



Treasury Committee

Oral evidence: [HMRC Business Plan 2014-16](#), HC 493.

Tuesday 8 July 2014

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Members present: Mr Andrew Tyrie (Chair); Steve Baker, Mark Garnier, Mr Andrew Love, Mr George Mudie, Mr Brooks Newmark, Jesse Norman, Teresa Pearce, John Thurso

Questions 1-201.

Witnesses: **Lin Homer**, Chief Executive, HM Revenue and Customs, **Ruth Owen**, Director General Personal Tax, HM Revenue and Customs, and **Jim Harra**, Director General Business Tax, HM Revenue and Customs, gave evidence.

Q1 Chair: Good morning. Thank you very much, all three of you, for coming to give evidence to us this morning. Doing the HMRC job is never the easiest. Tax collectors are never popular, but someone has to get the money in and obviously Parliament wants to know whether you are getting it in as efficiently and fairly as you can. That is what we are going to be exploring today. Can I start with this story that was in the press last week about the annual reporting accounts? The NAO found that when HMRC agreed performance targets with the Treasury for the spending review period it set the baseline too low, and this made the targets easier to achieve and resulted in an over-reporting of performance of HMRC. Why has it taken so long to spot that error?

Lin Homer: As you say, I laid my annual report before Parliament last week and in it I have made clear that, when NAO undertook the audit, we and they did find this error of calculation in the baseline. I think the reason we have not found it before is that the estimated baseline was a point from which to negotiate the stretch to ask of HMRC in return for the £1 billion investment the Government made in us in SR10. Since then we and NAO have been measuring what we have done year on year, rather than returning to that base point.

The point I want to make first of all is obviously that I am very sorry that that error occurred, and the reason for making it clear in my annual report is to account for that to Parliament and to apologise, but what I want to emphasise is that the achievement our staff has made over those years has been what the Government asked of it, indeed slightly more. To their credit, when the target was reached, which we now realise was a bit softer than we realised when it was negotiated with HMT, they did not stop. They kept going, and that is the reason that no

money has been lost to the country, because tax inspectors being of the nature that they are, they did not down tools at the target. They performed and got as much as they could in. Essentially we hit the target, but our measurement of it was wrong and we thought we had overachieved when what we had actually done was achieved what was asked of us. I have tried to make that very clear in my report.

Q2 Chair: Does the responsibility for that really lie with the Treasury or with HMRC?

Lin Homer: No, I must accept it as Chief Executive, because we were negotiating a baseline with Treasury colleagues. One might have hoped that between us all we would have spotted it at the time, but I think what we were doing was aggregating information—

Q3 Chair: But you put the glitch in the system, which they did not spot.

Lin Homer: Well, we aggregated badly. Some of you who have been on the Committee a number of years will know that HMRC has tended to be a somewhat siloed business in the past. I think it still is to a degree, although we are trying to be better. In trying to add up the historic performance in order to agree a stretch, we did not get all the constituent parts in the right buckets.

Q4 Chair: Did HMRC receive any additional funding as a consequence?

Lin Homer: We received £1 billion of investment in return for which we were asked to meet some targets, and we met those targets. No, we did not receive anything for the error. You might say HMT thought they had got even more for their money, but they got—

Chair: That is what I am just checking.

Lin Homer: No, they got exactly what they asked for in years one and two and they got about £2 billion more than they asked for in year three. We are now ahead of target, but in those first two years we were not.

Chair: But not as a consequence of the error?

Lin Homer: No. Once you re-baseline, those are our achievements.

Q5 Chair: Were any staff bonuses linked to the target?

Lin Homer: Yes. We do give staff bonuses and given that, as I have just said, we have seen a 44% increase in compliance activity in the last three to four years, yes, I think a number of bonuses are related to that improvement in performance, but none were related to overachievement. It is the core task of meeting the target that will have led people to be recognised.

Q6 Chair: Can I turn to taxpayer confidentiality? What is the case for taxpayer confidentiality? Why are you fighting this so vigorously?

Lin Homer: The first point I would like to make is that we act as commissioners under the statutory provisions given to us, and that requires us to have very high regard to taxpayer confidentiality and not to reveal details about individual taxpayers unless there is a legislative opportunity to do so. I think the practical reason for it is that we are encouraging people to be open with us about their tax affairs, to give us the information we ask for and indeed to take our encouragement and our advice to keep their affairs in order. What we do not want to do is risk people feeling that they will be subject to wider commentary from people on issues that relate to the conversations they have had with us.

Q7 Chair: Do you think it would be easier or more difficult to get the tax in if there was some relaxation of confidentiality?

Lin Homer: I think it would be more difficult. What I would want to say, however, is I think we have been considering very carefully the appropriateness of being transparent about issues when they are subject to court proceedings and we do publish information, for instance, about tax avoidance schemes. When we think it will help get the tax in we put general information about what we know about the system into the public domain, but in the main—

Q8 Chair: That is not in breach of the obligations on you?

Lin Homer: Not at all. In the main, our view is people need to believe that, if they disclose to us and they work with us, that is a relationship with us, not with the general public.

Q9 Chair: Just to be clear, it is your judgment that if this was relaxed you would end up getting in less tax because your job would be made more difficult. Is that correct or not?

Lin Homer: Yes. As Commissioners, we take the view that it is important that people have trust and confidence in the system. We think general information about what we do should be as widely shared as we can, because that maintains confidence, but for it to become a question of more general publication would not be helpful in persuading people to be open and honest with us as they go along.

Q10 Chair: We have both made the case on expediency in the exchanges, but I am looking to see what your view is on expediency grounds. Does HMRC feel under any moral obligation to keep people's tax affairs private?

Lin Homer: I have not personally considered it from a moral position, because my background as a lawyer has me start with the statutory base and move on to the practical base—

Chair: Lawyers do not do morality.

Lin Homer: Yes, I was trying to avoid saying that. I do not think it is for us, as civil servants, to opine on the morals of the issue, but I think there are good practical reasons for us to operate as we operate. I want to emphasise that I do think there are good practical reasons to share more information about our system, and we have done a lot more discussion about how we go about our business. We are more prepared to share information about high-risk promoters, deliberate defaulters or people where we win cases, because that just helps reinforce people's confidence that we do bring people to book if they try to cheat the system.

Chair: It certainly needs a lot of careful thought.

Lin Homer: Yes.

Q11 Chair: My instincts lead one to think, "Well, what could be done with large companies, and could more be done there?" It seems that what you are saying is that, even there, this might affect the yield and it might also discourage companies from coming here.

Lin Homer: Jim is in charge of large business. I do not know whether it would worth hearing from him how we operate with large businesses and how we seek to influence them.

Chair: Just a brief word on that—unless you feel we are just going to hear a bit more of the same point you have already made. Do you have a new point to make, Mr Harra?

