometimes understand a particular sector very well. That design area is I think one where we would now focus our very best resources on, as the Chair put it, those types of tax expenditure that are more likely to be attractive to tax avoiders. I did not have a chance to respond to your earlier point, but I think it was a very well-made point that some types of relief are more likely to be subject to attack, and we put our best resources, alongside policy colleagues, on ensuring that we design it as well as possible and then that we watch that design as it builds.

To go to your second point, if you are trying to undertake behaviour change, you sometimes have to allow a transitional bed-in period, when you watch to see what is happening and whether it is having the impact you expected, and then move on. Then, if you had to legislate to change—we were traditionally quite slow to legislate, and one of the changes that has been made, which I think is called the Rees policy, is that we now have a system whereby we can announce legislative change with effect from the date of announcement or even retrospectively. So we have given ourselves more tools to respond, but it would be foolish not to wait to see sometimes whether what you were trying to achieve was successful.

In terms of film, I have to say that despite a difficult birth, if you like, none the less, many people in the industry would now say that the finally designed scheme has led to a huge resurgence in film of the type that was originally wanted, which is production in this country, activity in this country and therefore wealth in this country.

Meg Hillier: Is there a critical time period?

Lin Homer: I think it depends from tax to tax.

Q26 Guto Bebb: I just want to touch on the issue of inheritance tax and figure 10 in particular. On feedback loops, a description I quite like, when we look at figure 10, it appears—given that inheritance tax revenue has gone up 10% but the agricultural property relief and the business property relief has gone up by 160% and 200%—as though there is an issue there. My first question is to Lin Homer. I take it for granted that the resources are available to ensure that the compliance process is undertaken very carefully for settlements of any inheritance tax claim for those types of reliefs?

Lin Homer: Yes. Inheritance tax generally is a tax that catches the minority, not the majority. It is designed in that way, and that enables us to focus our resources on a relatively small number—a small percentage—of cases.

Q27 Guto Bebb: What sort of a percentage would it be?

Lin Homer: Currently, inheritance tax generally catches about 4% of estates—that is about 16,000 estates at the moment. So we are able to track and identify activity that is under way. You are right that it is an area where we have deep experts—obviously I am not one, you know that—

Q28 Guto Bebb: My question really was: 4% of estates are caught, but what percentage of those will be subject to further inquiry as part of the compliance process?

Lin Homer: It will vary. You know from the conversations we have had with you here that we have tended to extend our range, really, so we will use some of our electronic data to watch for trends—in stamp duty, we saw early a change to moving properties through a number of owners to detach it from stamp duty. We would use general data. We would sometimes use campaigns to signal, as we are at the moment on second incomes, where we

are focusing, and we will move resources in and out of an area if we think that there is either an emerging or historic problem that we need to tackle.

Q29 Guto Bebb: The point I am trying to get at, in terms of the distinction between a tax relief and compliance, is that it is possible, therefore, that the compliance is perfectly in place for inheritance tax. We do not want to touch on the policy implications, but if, for example, we are seeing a 200% increase in agricultural property relief at a time when there is no real increase in inheritance tax coming through, would that be reported to Ministers as an area of interest for them?

Sir Nicholas Macpherson: Yes, there is a regular dialogue on this. Just to give you perspective, yes, figure 10 shows that these reliefs have expanded, but the total cost of agricultural property relief is £370 million and business relief is £385 million. So those are significant amounts of money, but, coming back to the Chair's point earlier about film relief, actually those reliefs are relatively small, all things considered.

Inheritance tax is an interesting tax because it really does not hit many estates, but some very wealthy people put a huge amount of energy into tax planning. These reliefs go back decades—I think that agricultural relief was introduced in the 1920s—and this is nothing to do with me, but this House, you, have historically attached a very high weight to people with land and why they should not be taxed. Lloyd George tried to tax land at one point—

Q30 Chair: What if I have got 12 sheep on my back garden—is that then an agricultural property?

Lin Homer: It might depend on how many sheep and what you do with them.

Sir Nicholas Macpherson: It is not my job to give you tax advice.

Q31 Guto Bebb: Just on the specific point, as an MP who represents a rural constituency, of course I do not want to attack agricultural property relief—everyone has their self-interests—but I am trying to get at two issues. There is compliance, on which we are getting some assurance that HMRC are putting the resource in to ensure that things are in order, but it is the feedback process for decisions made at a political level that I am interested in.

Sir Nicholas Macpherson: You are raising a really interesting issue. What you are really looking out for, if you are in the Treasury and very much relying on HMRC's information and advice, is an inflection point. Something might be going along steadily, but, if it suddenly goes up a lot, then alarm bells should start ringing. Going back in time—I am sure that the Committee took an interest in this—to about 2004-05, there was this huge issue with VAT missing trader intra-community fraud—

Guto Bebb: Carousel fraud.

Sir Nicholas Macpherson: Carousel fraud. That was a classic case where, when you were just sitting in the Treasury, you suddenly saw VAT receipts actually not rising along with the economy, so we did a huge amount of analysis with Revenue and Customs.

Just to put your mind at rest, we do take revenue risk incredibly seriously. Once a month, the Treasury has a meeting specifically on revenue risks, when we look across the board at information and intelligence that we are picking up and court cases which we have just lost to ensure that, as far as is possible, the revenue comes in. When things start shifting, we are keen not only to get to the bottom of the facts, but to advise Ministers and enter into a dialogue over whether there should be policy change.

Lin Homer: The disclosure system—the DOTAS system—gives us much richer information than we traditionally had. Although it is not something we do every day, there are occasions when we act to change the regime within days of having a disclosure so that a disclosed scheme never gets launched. That is exactly that space where we see something about to happen, we give feedback and, although Ministers are very loth to do it, that occasionally includes retrospective legislation. It more often includes immediate announcements that will kill an artificial project stone dead before it is marketed.

Amyas Morse: I just think it is worth commenting that, in the ordinary way, if you were getting an upsurge in activity, apart from through a disclosure or something of that sort or a special sort of intelligence, it would normally come from an upsurge through tax returns, for which the data are not available until sometime later. It is just a matter of fact that that is true. It is not as if it is instant and every year people are sitting poring over current information. That is a little bit—I am not sure it is like that. Just talking about the reactivity, presumably you would agree that it is entirely legitimate to look at how effective you are being in reacting as promptly as I know you want to. That is a ground for perfectly reasonable inquiry and examination, isn't it?

Lin Homer: It is something I have talked to you about quite often. You take an interest in how effective our compliance work is. That is a debate about how my Department is spending its resources in fulfilling its functions. I do not think you have found me shy about having those discussions. All I am trying to distinguish is that that is not necessarily the same as determining whether what we are doing is wise or not; that is often someone else's decision. If that is what we have been asked to do, are we doing it as well as we can?

Amyas Morse: You are talking about a policy purpose, which, of course, we are not questioning. Apart from compliance, we could presumably expect to test how promptly and vigorously you go from picking up information to assessing whether the relief is still performing in the way it ought to perform. That is a reasonable thing to be looked at in terms of how quickly and efficiently—you described film tax relief and the delays. The question is, would it be a reasonable area of inquiry to say, "Well, did they do that as fast and as effectively as they should have done?" The answer may be yes, but none the less it is an entirely reasonable area to examine, isn't it?

Lin Homer: I think it is a reasonable area to examine if you do it well, Amyas—

Amyas Morse: That is always true of everything.

Lin Homer: And I am sure you will. To pick up on one of the points you made, it is not always about being fast. Just as in a portion of the Report you suggest that it might be about a certain proportion of cost increase, again, I would say that what you have is a range of circumstances that might lead you to decide that a relief is not performing as you expected so you have to do something else. It is a case-by-case judgment. I suppose that I am trying to ensure that people do not think that there are easy or simple metrics that say once x happens, y should follow. The system is more challenging than that.

Q32 Mr Bacon: Sir Nick said that if the charts start shooting up almost vertically—if it's been doing this for a few years and suddenly shoots up like that—it should be a flag. That is exactly what has happened in figure 23. It shot up very rapidly indeed. You came pretty close to saying that it was Parliament's will and the policy intent that the chart should shoot up like that. We heard that that certainly was not the case from one of the people who was Minister at the time and helped design the policy. It looks like it took several years to get round to reacting.

Lin Homer: I understand that that is what it looks like. I would not necessarily agree entirely with Nick that it would simply be a question of how quick a graph goes up. If the graph was of a very small relief deeply embedded in the psyche of the country, we might say, "Worth monitoring, but not worth spending a really long time and a lot of money to evaluate."

Q33 Mr Bacon: But you are giving a different example. If on the other hand it were a relatively new relief that had been tweaked in a number of ways in order to achieve a particular intent and then it shot up, it would be legitimate to ask pretty early on, "Gosh, this has shot up. Is it achieving the intent?"

Lin Homer: And I have given you some examples. We have recently made some alterations to the Seed Enterprise Investment Scheme to limit its relief, to move away from a situation where two things that the Government were doing, one around enterprise relief and one around renewables, did not connect together in an unintended way. That was a very fast and appropriate response.

What I was trying to say earlier was that there might be others where you are, as Meg mentioned, trying to undertake behavioural change. You might decide that you have to let something ride for a little bit longer and work out what is going on before you react, to ensure that it is not an overreaction. It is completely right to expect us to evaluate, but it is a judgment-led evaluation.

Q34 Chair: In the Report, it says that of the 92 reliefs that the NAO looked at, "26 tax reliefs...had increased by more than 50 per cent in real terms in the past ten years, and 30...had increased by more than 25 per cent in the last five." Are you giving us the assurance today that—it does not mean that you get rid of them—all those instances are monitored?

Lin Homer: We do a great deal of monitoring.

Q35 Chair: Have you monitored all those?

Lin Homer: Some of those 92 are very small. As I said earlier, the level of monitoring you would do with those would be very different from a big one.

Sir Nicholas Macpherson: We do not just monitor them; we publish every March the cost of the principal tax expenditures and structural reliefs—

Lin Homer: And the minor ones.

Sir Nicholas Macpherson: So these things are out there. If people do not like them, they can make representations.

Q36 Chair: I am just asking a question: do you look at them?

Sir Nicholas Macpherson: Yes.

Q37 Mr Bacon: You are talking about this sheet here with the numbers attached to some of them and then “neg” next to some.

Sir Nicholas Macpherson: Yes.

Lin Homer: Those might be examples where we did not do a great deal.

Q38 Mr Bacon: If you were to add up all those “negs”, do you know what you would get?

Lin Homer: A negligible amount.

Q39 Mr Bacon: A million here and a million there and it might not be.

Sir Nicholas Macpherson: “Neg” in my day was anything that rounded to less than £5 million. It would have to be £2.5 million or less to be “neg”.

Q40 Mr Bacon: When you say “in my day”, you are still the permanent secretary, are you not?

Sir Nicholas Macpherson: I mean the days when I produced the sheet myself.

Q41 Mr Bacon: You used to do this, did you?

Sir Nicholas Macpherson: Yes.

Q42 Austin Mitchell: The Report says, on the point that the Chair has raised, that the NAO “identified 26 tax reliefs which had increased by more than 50 per cent in real terms in the past ten years, and 30 which had increased by more than 25 per cent in the last five.” If that happened to a Department’s expenditure, rather than to a tax relief, the Treasury would be jumping down their throat. The Report says that “none of the increases prompted the exchequer departments to evaluate the reliefs concerned”.

Lin Homer: There are two things that I am keen to say. A distinction has to be made between evaluations that we publish and evaluations that we share internally. There is an assumption that if something has not been published, it has not been done, and that would not be the case.

Q43 Austin Mitchell: Which do these come under?

Lin Homer: The second thing is that, as we discussed earlier, a number of the reliefs captured in the definition are things that, from your discussion earlier, you would accept that there is an understanding of what is going on anyway. A big chunk of two of those increases relates to VAT changes. The VAT change was well understood by Parliament, and a change in the rate of tax will create a change in the value of the relief. If it is well understood, we do not waste more money on understanding something that we already understand.

Q44 Austin Mitchell: What do the changes commented on by the NAO come under? Are they ones that you discuss among yourselves or are they ones that are published?

Lin Homer: Both. A number of the ones referred to in that paragraph are just the kinds of relief that we discussed earlier, such as zero-rate tax or reduced-rate VAT on domestic fuel. Largely, the change in the cost of the relief relates to the change in the cost of the tax.

Q45 Austin Mitchell: But effectively it means that in granting those reliefs, the Chancellor is giving an open cheque.

Lin Homer: The Chancellor has to account to Parliament very fully before he makes any changes to tax.

Austin Mitchell: Is he giving an open cheque?

Sir Nicholas Macpherson: He is not giving an open cheque, because it is always open to Parliament to change the tax. What is striking is that if you put up tax rates, you immediately increase the value of reliefs against that tax rate. Similarly, if you reduce tax rates, it reduces the value of the relief. It is interesting that, historically, successive Governments have chosen not to manage revenue in the same way that they seek to plan and control public spending. That is, in a sense, a decision by Government and Parliament. In principle, you could design a system where all these reliefs were managed in the same way as public spending.

Q46 Austin Mitchell: Could we design a system wherein someone is accountable, in the same way as there is an accounting officer for spending?

Sir Nicholas Macpherson: You could do. An accounting officer could be responsible for tax reliefs in the same way as they were for public spending. Currently, however, they are not, because tax expenditures—to use the term we started with—have always been regarded as different.

Q47 Austin Mitchell: That's a major point. Let me ask about one aspect of relief: tax relief for companies on the interest that they pay on borrowings. Do we know how much of that goes on borrowings used and spent overseas as opposed to in this country?

Lin Homer: The corporation tax amounts of expenditure—the structural reliefs—are quite small.

Q48 Chair: What is shocking on corporation tax is the fact that 28% of the 800 largest companies paid no corporation tax at all, and a quarter paid less than £10 million each. That is pretty shocking. Part of the explanation will be what Austin is alluding to, but there is a broader issue there. This is a tax that is not meeting the intent that was set by Parliament. I do not know what on earth you are doing about it, but if, out of your largest companies, one in five is not paying any corporation tax at all and one in four is paying less than £10 million, that is not meeting the intent.