Jim Harra: First of all, we do welcome large businesses being transparent about the tax policies they follow and, in our engagement with them, we encourage them both to take a low-risk approach but also to think about how they manage their reputation and what they disclose. I would also say that the confidentiality of large businesses' tax affairs sometimes makes it difficult for HMRC to get across the story of what we do with large businesses, because we have to talk in generalities all the time, but I think it does permit them to be very disclosive to us of information that is often commercially sensitive and often given to us in real time as things develop. I think that is important to having a relationship with them that encourages compliance.

Q12 Steve Baker: Do you think there is enough understanding—or to what extent is there the right understanding—among the public about the difference between tax evasion, tax avoidance and tax planning?

Lin Homer: I will ask Jim to comment on that. Just as an opening comment, I do not think there is a deep understanding and, if I am honest, even when we have some discussions with Parliament I think we struggle to get an understanding of the difference. Put very simply, tax evasion is activity that is being in some way fraudulent and can lead to criminal proceedings. Tax avoidance is people who are boundary-pushing or seeing where the law lies. We have very different

approaches to being able to tackle those, including powers to act. I think it is an area where it would be useful for people to understand more. Again, we are trying, by general information, to be more informative in this area.

Jim Harra: Yes, and I think we do have an obligation to help the public understand what the behaviours are that we see in taxpayers. It is, quite rightly, a matter for public and political debate about what is acceptable tax planning and what is not. I think there is sometimes a perception in the tax profession that that is a matter for the tax profession and not for others. That is not something I would agree with. They are terms of art in some ways. They are not scientific terms. Of course, one of the uncertainties that has been created for large businesses and for the tax profession generally is that the public view of what is acceptable in tax planning has been changing in recent years. That creates a bit of uncertainty, and a lot of people in that profession and in large business want to stay on the right side of public opinion but are constantly trying to gauge where it is.

Q13 Steve Baker: Can I just pick up on this point and move us on to the principles of tax policy and, in particular, certainty? This Committee gave a report on the principles of tax policy, and it gave six overarching principles. In your view, how much progress has the Government made against those principles over the last three years and, from my point of view, particularly in relation to certainty?

Jim Harra: Again, my specialist area is large business. We are well aware that taxpayers value certainty and, in fact, our experience with large businesses is that they often value certainty over having a lower rate of tax—certainly internally for themselves; if you are a tax manager in a multinational you want to be able to be confident in what you tell your board about what is going to happen to you—but also certainty that they are getting the same treatment as their competitors. It is seen as one of the strengths of the UK tax system and UK tax administration that they can have those.

In large business taxation there is a lot of planning of compliance involved and there are a lot of options and choices and a lot of complexity. One of the ways that we give certainty is through working in real time with large businesses so that, as they are planning their transactions, long before they have to file their tax returns, they are able to engage with us and understand our view of the law and how it applies to what they are doing.

Q14 Steve Baker: May I just pause there? I want to pick up on that point. Patrick Stevens of the Chartered Institute of Taxation expressed this concern about the increase in the extent to which people are, and he put it this way, “taxed by legislation, untaxed by guidance”. That is, widely drawn legislation is then refined by your guidance. Do you accept that this is becoming more common, and what are its implications in terms of the discretion that HMRC is applying to the law?

Jim Harra: I am not sure I do agree it is becoming more common and, in fact, in the last few years we have been working through our published extra-statutory concessions and identifying those that can be put on to a legislative footing or that

are no longer relevant and can be discontinued. It is the case, however, that tax law has to apply to a vast range of different circumstances and it is impossible to legislate in precise terms for each one of them. It is necessary sometimes in legislation to have concepts that you then have to elaborate on in guidance so that people are clear about how they will apply to different situations.

Q15 Steve Baker: Just particularly on this point of discretion—perhaps Lin Homer, you would like to reply—one of the principles of the rule of law is surely that the authorities do not have discretion when it comes to determining how people’s conduct will be judged. But from what Mr Harra has just said, it seems that HMRC implicitly requires discretion in order to apply a general set of laws to particular circumstances. Is that a fair comment or do you think you do not apply discretion?

Lin Homer: We would share your concern that we would not want to be managing a system that was based on discretion, not least to ensure consistency in a system as big as ours, but I think, by its nature, there are complexities in our system that require judgment. Over the last few years we have taken a number of steps to try to ensure that we can distinguish between judgments based on our often tribunal-supported view of the law and the views of others. In creating the role of tax assurance commissioner, which I did on my arrival, and having someone without line responsibility for tax decisions but assuring our system, I think we feel we have been able to take more confidence that we are applying the law consistently and well. Part of the reason we will take decisions to a tribunal would be if we look into our legislative base and see some uncertainty. Although we are very proud of the fact that we win most of our tribunal cases, it is just as important in some ways to take cases that we do not win to get that certainty. We will seek to return to a parliamentary-led tribunal-supported view of what we do, but there is complexity in our system and I have yet to see a tax system that does not have a fair amount of complexity in it.

Q16 Steve Baker: On this point of complexity, some of my constituents, as legitimate investors who want to promptly pay the right amount of tax—I am quite convinced they do want to promptly pay the right amount of tax—took advantage of incentives to invest in film production and funded some blockbusters. They made losses in the first year. They were given reliefs on those losses and then, subsequently, HMRC wished to recover the money that had been allowed as a relief. Now, they feel they have been treated unjustly because they believed that this scheme had somehow been cleared with HMRC. The first thing is, I understand that HMRC does not clear schemes and approve them. Is that the case?

Lin Homer: Yes.

Q17 Steve Baker: Could it be the case that an HMRC official might inadvertently have given the impression that they had approved the scheme that had been explained to them?

Lin Homer: I think that unlikely. I am sure we will talk more about our proposals around accelerated payments but, just to be very clear, I think over many years Governments have introduced reliefs with clear intended consequences. It is the nature of taxation that, despite the clarity of purpose, if schemes look capable of being used more widely, they are. The original film relief scheme proved to be susceptible to significant avoidance activity; not a small amount, but significant avoidance activity. There were a series of changes made to alter that, finalising in a second film scheme that is now running, and I want to emphasise that it is running with no avoidance that we can see in it at all. The purpose of Parliament took a while to land in this case. My observance of this, and I have looked at a number of these cases quite clearly, is that HMRC was very clear from very early on about whether these schemes would work—we thought it was unlikely, and that we were going to challenge them. We have had a lot of conversations with investors in these schemes, and I would be surprised if any investor still felt that they were in a scheme that had any kind of blessing from HMRC that is now subject to our challenge.

Q18 Steve Baker: I will come to the point, because I think the Chairman wants to move on. I have three quite quick questions. Will you take those sorts of schemes and move them quickly to tribunal for the benefit of those investors who want to get closure, who want to pay the right amount of tax and then move on?

Lin Homer: We have been trying, and indeed we have had a disclosure offer running for those people for a long time. There has been an opportunity to settle. A number of people entered into these schemes and signed up to a deal to pay a fighting fund, which suggests to me they knew that this was going to be contentious, and a number also signed a deal preventing them from reaching a settlement with us. We would urge all promoters to let their investors off those obligations.