Lin Homer: Corporation tax generally will be part of the structural taxation system and, as you discussed earlier, not an area specifically captured in the taxable expenditures. Essentially, the judgment is what the Government of the day want to set as the appropriate tax rate. We have talked with you quite a lot about the application of those rules, and they are a mixture of international, European and domestic rules. We are of the view that there is some avoidance around both interest rate relief and sideways loss relief, but it is not predominantly large corporations—it is a much wider risk.

The basic question of where the threshold will be set is a policy area. We have talked many time about people's view of that, but I am currently content that we are applying those rules as they are intended to be applied.

Q49 Austin Mitchell: But not as other countries apply them. Let me give you an example from the Unite report on Alliance Boots. There was a leveraged buy-out costing £9 billion, on which tax relief is now being claimed for taking over the company. Alliance Boots has moved its headquarters from Nottingham, where the University of Nottingham was founded on the loot of the shrewd cash chemistry of good Sir Jesse Boot, to Zug, where Boots does no business. That allowed the company to reduce its taxable income by £4.3 billion and avoid tax payments of nearly £1 billion. That seems somewhat doubtful as a proposition. How does HMRC ensure that the tax relief claimed on interest payments is restricted to the amount of debt used in this country?

Lin Homer: You know that I will not discuss individual taxpayers—we have that debate on most of the occasions on which I come before the Committee. In general terms, we have talked the Committee through our application of the tax laws to some multinationals. We are very happy to offer a further session, if you wanted, specifically on interest payments and loss relief.

Austin Mitchell: Okay, let me stop you there—

Lin Homer: If I could finish, I think we are also playing a leading role—again, this is collaboratively with Treasury colleagues—in the international work that is going on around whether these international laws would benefit from change to match the world we live in now. I think we have shown ourselves to be keen to be part of that. There is a question about modernising international tax systems to match the times, and I think this Government and our officials from both Departments are playing a role in that. While that is going on, we believe we apply our rules well and they are well understood. I am very happy to have a more detailed conversation with you about the specifics of that.

Q50 Austin Mitchell: I look forward to that. I have just one final question. In the USA, Canada and New Zealand they have thin capitalisation rules in which the tax allowable on these borrowings is related to the capital base. In other words, it is less than here. Has that been considered in these discussions you are telling us about that have gone on over the tax relief on interest payments?

Lin Homer: Every Government makes choices about its taxes. We have much more generous zero VAT on a wider range of products than most of our European counterparts.

Q51 Austin Mitchell: But has thin capitalisation been discussed?

Lin Homer: Those are decisions for Parliament, and we do implement them. Each country makes choices about what it taxes and what it does not, in the multinational sphere within a great deal of international tax law as well.

Q52 Austin Mitchell: But you cannot make choices unless you discuss it. Has it been discussed?

Lin Homer: Our officials talk every day, and they talk only about tax. They are not the most wide-ranging conversationalists; they are deep experts and that is what they talk about.

Austin Mitchell: So they might talk a lot about thin capitalisation.

Q53 Ian Swales: As a postscript to what Austin has been saying, figure 9 shows an example of how this works. This is an example where I wonder to what extent HMRC is measuring what is going on and informing policy makers—it goes back to the point that we have been making. Certainly, the tax director in one of the biggest companies in the world

told me that capital structures are the main way of avoiding tax. It is not transfer pricing and all the things we spend our time worrying about; it is actually the way they design their capital structures and move interest around. So it is very important.

The NAO diagram here makes two interesting assumptions, one of which is that the interest rates are the same on the amount raised overseas and charged to the UK, which I think, typically, is probably not the case when you look at some of the huge interest costs that are levied by some businesses. Secondly, it assumes that the overseas subsidiary in the right-hand column is borrowing the money on the external market, whereas we know that many companies in the UK are setting up companies overseas using share capital from the UK in order to do this financing. The idea that they are then paying interest on to other organisations overseas is also, often, not true. I do not even expect much of a response, but I hope you are measuring this and informing policy makers of what you can see going on inside the tax returns.

Lin Homer: Yes. We have talked to you a lot about avoidance and I have listed on a number of occasions the steps we have taken in this area. To illustrate what the conversations lead to, we have a very wide range of anti-avoidance measures to counter the misuse of interest relief. Those would include unallowable purpose rules, disguised interest rules, anti-arbitrage rules, transfer pricing rules and controlled foreign companies rules. We have gradually built up a range of rules that are designed to deal with some of what you are talking about.

Q54 Ian Swales: I am sure we will keep on returning to it. Anyway, the main thing I wanted to talk about was simplification. Paragraph 2.3 talks about the responsibility that you both have in this area and ends with the interesting statement: “while also making the system as efficient, effective and as easy to understand as possible.” I think all observers would say that the UK system is probably the least easy to understand and the most complicated in the world. Paragraph 1.11 mentions the work of the Office of Tax Simplification and how it recommended that 47 reliefs should be abolished. There is an interesting comment in that paragraph. It says there was “a representative sample of 155”, suggesting that if you did a proportionate thing then almost a third of all tax reliefs should be deducted, if the OTS actually looked at the rest of the 1,042 tax reliefs. That is probably not true, but anyway the OTS recommended that 47 reliefs should be abolished. In fact, 48 have been abolished, but 134 new ones have been introduced. Again, I am not asking you to talk about these rogue Ministers who keep introducing new reliefs, but what are you actually doing about the simplification agenda?

Lin Homer: As you say, OTS has been a new creation of this term of Parliament. We support its work, along with some Treasury colleagues. Almost all of the reliefs that it recommended should be abolished were abolished; I think that some were partially abolished. But we also support its view that there is a great deal of work we can do to make tax simpler to interact with. One of the conclusions in its final report was that part of this work is not about making tax law simple, which no country has achieved, but making it easy for people to interact with. We are also undertaking work in that space.

Sir Nicholas Macpherson: May I just add to that? It is really instructive that OTS is making all these recommendations to abolish reliefs, and I have in front of me the four reliefs

that it recommended should be abolished but the Government, having consulted, did not abolish them. One was land remediation relief; another one was capital gains tax compensation for mis-sold pensions; the third was late night taxis, and whether they should be taxable or not; and the final one was a national insurance contribution exemption for awards for assistance with lost credit cards. I only mention that because it gives you a really interesting insight into how tax policy develops. Those are all really sensible tax reliefs, but each one of them is just a further little complication to the system. And there is a real trade-off here. The idle official in me would just love to have a flat tax system where there are no reliefs at all and where you just had some simple tax rate, but understandably you would regard that as unfair and therefore you pass these laws that Lin has to make sense of.

Lin Homer: I think it is Hungary that has a 16%—

Q55 Chair: I have to say that getting rid of 48 and introducing 138 is hardly evidence. All you can look at is the evidence and if you come in and say that you will simplify things but you introduce more than you had before, you are not simplifying things; you are making the system more complex.

Sir Nicholas Macpherson: Just look at the length of Finance Bills. Back in the '70s, Finance Bills were about 100 pages long; now you're lucky if they're not 500 pages.

Q56 Guto Bebb: I have a quick question to put. I am sure I have heard this before, but what are the resources available to the OTS?

Mr Bacon: Six people.

Sir Nicholas Macpherson: It is something of that order.

Mr Bacon: And they are part-time.

Sir Nicholas Macpherson: It is a new institution. Future Administrations may want to increase its role, just as people are arguing that the OBR should have a bigger role in relation to costing Opposition policies and so on. That is an option.