Q19 Steve Baker: There seems to me to be a cycle here between Government or Parliament incentivising particular behaviour through tax breaks, then things getting out of hand and HMRC having to take particular actions to close down what then becomes abuse. That brings me back to where I began. Do you think all of this feeds into the issues of discretion and the difference between avoidance, evasion and planning, and could it be possible that we could solve many of these problems by simplifying the tax code?

Lin Homer: The Government has set up the OTS to have a look at simplification, and I think, as the tax administration, we would always argue that simplifying where we can would be a good thing to do. The Government of the day always wants to use some forms of relief to achieve some quite proper aims as a Government, and I think we are able to help them design good policies, but I do not think you can entirely remove the tendency for some promoters to seek to utilise and extend what is intended in a way that was not intended. I would simply encourage people to look at the schemes and to look at the success rates of the promoters, because that will sometimes give a clue as to how likely the scheme is.

I know when we have appeared in front of the PAC, the Committee has also had some promoters in front of them, a number of whom had to admit that none of their schemes had worked. I think there is some responsibility on the investor to think about what they are doing, as well as on us to be as clear as we can.

Q20 Steve Baker: What would you say to people who wish to use those tax breaks but also end up with certainty about the tax they are going to pay? How can they get involved in those schemes without being trapped in these avoidance measures?

Lin Homer: Just to repeat what I said, the new film scheme is, as we can see, subject to no abuse whatsoever. It is great to see people support British film. I think they can do so safely with the new film scheme without concerns. On wider schemes, I think it is well worth asking questions, and I certainly think it should ring alarm bells if you are required to take out a fighting fund insurance scheme and you are required in advance to agree not to settle with HMRC. I would suggest that might lead you to think about where you are taking your advice from.

Q21 Chair: In HMRC's slightly more depressing moments, when the commissioners gather do they sit around and try to draw up on the back of an envelope a tax system that they think they could collect more easily and that would subject them to less public criticism—probably a simpler system? If so, how many staff do you have working on simplification?

Lin Homer: We have about 17,000 tax experts in HMRC.

Chair: That is not at all the question, though.

Lin Homer: No, but they think all the time about how we can improve the system. Given the frequency of fiscal events, we discuss changes to the tax law regularly with the Government of the day. I think we are realistic about simplification. One of the things we have been talking with the OTS about is the degree to which there are legislative chances to simplify, and there are. There is always pressure on legislative time and there needs to be an appetite to do that, but we do also think, in developing our new ways of serving including more digital offerings, that some of the complexity of our system can sit further back and be simplified for the user. I know John Whiting is interested in this as well.

Chair: Those were not answering my question.

Lin Homer: No, we do not sit about being depressed.

Chair: You have skilfully avoided the policy question—

Lin Homer: We do not sit about being depressed.

Chair: —and you have answered it by saying, “Well, we can solve some of these problems with IT so people do not notice the complexity. What I am asking is,

does HMRC, as a group of people, think through and quietly make proposals at the policy level?

Lin Homer: Yes, we do.

Q22 Chair: What kind of response are you getting from those you put these to?

Lin Homer: I think we get a good hearing. We have a policy partnership—

Chair: There is not much that has happened, though, is there?

Jim Harra: First of all, every—

Chair: Sorry; just to illustrate that, would you say the tax system is about the same, simpler or more complex than it was, shall we say, five years ago?

Lin Homer: I certainly have not seen it get massively simpler since I arrived two and a half years ago.

Chair: Or 10 years ago or 15?

Lin Homer: I think, by its nature, it remains pretty complex, but I think we do have ways of making clear to people what they have to do and getting a greater understanding. I personally think we are making progress in providing the right kind of support, particularly to small businesses to help them understand the system they are in. I would push back a little bit about the importance of us educating and using our systems, and the policy partnership gets us into the right conversations. Most Parliaments are interested in doing new things rather than returning to simplification. I think the creation of the OTS is a big start and a number of things have been taken off the statute books since their arrival, probably matched if not exceeded by—

Chair: There is always a tension between various tax changes and maximising the yield—

Lin Homer: Absolutely.

Chair: —both of which are big objectives of politicians.

Q23 Mark Garnier: A quick rejoinder on confidentiality, if I may. I refer back to the Public Accounts Committee of 14 December 2011—before your time—when they made a comment saying, “The Department was not able to point to an absolute statutory bar on disclosure of information about specific cases. Its withholding of information is in fact a policy decision taken by Commissioners.” It then goes on about how it makes life difficult for the select committees. You are a lawyer. You raised the point. That obviously was your predecessor who was involved in that. What would you say to that comment, that the department was not able to put an absolute statutory bar?

Lin Homer: I have had similar conversations with the PAC on a number of occasions when I have attended and indeed did discuss the clauses of the Revenue and Customs Act with them. It is clear on the face of the Act that we are required to have a gateway or a purpose¹ before we reveal confidential information, and I think it is right and proper that we are very careful about that. It is an area that we will always look at, and there are circumstances when confidentiality is set to one side, for instance when we prosecute, and indeed when matters are before tribunals confidentiality is set to one side, but it is clear to me that we, as commissioners, must take a decision and that decision must be within the confines of the statute. The point I have made quite simply to the Committee and would make to you as a Committee of Parliament is that if Parliament wants to change, it would be open to them to do so. I do not believe it is open to us as commissioners to just change our statutory base.

Q24 Mark Garnier: I have had a very brief look at the Act. I think you put it on your site. Section 18 of the Act says you “must not give or disclose HMRC information to anyone, including other government departments and their agencies, local authorities, the police or any other public bodies, unless you have lawful authority to do so,” and that lawful authority then goes through as you say. Do you think you are being put under moral pressure or false pressure to go against the wording of this Act and indeed the spirit of this Act?

Lin Homer: No. Well, certainly not irresistible pressure.

Q25 Mark Garnier: That is a slightly different thing. You are right to resist pressure, but do you think the pressure you are being put under is fair?

Lin Homer: I think there is an understandable interest in these issues among the general public, and the position I have taken since my arrival is to try to shift the level of information we put out generally about what we do. I think, as commissioners, we do owe a duty to the general public to talk about what we do. We have done some very good work with Jim’s team in using general examples to talk about the work we do, because I think people do want, understandably, to feel—

Q26 Mark Garnier: These are where the information about specific individuals or specific corporations is redacted, and—

Lin Homer: We have been clear that we feel able to resist that pressure wherever it comes from, and we think we are right to do that. What is important is that people have to have trust in the taxation system but we do not think that comes, if I am honest, from hype about an individual case. One of the things we have tried to be very clear about is that we are confident that we are applying the law to all types of business in the way that Parliament has asked us to.

¹ *Note by witness:* “The department would need to establish that disclosure would be for a specific HMRC purpose before confidential information could be revealed”

Q27 Mark Garnier: That presumably covers individuals. I want to be clear on this. It may be populist to beat up Google or Starbucks, but presumably the same law that protects their confidentiality is the same one that protects, for example, maybe a charity or indeed a private individual.

Lin Homer: Absolutely.

Q28 Mark Garnier: Should one private individual have more or less right to the law than another? For example, should an unpopular individual have less right to this law than perhaps a private individual living in a nice middle-class estate?