Q57 Ian Swales: I want to finish my point by referring to paragraph 2.10 of the Report, because you were talking just now—perhaps slightly flippantly—about what the Treasury would like to see. However, in June 2010 the Treasury committed to developing a framework for introducing new reliefs. Here we are, nearly four years on, and according to the Report we do not have it. So what is going on with that? Paragraph 2.10 refers to a paper called, “Tax policy making: a new approach”, published in June 2010. That reference is at the bottom of that page.

Sir Nicholas Macpherson: I remember. I think what has happened is that the Government in the end have chosen not to introduce a framework, but they have done a number of things to make the system work better. They have introduced—what are those

things called? First, it is consulting on legislation earlier and introducing TIINs. I should know what that stands for.

Rob Prideaux: Tax information and impact notes.

Sir Nicholas Macpherson: Yes. They have far broader coverage than before.

Q58 Chair: Nick, with your other hat on, I know you don't like to control it but you are supposed to have an influence on what all departments do on expenditure. You expect them to abide by managing public money rules. Why on earth do you not do that yourselves? It is so obvious. You look at options, you do all the stuff that everyone has to do for everything else, except that you don't do it on tax.

Lin Homer: We do.

Sir Nicholas Macpherson: We do. I disagree with you. Many of the principles that inform managing public money—

Q59 Chair: It says in here you don't.

Sir Nicholas Macpherson: It is not formally under the regime. The accounting approach to tax reliefs is not the same as with public spending. If Parliament wanted it to be the case, it might be different.

Lin Homer: To be clear, we work together at every stage, so before design and at design, implementation, monitoring, evaluation—

Q60 Chair: You always look at options, do you?

Lin Homer: We look at options, and at impact. We resource to risk, so we don't—

Q61 Chair: You said there is no options appraisal.

Lin Homer: We don't evaluate as fully in every case because we are looking at the risks as they emerge, but there is very close work and we have got better particularly at designing better reliefs when we bring them in, which helps with that problem of losing something and having to get it back that Mr Bacon was talking about.

Ian Swales: May we just review the rest of that paragraph because I think it is fundamental to what we are doing here—

Chair: Guto just wants to—

Q62 Guto Bebb: On the specific point about designing reliefs, when I was doing some preparation for this meeting, I spoke to some tax barristers who argued that one of our big problems is that when legislation is drafted, we are almost guilty of second-guessing what tax advisers might do in terms of designing the legislation. When we say that the whole tax system is complicated, it is complicated from the outset because we are second-guessing all the time. Is there any truth in that comment? You say you are getting better at the design, and that there is complexity in the system, or that it is believed that there is complexity in the system. The argument is that it comes from the original drafting of the legislation. Is there any?

Sir Nicholas Macpherson: My experience of dealing with tax lawyers and tax accountants over the years is that everyone blames one another. We blame them, they blame us, and there is a cycle. Raising revenue is very difficult. People do not like paying tax, strangely. I do, obviously, but most people don't.

Q63 Chair: I think that people think it is unfair that if you are rich or a big corporation you don't pay tax. Do you have anything to say on that subject?

Sir Nicholas Macpherson: I am coming to that. What happens is that Ministers make perfectly sensible decisions. As people legislate in the Finance Bill, avoidance is an increasingly productive activity so we legislate at slightly greater length than we did 50 years ago, and that is why the Finance Bill is four or five times as long. You are trying to anticipate actions by avoiders. Then the avoiders kick in and although we have closed off many loopholes they may come up with a fiendishly clever one, and we then have another hundred pages of legislation.

Every so often, the Government come along and abolish a tax and you take out a whole lot of legislation, but it is hard work.

Q64 Ian Swales: The very act of adding more pages creates what a professor of tax at Harvard called when we visited, "more points in the decision tree". We visited Harvard when there was a symposium going on for people from the big four all over the US and he said the most depressing part of the seminar was when someone from the big four talked about the attempt by some big tax authority, whether HMRC or NIRS or whoever, to create an extra area of regulation and he said, "Oh, we just add it to the decision tree. It just creates more opportunities to have more argument and more delay." That is not cost-free. Have you tried to evaluate the cost of administrating the 17,000 cases you are talking about?

Lin Homer: One of the reasons for shifting to taking the tax at the point where we have made our inquiries is to alter the balance of that cost, and to make it in the interests of the person who is participating in the scheme to come to a conclusion, because we think there was cost—both of time and money—in the delay that the old system created.

The eventual outcome is not very productive. You have had tax avoiders in front of you. Indeed, Chair, I think I recall one who truthfully answered the question to you that none of his schemes had been successful. None the less, those people will persuade individuals to pay a fee to them to enter their scheme; they will persuade people to contribute to a fighting

fund. They have traditionally required some of those people not to settle with us. We have introduced that as one of the triggers that would make a promoter a high-risk promoter now, if you require a fighting fund and someone not to settle.

This is a cat and mouse game. I would slightly differ from Nick in saying that it is a productive game. It is mainly productive for promoters. I don't think it is as productive for the people who are trying to avoid tax.

Q65 Mr Bacon: It is productive for everybody in the tax-advice industry. It creates a big area of employment.

Lin Homer: I think some of the high-risk promoters particularly make money from fees, not from the success of their scheme.

Q66 Mr Bacon: The Government's policy is to have simpler, flatter taxes. That is the stated Government policy.

Lin Homer: I suspect, as Nick said earlier, that both he and I might have an easier life if that were the case.

Q67 Mr Bacon: But it is Government policy.

Sir Nicholas Macpherson: It is Government policy.

Lin Homer: As a theory.

Chair: It's laughable.

Sir Nicholas Macpherson: It is Government policy. The extraordinary thing is how stable revenues are. You have all these tax changes year after year and when you look at how much revenue comes in it is extraordinarily stable.

Q68 Mr Bacon: Yes. In fact, James Sproule was making exactly that point at a lunch that I was at recently. He is the chief economist of the IOD. He said exactly this, that when things are going really well you might get it up to 35.5%.

Sir Nicholas Macpherson: Exactly.

Q69 Mr Bacon: When things are going really badly it goes all the way down to 34.5%. Roughly it is around 35%. If you were interested in the effective and economic and efficient administration of tax, that would be your starting point, would it not?

Sir Nicholas Macpherson: It is utterly fascinating. I joined the Treasury 30 years ago, and the taxes were 36.4% of GDP in that year; this year they were 35.5%, so almost exactly

the same. But during that period extraordinary things happened in the tax system. The top rate of tax has come down from 60% to 45% and VAT has gone up from 15% to 20%. It is extraordinary.

Mr Bacon: You don't mean 60%, you mean 83%.

Chair: I am going to bring Fiona in because she has been very patient.

Q70 Fiona Mactaggart: On page 41 of the NAO Report there is a reference to how HMRC communicates with people who are affected by tax reliefs. Fliers were sent out about the Seed Enterprise Investment Scheme. I got a letter on Saturday about a tax relief. I thought it was very interesting. It is a letter directly from the Prime Minister; it is not from you or one of your officials. It clearly uses data I assume were provided by HMRC. One thing that Sir Nick said earlier was, "As an official my role is to advise Ministers." I wonder what advice you gave to No. 10 Downing Street about that letter.