Lin Homer: I think our duty is to apply the law to everyone, as we are asked to do, and, as we said earlier, we also do not think it is beneficial for people to think that the discussions with us will lead to discussion about their individual case. What I think we need to do is reassure people that we are not being tougher on one part of business than another or one sort of business than other. In that respect, I think general information about what we do is a duty that should be put on us, but we draw the line there and I think we have drawn the line clearly and cleanly. There will be occasions when, as I said earlier, we will want to share more general information, and we have tried to be more explicit, for instance, about avoidance schemes because we do think we owe an information opportunity to say to people, “You can find out about litigation we are taking about an avoidance scheme here”. It does not abrogate the need for individuals to think for themselves about what they do, but we think it would be useful for people to be able to find information out about some of the decisions they are making.

Q29 Mark Garnier: You would not be able to take a hypothetical avoidance scheme and say, “This is something we should feel very worried about and these people are involved in it, so they could do it in a public place”, would you? You would have to be very discreet.

Lin Homer: We will take individual avoidance schemes and say that we are—

Mark Garnier: You would tell them directly, but you would not—

Lin Homer: We will say, “We do not believe this scheme works. We are litigating against it. If you are a member of this scheme, be aware. Our view is that this does not work”. We will write individually to members of that scheme; indeed I think we are due to very soon. We will try to give very direct information to people about our views about schemes. We will publicise evasion scams and say, “We are going after people like this”, because we think all of that, first, generally enhances people’s confidence that the system is fair and, secondly, as far as cheats are concerned, makes them recognise and understand that there is a very serious risk in cheating the system. That is our general duty, and we think that is different to putting out specific information about individuals or businesses that allows others perhaps to draw ill-informed views about what they are doing or not doing.

Q30 Mark Garnier: Just a quick summary to be very clear. The law as it stands is absolutely clear on confidentiality and applies to the most humble of private individuals and to the biggest of multinational corporations, but on top of that there is a practical element to this, which is that if you are going to engage properly with the wider taxpaying community they will engage in return with you on the basis that everything they say is confidential, and that enhances your relationship and your ability to collect taxes. Is that correct?

Lin Homer: That is our view, yes.

Mark Garnier: Brilliant. Thank you very much.

Q31 Chair: Just quickly on that point, of course we have a duty to look to see whether you are collecting it constantly or not, and if everything is confidential it is more difficult to scrutinise.

Lin Homer: Yes.

Chair: What should we do when we need to poke about in that area?

Lin Homer: One of the things we have done is put in place the role of tax assurance commissioner, Edward Troup. His role is to undertake assurance throughout the year that, largely, the schemes run by Jenny Granger and Jim Harra are running in accordance with our rules. He subjects their major cases to scrutiny, but then he produces an annual report, which I think you have with you. He produces the tax assurance commissioner's report, which sets out, in general, the number of cases and some of the background of the cases. I am not sure Edward will bless me for saying this, but it would be perfectly in order for your Committee to have Edward in front of you and talk about that.

Q32 Chair: Edward is a good man. I happen to know him. We used to work together many years ago, but what happens when Edward goes native? Are we not going to have specific cases from time to time, and do we not need some procedure for bringing someone in to give us confidence that that process is being done to a high standard?

Lin Homer: No, I do not think so. The change that we have made is a complete role separation. Edward does not have any responsibilities or any right to be involved in day-to-day tax decisions relating to cases, and we have been very clear about that. He does not have any of the conversations with businesses or companies. He is not subject to any individual discussion with them. He remains separate from the role that Jenny and Jim play and able to challenge and critique their work without any duplication of obligation. I believe that is a role that has to be fulfilled by a tax expert. That is what Edward is and a successor would need to be. I have not considered the view about whether, like non-executives, there is a risk that if he stays too long he will go native.

Q33 Chair: After all, he was once a poacher and, therefore, he probably started with the right ideas when he was at Simmons & Simmons. I think it was Simmons & Simmons.

Lin Homer: I think it was.

Chair: He has now been a gamekeeper a very long time.

Lin Homer: But, as Second Permanent Secretary, he is accountable for that role to you and, as I say, I think it would be reasonable, just in the same way that you can test whether I am delivering what you expect of me, that he is held to account.

Chair: When we extend the invitation I am sure he will send you a thank you card.

Lin Homer: I am sure he will.

Q34 Jesse Norman: On the question raised by Mr Garnier, I wonder whether it might be an idea or whether HMRC has looked at publishing a league table of advisers showing the number of their schemes that have been found unsuccessful. That would be a rather helpful way of making public people who are sailing close to the wind and people who are not and, therefore, assisting investors of the kind that Mr Baker raised with the concerns they have.

Lin Homer: We do publicise very clearly now the schemes that we are concerned about. It is not very difficult to see where the wins are occurring. We have proposals around what we call high-risk promoters. I wonder whether Jim might outline those to you, because those are not—

Q35 Jesse Norman: I do not have any time, so I do not want an outline, but what I would very much like you to do is to think about it and perhaps write to us with a proposal or entertain that idea of a league table, because people who are in the position described by my colleagues do not have the time to search around through your publications as to which advisers—

Lin Homer: No, but perhaps one point—

Jesse Norman: They want to know who are the dodgy ones and who are not, and that is a very useful, objective, already-existing public metric that you could easily gather together and publish.

Lin Homer: We will write to you on that, but if I could just make one point about high-risk promoters, the proposition will require them to tell their investors that they are high-risk promoters. It is an obligation placed on them to—

Q36 Jesse Norman: It will not help a new investor.

Lin Homer: No, it will help the new investor, because the promoter will have say, “I have to tell you I am a high-risk promoter”. That is a declaration they are required to make.

Q37 Jesse Norman: Once they are already in a conversation with a potential investor. Okay, thank you.

I have some general questions about administration, but I want to talk first about the situation with Hereford United. I flagged to you a very serious concern to me, to my constituents, to fans and to supporters of the club. Obviously proceedings with regard to tax owed are sub judice, so I cannot talk about that in any detail, but I just want to ask a couple of general questions that bear on it. The first question is this. Do you monitor, scan and scrutinise information from Companies House on changes of directors, the merry-go-round of directors that sometimes occurs in the context of a company that is potentially failing? Do you scrutinise that information to flag up potential warning signs in companies that may be in arrears with you?

Lin Homer: We do work with Companies House and, indeed, are trying to work more closely with them. We do seek to identify, early, directors with a previous history involving failure to properly administer a company or to pay tax. There are some limitations about what we can do and what we cannot do, and it is an area that we regularly discuss not only with Companies House but with BIS, because we do believe there are problems for us and other parts of Government around what are sometimes called phoenix companies where directors move. It is an issue that we spend some time thinking about.

Q38 Jesse Norman: You could make those links tighter and that scrutiny closer. Can I ask you to do that or look at it?

Lin Homer: I think we are doing what we can. There are some limitations within law about your ability to stop people doing things in the future because of what they have done in the past, but where we can we do and I am very happy to assure you that we will continue to do so.