Lin Homer: You know that I am not at liberty to share the advice I give.

Mr Bacon: "Don't write to that Fiona Mactaggart, whatever you do" was the advice.

Lin Homer: I may have given that advice. One thing that HMRC is trying to do more, because we think it is an efficient way for us to work as a big Department, is to act as something of a post box for other Departments generally, including the centre, because we have an easy and reliable relationship with one of the biggest range of users of services that exists in Government. We are trying generally to be able to be used as a post box when that is sensible. In a number of business-related areas for BIS, the Cabinet Office and others, we are trying to ensure that, if they want to use our system, we get information to the right people.

Austin Mitchell: That's at 62p a time.

Lin Homer: Not for us, no.

Q71 Fiona Mactaggart: Who paid? Which budget did this information come from? Did it come from HMRC?

Lin Homer: No. The Department that wants to get something out has to agree with us how to do that.

Q72 Fiona Mactaggart: So, on this letter, did No. 10 pay for it or did you?

Lin Homer: It was not funded from my departmental budget.

Q73 Fiona Mactaggart: Sir Nick, do you know who paid for it?

Sir Nicholas Macpherson: I am afraid I did not receive the letter, and I do not know anything about it.

Q74 Fiona Mactaggart: Surely you know something about it?

Sir Nicholas Macpherson: I am sure I could write you a letter when I find out who paid for it.

Q75 Fiona Mactaggart: I estimated—it said that 2 million people got this letter. That sounds like all the employers on your database, probably. I would be interested to know.

Lin Homer: No, it's not.

Q76 Fiona Mactaggart: It's not. So obviously some addresses were selected. What is the basis on which the selection was made?

Lin Homer: I think we sought to send it to all the businesses we believe could benefit from the new allowance—the employers' NI allowance. Just to be clear, we do spend money on marketing new reliefs so that people know about them. We will have paid for advertising, as we do in a number of these areas, both when a relief takes money from people and when it removes money.

Q77 Fiona Mactaggart: Quite fair enough, but my concern is that this letter uses language which absolutely echoes language on the Conservative party's website. The Cabinet Office guidance on propriety says: "Ministers must ensure that public resources are not used to support publicity for party political purposes." It adds that "if a proposal is novel or contentious in expenditure terms"—frankly, it is novel to get a letter directly from the Prime Minister—"reference to the Treasury would be expected under the rules in Government accounting and the public expenditure conventions generally". Was it referred to you, Sir Nicholas?

Sir Nicholas Macpherson: I am not as well informed about this letter as you and Lin clearly are. I am happy to look into it and respond.

Fiona Mactaggart: What I want to know is how the addresses were selected, which ones were omitted and how much it cost. It must have cost £1 million of our money to advertise the Conservative party.

Chair: It's 2 million.

Q78 Fiona Mactaggart: It is 2 million businesses, but I am assuming that you managed to get a decent deal and only spent 50p on each one. I want to know which Department's budget the spending came from. The address was No. 10 Downing Street, but which Department's budget paid for it?

Lin Homer: I have already confirmed and I will say again that we will act as communicator with a number of Departments. We will increasingly be able to do that digitally. We have done quite a lot already with BIS in this space.

Q79 Fiona Mactaggart: Does BIS use party political phrases in its correspondence?

Lin Homer: Well, they use our database, which is the issue that you asked me about. We believe that particularly around activity focused on businesses, especially small businesses, we have a reach that many other Departments do not have. We are trying to position ourselves to be more useful.

Q80 Fiona Mactaggart: But this is your area. This is not “This is what we’re doing for business.” This is a tax relief, and you, Lin, are responsible for this tax relief. You would normally expect, as has happened and as is described in the Report, to be the Department which communicates it. Why is the Prime Minister, in a personal letter to everyone who pays NICs—or a selected group; maybe just those of us who live in marginal constituencies, if it is this political—sending out the letter on your policy?

Lin Homer: This is a Government policy which is regarded as being very valuable, particularly for small businesses. There has been significant interest in making sure that as many people as possible know about it. The intention, hope and expectation is that within the first three years of operating this new relief, 90% of businesses will use it—

Q81 Fiona Mactaggart: Of course they will use it. It is £2,000 free.

Lin Homer: I am afraid you would be surprised how hard we have to work sometimes to get people to take reliefs that are beneficial to them. It is anticipated to build up to 90%, but we expect it to take three years. I anticipate that we will spend money on marketing and communicating that regularly.

Q82 Fiona Mactaggart: Lin, I have no problem with you spending money. I do have a problem, as a taxpayer, with my money subsidising mailings saying, “We came into government with a long-term economic plan to rescue the economy.” I think that is a misuse of public spending.

Lin Homer: Well, I can assure you that I have sought to ensure that what we have done is a proper use of expenditure.

Q83 Fiona Mactaggart: Well, you are telling me you were just being a post box, and Sir Nick is telling me nobody consulted him, in clear breach of the Government propriety guidance.

Lin Homer: No, I can assure you that I sought confirmation that this matched Government requirements before I was used as a post box.

Chair: Okay. Well, you are writing to us about that.

Q84 Fiona Mactaggart: It seems to me that this is a matter that should be reported to the Electoral Commission. I think what I have just done is given, as my tax bit of this, a donation to the Conservative party.

Lin Homer: I will simply repeat that I am content that I followed due process and was given those assurances, but it is my intention that we will be used more widely by other Departments in the future.

Q85 Fiona Mactaggart: I have no problem with you being used by other Departments. I do have a problem with that being abused to put out party political propaganda, which in my view this is.

Lin Homer: That is your view, yes.

Austin Mitchell: But it is party political.

Q86 Chair: I am going to shush you now. Nick is going to write to us about this, and I think Fiona should pursue it elsewhere as well. I am going to ask some little questions, and then I want to ask a big one. Can I do the little ones, which arise out of this document that I looked at, which is the Office of Tax Simplification? There are some idiotic things in there, which I cannot understand why you carry on. Luncheon vouchers were introduced in 1946, and I still remember my dad having them. You got 15p tax free. That has never changed. We talk about complexity, and I think we can blame Ministers for introducing a whole load of their own ideas, but that is bonkers. Why on earth is that still around? It is used by only 145 businesses.

Sir Nicholas Macpherson: I thought we did abolish this. We abolished it.

Lin Homer: I thought that that was one of the ones abolished after OTS.

Sir Nicholas Macpherson: We repealed the tax relief in the Finance Act 2012, and NICS disregards in regulations with effect from 6 April 2014.

Lin Homer: That was on OTS's list.

Sir Nicholas Macpherson: That was one of the things like Angostura bitters and black beer that we also abolished relief on.

Chair: I was not going to raise black beer, because I knew you had abolished that one.

Sir Nicholas Macpherson: I was hoping Mr Mitchell would explain what black beer was.

Lin Homer: Apparently very few people drink it.

Q87 Chair: What about cycle-to-work days? Have you abolished that one? Usually, if you have a meal, it is counted as a taxable benefit, but if you cycle to work on a cycle-to-work day, you can then claim tax relief.

Lin Homer: This is the list that was abolished.

Sir Nicholas Macpherson: We are officials. Parliament enacted these reliefs.

Q88 Chair: They are so daft, why have you not got them out of the system?

Lin Homer: We have, now, so all but the four—

Q89 Chair: Is it out or in, this one?

Lin Homer: These are out. This is the list that OTS proposed, and with the exception of the four that Nick listed, and four that were partially abolished—I am really sorry; I don't know which four those were—the others in the list, including Angostura bitters and black beer, were abolished.

Chair: Including this one?

Lin Homer: Yes.

Q90 Chair: Can I just ask you about late-night taxis? I can see why that was set up: if people had to work late, it is reasonable that they should be able to get home safely, and if that is by taxi, fine. What is so inequitable about this is that it appears to be used entirely by accountants, lawyers and finance houses, and if you happen to be a shift worker—a nurse, a cleaner or a police officer—you are not entitled to it. That is just iniquitous, isn't it?

Sir Nicholas Macpherson: Inevitably, larger organisations think about this rather more actively than smaller ones.

Q91 Chair: G4S could think about it. I bet they employ more of the office cleaners. Maybe I have got the wrong one, but it is the big companies; that is not a small company, Nick.

Sir Nicholas Macpherson: For me, the Treasury analysis at the time thought that repeal would risk a disproportionate impact on women, in particular. Our analysis suggested that the people who benefited from this tended to be the less well paid in organisations. For

example, from the Treasury, late at night, I would always get the underground, or walk or whatever, but I feel I have a duty of care to people, all of whom are not paid as much as I am, and I think that they should be able to get home late at night.

Q92 Chair: But I do not think that that is the case. According to the Office of Tax Simplification, it was primarily the big law firms. One major law firm, for one site, ordered 25,000 late-night taxis each year—the extra cost for that company if there was no exemption would be £150,000.

Ian Swales: Also, there is the fact that where a company reimburses someone's expenses, that is not classed as a taxable benefit. That will happen all over the place, will it not?

Lin Homer: Yes. This is a really good example. It is one of the ones that the OTS argued should be abolished for the reasons you describe, including the fact that it is not universally available. I almost thought that you were arguing to extend it, Chair, which I am sure was not your intention.

Chair: Either make it fair or get rid of it.

Lin Homer: Once the OTS's proposals were put to Government, they were largely accepted, but those four were not, because in the end the Government of the day balanced whether they were good or bad. That makes the point that tax relief is, at its heart, a policy decision.

Q93 Ian Swales: It will not be about the cleaner filling in a tax return; the issue is whether the cleaner gets money for a taxi and is not taxable on it. It is about expenses, isn't it?

Lin Homer: They don't have to declare it—it is a benefit.

Sir Nicholas Macpherson: It is about whether the employer is actually a good employer and pays people to be able to go home late at night.

Q94 Chair: On a bigger issue, what is the purpose of the patent box?

Lin Homer: The patent box was designed to encourage more innovative R and D. It was brought in relatively recently, as you know, and early signs are that it is producing increased investment in the kind of areas that lead to patents. That is true of the big companies—Glaxo has invested at least £700 million specifically as a result of the patent box and suggested that that has led to the creation of 1,000 jobs.

Q95 Chair: Sorry, how much has it invested?

Lin Homer: £700 million.

Q96 Chair: In the UK? Don't be funny.

Lin Homer: Yes, and 1,000 jobs in the UK. At the other end of the spectrum, Brompton thinks that the patent box has probably generated about £100,000 worth of investment for it. It is really designed to encourage not just new-to-market but new-to-the-world ideas, and to incentivise some investment in them, because by nature they are riskier.

Q97 Chair: But you can get both the R and D tax credit and—certainly—the patent box without the production being in the UK at all, can't you?

Lin Homer: The rules for both those will allow patents to be established in more than one place, but essentially they are about investing in—

Q98 Chair: You can actually just register your patent here and have your factory for your product in India, eastern Europe or anywhere else you like.

Lin Homer: Well, you know that—

Q99 Chair: The answer to that is yes, isn't it?

Lin Homer: Well, things get manufactured all over the world, but there is still a huge value to the UK economy in owning the rights to the products.

Q100 Chair: The answer to my question is yes, you can, isn't it?

Lin Homer: You know that I am not a tax expert. I am sure that we can talk to you about the patent box at a later sitting if you want.

Q101 Chair: Well, no, between you, you designed it. I do not know who in particular, but, you were responsible for designing it between you.

Lin Homer: Yes.

Chair: And the answer is that if you are a Unilever, a BT, a GlaxoSmithKline—I accept what you said—a Rolls-Royce, or any of these companies, you can register a patent here in the UK but have your factory producing the product elsewhere.

Sir Nicholas Macpherson: It is about promoting innovation and creating an environment that encourages the generation of intellectual property—

Chair: To be registered here.

Sir Nicholas Macpherson: The design features that you set out, Chair, were very much on the face of the policy from the beginning—it is a policy choice.

Lin Homer: And it is about a company in the UK carrying on a genuine economic trade actively exploiting the patent or its technology.

Q102 Chair: But not necessarily in the UK.

Lin Homer: Well, it has to be a UK company—a company in the UK—but that does not mean that every box they make has to be made here.

Q103 Chair: When you were designing it, did you take note of the fact that the OECD thought it was harmful tax practice? The IFS said that it was an expensive and poorly targeted policy. Brussels, in its informal non-binding probe, found the UK patent box to be harmful and in breach of a voluntary EU tax code. Did you take account of all that?

Lin Homer: We are working with the EU. They are looking generally at harmful tax practices. As far as I am aware, they have not made a judgment on ours, and I think—

Chair: An informal non-binding probe.

Lin Homer: I think it would be very early days to make a judgment on whether this approach was going to work or not.

Q104 Ian Swales: On the targeting question, building on what the Chair is saying, would your assessment have evaluated how much relief would be given on things that were already happening? I am aware of a tax guy who is going around lots of small and medium-sized companies getting them to claim against things that they previously would not have.

Sir Nicholas Macpherson: Yes.

Lin Homer: Yes.

Sir Nicholas Macpherson: Additionality and dead weight—anything where you are trying to have a behavioural effect will be central to our analysis.

Q105 Ian Swales: So your evaluation of the policy as you go forward will also look to see whether you have got those assessments right?

Lin Homer: Yes.

Q106 Mr Bacon: As a follow-up to that, on the question of getting companies to take advantage of reliefs that you have created—the example was given earlier of the national insurance discount for small businesses—you said to Ms Mactaggart, “You would be surprised how difficult it can often be.” I think I am right in saying that lots of companies are now required to do their returns online. Is that right?

Lin Homer: Yes, some parts of their tax.

Q107 Mr Bacon: Would it not be pretty simple to design within that a requirement to test whether they had taken advantage of a particular exemption or discount that you wanted them to take advantage of? Until they had filled it in, they could not go to the next page. That would be pretty easy.

Lin Homer: Yes, absolutely.

Q108 Mr Bacon: Do you do that?

Lin Homer: Our systems are not quite as adept as that, but—

Mr Bacon: It is not difficult. When you fill in anything online to do the simplest thing, if you have not included your postcode or another piece of information they deem essential, you cannot go to the next page. It is not complicated.