Q39 Jesse Norman: Where a promoter or someone in a similar position from one of these companies that may be in arrears with you has a criminal record, do you log that and note it, and does it feature in your proceedings?

Lin Homer: Can I give that one to you, Jim?

Jim Harra: Yes. I am not 100% sure about that point. It is the case that if it is a large business, or if it is a smaller business going through a critical life event from our point of view, such as being in serious arrears, we do keep a close eye on who is controlling the business and what their track record is. I cannot say that we access criminal records checks, for example, but certainly, for cases that are in serious arrears, they are being managed case by case.

Q40 Jesse Norman: Or cases that have a high public profile, even if they are not large.

Jim Harra: Yes, certainly large businesses—

Jesse Norman: Even if they are not large, though, ones that are matters of significant public concern; could you look at extending that?

Lin Homer: We will definitely get involved at times such as voluntary administrations where one of the issues might be which directors are going to take forward the proposal. We will often sit in those conversations, you will understand, as a creditor, and we, I know from a recent case, will include requirements for changes of directors.

Q41 Jesse Norman: Do you track and monitor the use and abuse of company voluntary arrangements, and are you happy that the current process is a bullet-proof one?

Lin Homer: We will object to those approaches where we do not think they are likely to lead to a satisfactory outcome for us or for the business.

Jesse Norman: Or may be fraudulent in some way or potentially—

Lin Homer: We would always share information about fraudulent activity with the relevant body. As a law enforcer ourselves, we would not fail to take action. We are not predominantly the organisation that regulates businesses and directors but, as I say, we have an existing strong relationship with Companies House. We are currently under quite a lot of discussion about ways in which we can support each other. I think there is an ongoing expectation that Parliament should have on us to work well together.

Q42 Jesse Norman: I am grateful for that, thank you. I would like to request that the procedures that Mr Harra described with large companies also be extended to those that are matters of significant public interest, even if they are not large.

I have a couple of questions about the administration of HMRC at the moment. In 2013 to 2014 only 79% of call attempts to your contact centres were handled. Do you think you acted too hastily in closing your inquiry centres before you improved your performance in answering calls?

Lin Homer: Can I pass this one to Ruth?

Jesse Norman: Yes.

Lin Homer: Ruth is the DG who is responsible for personal tax.

Ruth Owen: We are on a trajectory to continuously improve our call handling. You will know that year on year we have become better, from a low point of 48% several years ago through to 79%, and our aim this year is to deliver a consistent level of service of at least 80%. We are doing that and, of course, we changed our numbers from 0845 to 03 numbers to make that cheaper for our customers. Most customers prefer to deal with us by phone and, of course, increasingly, online.

Jesse Norman: You have not answered my question, which is—

Ruth Owen: I will come to that directly. Just setting out our overall customer offer, most people want to phone us. Increasingly, people want to use online services. You will know that over the last few years the use of our inquiry centres has reduced significantly so that some inquiry centres were only getting a handful of visits per day and most of those did not need appointments. They were coming in to arrange an online appointment or to use our phones. What we have done in our year-long pilot of trialling closing the inquiry centres, before we did that just last month, was to look at what service we needed to offer to our customers face to face, which is the essence of inquiry centres—our high street presence.

Q43 Jesse Norman: I am sorry, I am struggling with this. You closed the inquiry centre, or at least you took 90% of the employees out of the inquiry centre, in Hereford, at the tax office, in 2008-09, I would guess, and the result was a significant loss of employment and, as far as anyone could work out, a significant loss of quality of service. I am asking you the question: did you act too hastily in closing these inquiry centres before you had improved your performance? It is a yes or a no, and I think it is pretty clear you did, because you had not hit your own target. In fact you were way off the target when you began the process of closing the inquiry centres.

Chair: No, let us see what the—

Jesse Norman: I just want to know what the answer is, that is all. I understand the sales pitch. I just want to know what the answer is.

Ruth Owen: I do not think we did. What you are describing is a several-year pattern of closing inquiry centres where there was a very low volume of traffic going into those inquiry centres. That culminated in the decision to close all inquiry centres, which we took this year, which culminated in all inquiry centres closing this year. We do think there is a difference between the people who are using our phone service compared to the people who need our face-to-face service, which we are maintaining outside of inquiry centres. We have now a mobile service in 359 venues across the country, which is more than the 281 inquiry centres that we closed last year. We are trying to serve horses for courses, a dedicated face-to-face service for people who need that and a better and increasingly better phone service.

Q44 Jesse Norman: What measures have you taken to assess whether or not these closures have added to the burden on voluntary advice groups? What measures have you taken?

Ruth Owen: As part of our decision to look at the future of inquiry centres, we did an open public consultation last year. All voluntary sector organisations were welcome to consult with us on that. All the big ones did and we took private consultations with them—Citizens Advice, Gingerbread and organisations like that—and very much have worked in partnership with them. The model that we have now in place for our most vulnerable customers is hand in glove with voluntary sector organisations who are now—

Q45 Jesse Norman: Had their burden gone up or not?

Ruth Owen: I beg your pardon?

Jesse Norman: Was the feedback that their burden had gone up with the withdrawal of these inquiry centres?

Ruth Owen: Not significantly, no.

Lin Homer: Indeed, I think our view from the majority of those bodies is that they believe the approach Ruth is now taking will give better service to the most vulnerable. What we have done is provide some extra funding to them for them to act as signposters to the new service. Admittedly they will watch us carefully to make sure we deliver. I do not want to pretend otherwise, but if we make this change well they think it will undoubtedly improve service for the people that they also care about.

Q46 Chair: Before we move off that, do you have survey data to support the assertion you have made that these advice centres support the change?

Lin Homer: We do not have survey data but we have endorsements from them.

Chair: It is anecdotal?

Lin Homer: No, it is their view.

Ruth Owen: We published the response to our consultation, so it is certainly in there.

Lin Homer: It is their published response to our consultation. It is their view. We do not—

Q47 Jesse Norman: Speaking about the CAB or someone like that, you write them a cheque now and they have said, “We like the new arrangement”?

Lin Homer: I think that could be taken the wrong way, as suggesting you can buy the CAB. That is not my experience.

Jesse Norman: No, I was just wondering if those two things happen. It sounds like they do not happen.

Lin Homer: No, it is the other way round. They lobbied us very hard to say, “The service you are providing to vulnerable customers is not good enough”. They worked with us throughout to provide a service that would meet needs better. They have been very openly opinionated about the shape of that and very well listened to by us, and they believe the shape of the service we are delivering will be better for vulnerable customers. We are reliant on them supporting the service, and our view is that it is sensible to spend some money reinforcing their activity to make sure that the people who need the service find it. We think it is an

investment in service, partly in our own and partly in the voluntary sector. We have literally only just started it, and I am sure when we see you next year you will rightly ask us whether it has delivered, but—

Jesse Norman: You are continuing to monitor it?

Lin Homer: Absolutely, and we will.