Lin Homer: Increasingly, as we design new services, we are trying to design them for exactly that: first, to prompt for information we want for compliance. That works at the “shove” end as well as the “nudge” end, if you want to think about it that way. We would hope that over the next two or three years, we will increasingly be able to personalise both what we tell a small or large company and what we ask of them. For a higher-risk company, we might make it fill in several more boxes of information.

Q109 Mr Bacon: Yes, I understand that, and jolly good too, but my question was about these exemptions and reliefs. Will you prompt them to apply for the exemption you are hoping they will take advantage of?

Lin Homer: Yes, we can have little, very specific flags that say, “You look like a company that could and should be doing this.”

Q110 Ian Swales: Isn’t that just straight mathematics? If people have national insurance employers’ contribution of above £2,000, they get £2,000 knocked off. How hard would that be? Do they really have to tick a box?

Lin Homer: We do not even have online details of all companies. At the moment, it is not a perfect science.

Q111 Mr Bacon: And you have about 80 million national insurance numbers extant?

Lin Homer: We have more national insurance numbers than there are people.

Q112 Mr Bacon: Where is the secondary market in this? Where can one go to buy one of these things? Presumably, it exists somewhere.

Lin Homer: I think they come from turning up for a part-time job in a big retail organisation and signing on quickly without giving full details. You will remember we have talked about A.N. Other, born 1/1/1974. If you are hired as casual labour and you have not given all your details, you will appear as a new person. RTI, which is still new but which we think has been quite successful, is beginning to clean that data up. Over the next few years, I think we will have a much better database to start with and a much greater ability to communicate once and properly with many more taxpayers, individuals and businesses. That is our dream, really. We are not there yet, but we are trying to design a system with that much more to the front.

Q113 Chair: Can I go back to patent box? Have you therefore got figures which are on dead weight and potential avoidance, and abuse with both patent box and the wider R and D?

Lin Homer: On patent box, we have not had a year yet.

Chair: No, but you have had projections on dead weight.

Lin Homer: We will have had conversations at the implementation about what we expected. I suspect it will have been on the face of some of the consultation.

Q114 Chair: Do you publish that, Sir Nick? Do you publish all that stuff?

Sir Nicholas Macpherson: I can't tell you offhand what we publish.

Lin Homer: We publish the costs.

Sir Nicholas Macpherson: This was debated; there was quite a lot of consultation and quite a lot of debate. I can get back to you on what we have—

Q115 Chair: Have you got it on research and development, which has been around much longer? Do you know what deadweight avoidance is on that, as a proportion? I don't need to know more. Is there a percentage there that you expect—

Lin Homer: The challenge for me is that these are very small reliefs, so I am afraid that the level of detail I have on them here is quite small. They will probably all be in that

kind of negligibles space that we talked about. Of the £101 billion that we talked about earlier—

Chair: How much is R and D?

Lin Homer: It is a small part of “other”. So there is £101 billion. I talked about the big four. Everything else is in “other”. Sorry, R and D tax credits is £1 billion of the £101 billion. So it is important, but quite small.

Sir Nicholas Macpherson: If we published analysis, I would be happy to send it to you.

Rob Prideaux: Figure 18 on page 42 shows the analysis published in 2005 and 2010 on R and D tax credits.

Sir Nicholas Macpherson: It is something that has been evaluated more than many things.

Q116 Chair: Let me just ask you a number of questions. One is about the position of Jonathan Bridges, Sir Nick, because he came to you from KPMG and helped to write the technical rules on the patent box. So he helped you to write these very complex rules that probably you and I cannot understand, with the loopholes in that he then went back and helped his clients exploit. Are you content with that?

Sir Nicholas Macpherson: I think that we can benefit from bringing in professional expertise.

Chair: I agree with that.

Sir Nicholas Macpherson: A few “poachers turned gamekeepers” can help. Actually, the best example of that now is Lin’s deputy, Edward Troup, who was a tax lawyer for most of his working life and is very good indeed.

We have special rules when people come in on secondment, in terms of what they are allowed to do when they return to their organisation. Clearly, there is a balance to be struck here. If you prevent them from ever working in that area again, they will not come; on the other hand, what you do not want is, on day one, their being marketed as the person who really understands that system. I know you are on to this. I think that there is a balance that we can strike.

Q117 Chair: I agree with you entirely; I do not disagree with anything you have said. I just think it would give me comfort if you said to me that what happened here was inappropriate; I just think it was wrong in this instance. I agree entirely that we want to use our experts; I agree entirely that there are perfectly sensible rules that you can devise which ensure they do not exploit information they garner when they are working with us. But I think in this instance they were not properly abided by. Do you agree with that?

Sir Nicholas Macpherson: Well, I don't, but I need to examine the detail—

Q118 Chair: I would have thought that, with the amount of publicity he has had, you would have had loads of time practising avoiding an answer.

Sir Nicholas Macpherson: It is a generic problem. We have the same problem with bankers. You want to have really good banking expertise in the Treasury—

Q119 Chair: Yes, but they must not exploit the information they get from the inside to benefit their clients or themselves on the outside. That is just absolute common sense.

Sir Nicholas Macpherson: If they are working in the Treasury, they are not so near the tax collection end that they will really understand it—

Chair: He wrote the rules.

Q120 Austin Mitchell: They are devising the scheme and the rules for the scheme, and then they go back and advertise their expertise at using the scheme as a means of tax avoidance. Now, is that covered by the rules or is it not?

Lin Homer: This goes back to the point Mr Bacon made, and that is that we have got to ensure that it is clear to everyone that they can access these new reliefs, which we want to be used. So we are not trying to hide them. We have to make sure that people understand they can access those through any number of routes. It is not very different from the copycat—

Q121 Chair: I think that Austin is asking a different question. Is it covered by the rules? Are the rules there?

Lin Homer: We apply strict rules about what our secondees can do. I think that hyperbole is sometimes a feature of any marketing by anybody. We can balance that with good advice generally, that makes your people understand that there—

Q122 Mr Bacon: You cannot make rules for hyperbole, otherwise the Committee would be a lot quieter than it is, would it not, Chair? You just have to go with the flow. It must also be true, presumably, that the rules that are made by whoever makes them are publicly available to all when they come into force.

Lin Homer: Yes.

Q123 Mr Bacon: So anyone, including any tax adviser or specialist who spends their whole time studying tax rules, could access them at the same time.

Lin Homer: Yes.

Q124 Mr Bacon: They are equally available to all at the same time?

Lin Homer: Nowadays, of course, we put the legislation out in draft and consult very widely before we do the draft legislation.

Sir Nicholas Macpherson: My only worry would be if someone came in and deliberately constructed the rules in a way that you could get round them, but that goes to the integrity of the individual.

Q125 Austin Mitchell: Do the rules not cover what happened here? It is a simple question.

Sir Nicholas Macpherson: I have not examined the details of the case. The Treasury has clear rules on how people should behave. There are wider business appointment rules, because it is just as possible that some official might leave the Treasury and wash up at some accounting firm.

Q126 Mr Bacon: Out of interest on that subject, what is your turnover rate? It got up to 24% two or three years ago.

Sir Nicholas Macpherson: You will be glad to hear that it is in the 15% to 20% range these days.

Q127 Mr Bacon: That is still pretty high.

Sir Nicholas Macpherson: It is high, but it ensures that we have a healthy ventilation of the organisation.