Q48 Jesse Norman: I suspect the experience you have described varies with that of every Member of Parliament. I would suspect that every Member of Parliament has found that small businesses and individual constituents of theirs have had their burden significantly enhanced if there is any complexity in their affairs at all, so in a way that has not necessarily been addressed.

Lin Homer: We would obviously want that feedback. I would have said no to your question. We are clear that when we are doing our best to serve our customers it is important that we do that in an effective way, and inquiry centres are significantly more expensive than good quality telephony. By closing the inquiry centres we have money to invest in telephony.

Q49 Mr Mudie: I find it totally unacceptable, the complacency and smugness on this issue. Every year you have come before us. The national level was 93% or something. You have had this excuse or that excuse. You are not answering one in five calls. Now, that is atrocious. If you cannot run a call centre, how can you run Inland Revenue?

I had experience yesterday of trying to get a decision-maker in an organisation on a sensitive matter and all I could get was a poor young lass on a call centre who had no authority to put me through and who had no knowledge of what I was talking about, and you wonder, “How on earth can I get into this firm?” This is very serious, and that is how people deal with you. For 21% of your calls you do not pick up the phone. That is old people, poor people, worried people, who are trying to get through, and every year you come here and you dismiss it, “Oh, we are improving”. When the hell are you going to get to the 93% industry standard? If you do not get to it, give us a period to give yourself time to get to that; but if you do not, put some resignations on the table. As Alex Ferguson said, it is no use trying. Trying is not a word. Either do it or go. That is quite straightforward. You are handling a tremendous amount of people.

Lin Homer: Mr Mudie, I do not accept what you say. We are not complacent.

Mr Mudie: Which part don't you accept?

Lin Homer: I do not accept that we are complacent.

Chair: Let her respond.

Lin Homer: I do not accept that we are complacent.

Mr Mudie: Which part don't you accept?

Lin Homer: Well, if you let me answer—

Mr Mudie: I want her to be specific.

Chair: Hang on. Let Lin Homer reply.

Lin Homer: If you let me answer the question, Ruth Owen has been with the service about a year and a half. We have made significant progress in that time. She has ensured progression against our call handling and our post handling. Just to take the comparison with the call centre you called, she has introduced a system that we call our “once and done” system. That means many more of our staff, when somebody calls up, can take and finish the call and can give a full resolution, unlike the call centre you were talking about. We would both like this to be much better, and you have my total assurance that we continue to work at it.

Q50 Mr Mudie: But that is given every year, Ms Homer.

Lin Homer: No.

Mr Mudie: That is given every year I have been on this Committee.

Lin Homer: This is the second time I have appeared before this Committee, and since I was last year we have made improvements while continuing to deliver the efficiencies that have been asked of us. I give you my assurance we will continue to do so. It is one of the most important things we are doing. Since last year, again absolutely focused on customer service, we have introduced 0300 numbers. We were the first government department to do that across the board, again aimed at ensuring people can get through and moving them off the costly mobile calls they used to make. The needs-enhanced service that Ruth referred to is giving an incredibly high quality telephony service to the most vulnerable of our customers. We completely agree with you about the importance of customer service.

Q51 Mr Mudie: These are your figures: 79%.

Lin Homer: It is better than last year, and we are aiming—you know our business—

Chair: Sorry to interrupt, but what is the answer to Mr Mudie’s centre point, which is that 21% of people can’t get through, because they are the people who are ringing us up and who are e-mailing us and contacting us saying, “We had a go and we just could not get through”?

Lin Homer: Part of the answer is ensuring that people know what they need to know as easily as possible. A significant amount of our calls are people phoning for reassurance. Part of the answer is improving our online information and part of it is getting our digital calls better. Last year in the self-assessment peak 84% of people did their self-assessment online and about 94% also did it on time, and that takes calls out of the call centre.

Another part is dealing with the peaks of our workload, because the ability to go beyond the 80% is also about dealing with both the SA peak and the tax credits peak. It is the nature of our business that, however, many people Ruth has in a call centre, we struggle in those few busy weeks of the year. To deal with that, this year we have moved 2,000 of our staff from the rest of the business to work alongside the personal tax people to deal with the peak. That is a direct commitment to the point Mr Mudie is making about trying to put our entire resources where the customer most needs them.

Q52 Chair: Do you think it is likely that you will be coming before us shortly able to say, “Well, we have it to 90%”?

Lin Homer: I do not think this year, no. As Ruth said, what we feel we should try to do this year is maintain 80% consistently throughout the year instead of, as we did last year, hitting over 90%—I think we were 93% for five months of the year, which is the industry norm, but at other points we were significantly below that. We are trying to balance people’s expectations all the while and get to a consistent level and then build from that.

Chair: Well, you have heard the concerns of the Committee.

Lin Homer: We share them, we absolutely share them.

Q53 Jesse Norman: I just have a couple of bread and butter questions about your administration. Staff engagement appears to be significantly below civil service average. Could you just explain why that is and what you are proposing to do to improve it?

Lin Homer: It is below the civil service average, and I think HMRC has been the lowest of the big departments ever since the survey was started. If I could absolutely explain this I might be more confident about the progression we will make. I think there are probably a variety of reasons. I think some of it slightly goes back to the Chairman’s opening points, that in a way the job we do does not make us everybody’s best friend. I think our staff are very diligent about what they do, but do feel slightly downtrodden at times and unloved. I think the other thing is the degree to which we, as their leaders, are giving them enough information about what we are doing and about how we are taking the business forward.

We have undertaken a great deal of work this year, as the leadership team, in engaging more directly with all of our staff. We are going through a conversation with all 69,000 of them at the moment about what we are doing, why we are doing it and how we are doing it and trying to make sure we are adequately using and involving the skills of all of our frontline staff. They have strong views. They match Mr Mudie for their passion, and we want to get their insight into our business to drive what we do. We are seeing improvements, but they are slower than I would like, and I think it is about our staff trusting us to listen to their views about what we should do as well as expecting to know more about what we are thinking.

Q54 Jesse Norman: What is striking is the combination of the Revenue and the Customs appears to have no more than either the Revenue or the Customs had before, which is quite an achievement.

Lin Homer: It is. Given that the merger was nearly 10 years ago, yes.

Q55 Chair: Just before you move off that subject, do you now have a view, in retrospect, about whether the merger was less or greater than the sum of the parts?

Lin Homer: I personally think it was a very sensible thing to do. One of the other discussions we are having with our staff is whether they believed when the merger happened that somehow we were trying to wipe out history. I believe that the history of organisations is incredibly important. We are trying to re-engage with the history of all of our legacy departments, because there is the Contributions Agency as well. There is more than just the two, but I think there is something about allowing our very professional staff to have pride in their long history. I visited Ipswich and handed out five long service awards to five members of staff with 200 years' service between them. That is extraordinary for a modern business and something to be proud of, I think. I personally think it was the right thing to do, but I think we should have given people more confidence that it did not mean they had to give up feeling proud about what they had done before.

Q56 Jesse Norman: Can you just make a brief comment about what effect low morale is having on performance and recruitment?