Q128 Chair: I would like us to look at R and D and patent boxes. It is one of the areas that I hope the Comptroller and Auditor General might think about, and it is one area that I have looked at a bit more. I went on the net over the weekend, thinking, "Right, what can I find out?" I found two companies, and one was called Innovation Plus, "The R&D tax credit experts". When you click "About us", it states: "We have particular expertise in software R&D tax claims and in particular have dealt with a number of cases where clients have been told by other firms of advisers that there was no claim and where we have subsequently obtained six-figure amounts for them." It goes on to say: "We are experts in developing and agreeing methodologies with HMRC that allow complex R&D tax relief claims." On the foreign stuff, it states: "We often encounter foreign companies who want to know how they can benefit from the UK R&D tax relief scheme. Sometimes they have R&D operations in the UK but often they do not."

It all feels to me like you set up a R and D tax credit for a perfectly legitimate, uncontentious political purpose, and it then gets exploited. When these guys talk about patent

box, they say that you should be “Thinking about which method of calculation of Patent Box is most advantageous”. I accept that it is not megabucks to you, but it feels to me, when I read that, that it is exploiting at the margin of the rules and that costs us money.

If you look up R and D advice with Taylor Cocks, it states: “Any good accountant can make you compliant. What makes us different is that we go further. Using our specialist tax skills and proven commercial experience, we’ll find innovative ways to reduce the amount of tax you pay and increase your bottom line.”

Sir Nicholas Macpherson: They are bound to say that. They are like all advisers: they are trying to imply that they know something special, and then the mug will pay thousands of pounds for advice.

Q129 Chair: But your response to me suggests that there is not. This is why we are we talking about tax reliefs today. My concern is that they provide this opportunity for abuse.

Sir Nicholas Macpherson: I think, Chair, that you are on to a really good point. Going back to the opening discussion on tax expenditures, things that are credits, as we know from our experience with tax credits, will inevitably create more scope at the margin for—

Lin Homer: Mischief.

Sir Nicholas Macpherson: Yes. We can debate the precise role of the PAC on tax, but if I was having a work programme, I would have this area reasonably high up the agenda. Having said that, R and D tax credit is something that has been evaluated more than most. Coming back to our discussion of film tax relief, hitherto, despite increasing generosity year by year because successive Governments like to announce positive changes in this area, I do not get the impression that this is a relief that is out of control. It should be of interest to Parliament.

Q130 Ian Swales: It is the dead-weight issue, isn’t it? The Report itself says that the 2010 analysis showed that “a £1 relief stimulated £3 investment but had little effect on decisions to engage in R&D.” That is what the Report says.

Sir Nicholas Macpherson: You could say the same about tax relief for marriage.

Chair: Indeed.

Sir Nicholas Macpherson: Parliament likes marriage. It likes R and D.

Q131 Ian Swales: We are not talking about the policy; it is whether the data that you have got and the implementation show that the policy is having an effect.

Sir Nicholas Macpherson: If you think there are lots of starry-eyed Treasury officials sitting there thinking, “We will create a new relief, and it will magically change the world,”

you do not understand the Treasury. The Treasury starts everything from a high degree of scepticism.

Q132 Chair: My very final question is one raised by a colleague of mine, which is the conditional exemption tax incentive scheme, under which you do not pay tax on paintings, furniture, books or sculptures. It is about £1 billion. I know that these sums all seem relatively small to you, but when we are here in this Committee and we tot them up, they are a lot of money.

Sir Nicholas Macpherson: They are not small. This is money.

Q133 Chair: I have to admit that I picked this up from a newspaper article, which talks about Constables, Rembrandts, Picassos, Stubbs and a fragment of a ribbon worn by Charles I at his execution—that probably ought to be in the House of Commons, really. Anyway, you get this tax relief on the basis that you will allow the public access to it, and it just does not happen, so why on earth are we carrying on with it? Why don't you look at tightening the rules or making it work? It just doesn't happen.

Mr Bacon: Sorry, what doesn't happen? The access?

Chair: Yes.

Lin Homer: I think we have just lost a case concerning the hanging of art on walls, which I think in the most recent case is now regarded as plant, and therefore a wasting asset.

Q134 Mr Bacon: This is paragraph 1.32. Even though the value of the painting was going up, it was classified as a wasting asset. The issue was where the stately home was open to the public; that is where the exemption was applied. That is a fairly easy thing to test.

Chair: That is different from this one.

Lin Homer: That would be an area where we have to use compliance work to ensure that the conditions of the tax relief were being applied. Across the whole field, there will be people who will try to assert, and this is one of the areas that will move avoidance into evasion. You will know that we have had some recent large successes concerning avoidance cases where people have purported to undertake activities. There is another one in the Report around a very contrived scheme to allow sideways loss relief. We will pursue those; we will pursue them as avoidance if it is artificial but not untruthful, but we will pursue them as prosecutions if people are telling us things that are not true. If someone was claiming a tax relief and we could prove to a court's criminal level of proof that that had been fraudulent, we could prosecute, and indeed we do.

Mr Bacon: You put resource into establishing the proof, do you?

Lin Homer: Yes.

Q135 Chair: We are way behind. We should say from this Committee that we are really pleased to see that there are more cases going to the court, Lin. That is brilliant. Testing the law is very much where we want to be, and it is really good to see that. Seeing your backlog is scary, and just hearing about the film tax relief backlog is particularly concerning. It just shows the enormity of the challenge you have got. As you know, we would always support more resources—

Lin Homer: That is why I have brought Nick along to hear you say it.

Chair: Because we think they are excellent value for money.

Sir Nicholas Macpherson: That is why they got off so lightly in recent spending decisions.

Q136 Chair: If the Government were more sensitive, they would put money where we could get money back in a more effective way, but I accept again that you have more people doing this work.

Lin Homer: We have, and I think we are applying them well.

Chair: We welcome that as a Committee.

Okay. Ian, are you all right?

Ian Swales: Yes. I'm fine.

Chair: It's a start. That was quite an interesting discussion. We are not going to run away from the issue, as you will understand, and we will think about what I would call those tax reliefs which have no purpose—the ones you call “expenditure”. I understand that we have a different understanding of expenditure, but we will look particularly at those to see whether we can put them to a test. Even if the Government do not, Parliament can to show whether it is a good way of spending money.

Q137 Ian Swales: May I add a PS on this? I don't know whether any of NAO's work has got you to think differently, but it occurs to me that Ministers go through the Treasury at quite a rate, and I am wondering whether they get this kind of management information to do their job. I would have thought that should be one outcome. Sorry, I did not mean to extend this.

Sir Nicholas Macpherson: I am always sycophantic towards this Committee, so you can aim off what I am about to say. I think these Reports and inquiries are genuinely thought-provoking and lead us to do things differently. We have been quite lucky with our leading tax Ministers. David Gauke, who is a fine man, has been in post for four years now, so he really does understand HMRC. The excellent Dawn Primarolo did her job for as long as Gordon Brown was Chancellor so we had good continuity there. Not least because of this Committee's interest, I think we are even more focused on the consequences of avoidance

than we have ever been. Raising revenue is very hard work, and people will think of 101 ways of avoiding it, but with your support we will continue to try to improve.

Chair: Good. Thank you very much indeed.