Lin Homer: It is extraordinary. They register as being one of the lowest engaged members of the civil service but, in terms of their confidence about their own skill and their delivery, they are second to none. Our year-on-year improvement around yield, customer service and efficiency is good. Our sickness rates are going down. They are much lower than they were a few years ago. Again, they are one of the best across the big bits of Government. Their commitment to keeping their professional skills high is good. They just do not have a lot of love for the overall organism. They are deeply committed to customer service in Ruth's bit of the business and to tax collecting.

However, as the Chairman indicated, somewhere along the merger this thing called HMRC did not capture their hearts, I think. That is the bit we have to work on, but there is no doubt about the fact that they come in focused and deliver. As I said, we just had the best ever year in terms of the overall receipts brought in but also for compliance yield. £3 billion more was collected last year than the year before, in a period when you know public resourcing is going down; so against an efficiency saving of about £230 million. I cannot fault them on their effort. I have to give them the right to moan at me if that is what keeps them working hard, I guess.

Q57 John Thurso: A session here would not be correct without a reference to Wick.

Lin Homer: To Wick. I was waiting.

John Thurso: I will get it out of the way and express the hope that the innovative home project is working well, and I look forward to hearing more about that from you at some point.

Chair: We have had a bit of Hereford.

Jesse Norman: To what?

Chair: We have had a bit of Hereford, so why not a bit of Wick?

Q58 John Thurso: Yes. I thought I would just do it quickly—it sort of keeps the tradition going.

Can I move on to the question of direct recovery of debt, which is suggested in the Red Book at paragraph 1.208 and in the consultation that is currently still out? First of all, whose idea was it to go for that power at this time?

Lin Homer: Going back to the conversation the Chairman prompted, we have discussions regularly about things that can make a difference. I think this was HMRC's idea. We are very conscious that, in relation to debt, the vast majority of the public pay the tax when it is due. Of the amount that becomes debt, the vast majority is paid within a few days of it becoming debt. There are a very small number of people who do not challenge whether the tax is due but just avoid paying it, and we felt that we needed sharper and clearer powers to deal with that very small minority.

Q59 John Thurso: Of course, this was brought up in 2007 and consulted upon, and the then Government decided it was a bad idea and not to proceed and there was a considerable objection. What made you think that those objections had gone away or that this Government was likely to be more amenable to the idea?

Lin Homer: I might just hand over to Jim to talk about some of the detail of why we think we could deliver it appropriately.

John Thurso: I am going to come on to some detail, but I just wanted to find out who was giving birth to this. The answer you are giving me is that this is an HMRC idea that is being pushed forward. Ministers were not asking for it.

Lin Homer: Ministers are keen that debt is collected. You know there is an error and fraud taskforce led by Ministers. They completely feel that it is unfair to the vast majority who pay their dues for some people to get away with not. That principle is completely taken by Ministers.

Q60 John Thurso: Let us stick with the principle. There is a considerable amount of council tax debt that is outstanding and local authorities are required, in Scotland, to go through a sheriff court, and in England there is similar provision. Do you think that the principle applies to them? Should we be giving local authorities the right to directly access debts in bank accounts?

Lin Homer: In terms of how we do it, we certainly think we can do it in a way that has safeguards.

John Thurso: No, but, as a straight point of principle, if an organ of state called HMRC should have the right of direct access to a bank account, why should a council not have the same right, or the DVLA for tax that is due on cars, or the Television Licensing Authority for television licences?

Lin Homer: That is not the proposition that we have put on the table, and I think it would be—

John Thurso: No, but it is the point of principle I am getting at as to why one organ of state has, uniquely, a point of principle rather than practicality for direct recovery by entry into a citizen's bank account as opposed to another organ of state in an identical position.

Lin Homer: I think the extent of a power like this is a matter for Parliament to decide. I do not think it would be for me to say. If we are given the go-ahead to proceed and it is done well and Parliament watches us and sees that some of your concerns—because I know you personally have concerns—are resolved, I could imagine a debate will follow, but that is not our proposition at the moment. The situation in relation to taxation is that we have what is loosely called a withholding arrangement in relation to tax, which is significantly different from other arrangements. The vast proportion of tax collected by Ruth is taken out of people's salary via their employer and handed over to us, so we are already in a position where our situation is quite distinctly different from many others'. I think most people believe that that approach of the vast majority of tax being collected by a withholding approach has been done well.

Q61 John Thurso: If you will forgive me, that is an entirely different set of principles and an entirely different argument, and what it says is that there is an amount of tax that can be calculated that is due, and the employer calculates it and the employer pays you. That is perfectly appropriate and absolutely nobody is arguing with that, but we are not talking about that. We are talking about the ability for one organ of state, as opposed to any other, to have the unique right to go against the Magna Carta charter and all the other things that we have established and to go in and seize, without judicial process or review, a bank account. I just want to know if it is justified, because my sense is that Parliament is going to reject it. I just want to know if there is an argument in favour of that principle and, if there is, why it should not be applied to every other area that could have the same argument.

Lin Homer: I disagree with you about quite a lot of what you said. I do not think this is against Magna Carta. I do not think it is substantially different from the

PAYE arrangement, and I do think it is about exactly the same position, which is when tax is due—this is not disputed tax, and I want to be clear about this—

John Thurso: No, I quite understand that.

Lin Homer: This is tax that is due that people who are not subject to PAYE are choosing simply not to pay. They are creating an environment within which the normally very low collection cost for tax is made substantially higher by their actions in a way that, if I am honest, in the vast majority of cases we are looking at is wilful. We believe that for the taxpayer as a whole it is right that we have sufficient powers to stop that limited number of people avoiding paying tax in a similar fashion to others. They would still be paying it significantly later than PAYE. I do not think the principle is as you describe it at all.

Q62 John Thurso: I will come back to the principle, which is very straightforward. Under PAYE a company pays the tax that is due. There is not a particular problem. You do not have the right to go into that company's bank account, and I do not think this consultation proposes you have the right to extract the money from that company. If, for some reason, that company fails to pay you, you are going to get it through a process and, as I understand it, that company is not part of what you are suggesting in the consultation.

Lin Homer: The proposal does apply to corporates as well as to individuals. I do need to be clear about that.

Q63 John Thurso: Are we back to Crown preference, then?

Lin Homer: No, we are not back to Crown preference at all. What we are talking about is a very small—

John Thurso: If you are owed money and other people are not owed money, and you decide to go in—

Lin Homer: No, I am sorry, Mr Thurso. I know you feel strongly about this, but I do think it is important to put it into context. We genuinely collect tax for a very small collection rate. Well over 90% of people pay their tax when it is due. We are talking about around 17,000 people who do not dispute the fact that the tax is due. They just do not pay. We will have written to them. We will have engaged with them, and they just fold their arms and wait for us to take some other action. Of course we can go to court, but the cost both in time and money of going to court will often outweigh or seriously diminish the amount of tax that is being collected. In those cases, with proper safeguards, which I would like Jim to have a chance to explain to you, we believe that this is a fairer way of extracting the tax everybody is due to pay. By the way, this is also an approach undertaken by many other countries. I think in your recent broadcast you said none. It is in many other countries and much more extensively.

Q64 John Thurso: I have yet to find one country.

Lin Homer: The US—

John Thurso: I do not know whether it was a tax person. Somebody very kind sent an email saying I should look at Slovenia, which I duly did.

Lin Homer: US, France, Australia—

John Thurso: All of them—

Chair: Are you saying—

John Thurso: May I just finish this, Chairman?

Chair: Are you saying that the US, France and Australia have the system that we are going to be asked to introduce?

Lin Homer: I think they have a system with fewer safeguards than we are proposing. I think in the case of the US model, which I think you looked at when you met, they can reduce the bank account to zero. We are very happy to hear in the consultation about safeguards, but I think it is inaccurate to suggest that this is uniquely different to all of those other systems. It is aimed at a much smaller number of quite recalcitrant debtors.

Q65 John Thurso: I do not want to have an argument about which countries do and do not do it, but what I can tell you is, having checked on the Slovenian example that I was given by email, they have a legal tax code that gives obligations and responsibilities to taxpayers, which I would say would have covered it.

Lin Homer: As do we.

John Thurso: Having lived and worked and paid my tax in France, it is a completely different system in many different ways, and I would suggest that if you look in detail at America there are checks and balances that do not exist. I do not want to spend a long time discussing that. I do not think you have established a point of principle. I think there is one, but let us move on and come on to the practice about this.

We have been talking about the level of error within HMRC, which is small but significant. You have in your report the number of complaints dealt with by the adjudicator, the ombudsman and so on—small but important. I had a very interesting brief from the Tax Bar that points out the number of times that HMRC, in court, has failed to make its case and the courts have rejected what had been put forward. Given that HMRC is asking to become judge, jury and executioner in this, it is not simply about making it a little easier to go and collect debt. Is it not very concerning that you are removing from the process that currently exists the legal process simply because it is slow and expensive? Do people not have an absolute right to expect the law to protect them; not for the many people who are deliberately yanking your chain and not paying, but for the very important minority where you are wrong?

Lin Homer: Could I get Jim to run through some of the detail? I think we do accept your point about the need to be incredibly careful with a power like this.

Jim Harra: I think at the start of your questioning you asked what made us think that the objections to this had gone away. In fact, we do not believe the objections to this have gone away. There is nothing new about what is proposed here in the sense that it is similar to powers that are used in a number of major tax authorities around the world, the USA, Australia, Canada and France being some of them, and we have learned lessons from them. It is also a measure that we have looked at before in the UK, but we do acknowledge that, while we believe it is a good proposal, there must be adequate safeguards for people to make sure that they are able to engage with us and that we get it right, and also that we do not go too far in terms of leaving people with not enough money to live on or to keep their business expenses going.

The consultation document that we have published—and the consultation runs on until the 29th of this month—sets out the safeguards that we propose to have, which are tighter than the safeguards that we have seen in some of those other countries. It is the case that we know that about half of the taxpayers who owe us £1,000 have savings of about £20,000. These are people who will have been contacted by us on average about nine times, and no less than four times, asking them to pay their debt. We will have information that suggests to us that they have enough money to pay their debt and, before we act, we will look at each case individually, with information from the financial institutions concerned, to satisfy ourselves that that is the case.

The next step then is that we will ask the financial institution simply to put a hold on their account. We will not withdraw any money from it. They will be notified, “Your account has been frozen”, and they will have 14 days in which to engage with us either to explain why they do not believe they have a debt or to explain why it is they feel they cannot repay it before any money is removed from their account. We will always leave a minimum of £5,000 in the account, and if there is any balance of the debt left not collected we will use other means to collect it. Furthermore, by looking at each case individually, in some cases we will leave more than that in the account if we believe, from the pattern of expenditure from the account—

Q66 John Thurso: Can I ask you a question, please, on that? If you believe somebody has a spending pattern where you might create hardship, how have you obtained that information?

Jim Harra: First of all, we already have information through the returns that we get routinely from banks and building societies, all the accounts that people have.

Q67 John Thurso: You are able to look at the returns you get, the information delivered from banks, and have a look and see that my account

fluctuates by £10,000 in the mortgage payment and make a decision about what I should be left with.

Jim Harra: No, we can't.

John Thurso: What were you saying?

Jim Harra: What we do have is information that enables us to identify financial institutions with which people hold accounts. In these cases we will then go to the financial institution and explore with them information that tells us what the pattern of expenditure from your account is.

Q68 John Thurso: In my case, if you think I owe you, you will pop along to my bank and say, "Let us have a look at where it is going—does he really need to spend that every month? He has a mortgage payment, so we can work out what we will let him have".

Jim Harra: That is the proposal so that, when we are ready to make a—

John Thurso: The proposal is you would have a quick assessment of my spending needs and all that and have a look and see, and then make a decision as to what I can keep.

Jim Harra: That is correct, and that may be a personal account and personal expenditure such as a mortgage or it could be a business account, and there could be business expenditure such as wages. Obviously the person who has the best information about the money they need to continue living or to keep their business going is the debtor themselves, and so a key outcome that we want from this is that they will engage with us; otherwise we will have to make the best judgments we can based on the information that we can get from their banks. That is why we have this 14-day cooling off period during which they can get in touch with us. We have tried and trusted arrangements for assessing hardship and for giving debtors time to pay, and we currently have about £1.5 billion-worth of debt in time-to-pay arrangements, which are very important to helping businesses, for example, keep going through difficult times. The most effective thing that these debtors can do is to take advantage of that period to engage with us and to arrange payment of their debt outside these measures, but if they refuse to do so this is an important power that we have to make people pay who can—

Q69 John Thurso: You say in your consultation that you will give those who are normally regular payers and have never been a problem in the past nine chances, I think it is; whereas, you will only give those who are bad four. Is there not something that strikes you as weird if somebody who has always been a regular payer has not come back to you after you have given them nine chances of contact?

Jim Harra: On the contrary. In the past—

John Thurso: The point being they have always been fine in the past. It is not unknown for you to get the address wrong occasionally?

Jim Harra: In the past we had a single process for all debtors who went through a series of reminders. When we did some research we identified that some repeat debtors were well aware of that procedure and they thought, “Well, I have only had the seventh reminder; I can carry on because there will be two more”. What we have done is we have shortened the process for those who we know are gaming us, so they get fewer reminders and get moved through our process of debt recovery faster than people who are unfamiliar with our debt recovery process. That is a change that we have made in recent years because it is more effective. One of the things I am sure we will receive during the consultation is whether that pattern of reminders and contact is a sufficient safeguard, and we have set out that that is what our current procedures do. We believe that is sufficient for those people to be well aware—

Q70 John Thurso: Why did you want to include tax credits?

Lin Homer: Because we have a significant amount of debt in tax credits, which, again, I think it is important for the general public and for the Exchequer that we tackle. I think you will all be aware that the tax credit system is very prone to both overpayment error and fraud, and to debt, and it is an area that—

Q71 John Thurso: Can I just put two propositions to you? Having had the first ever debate on tax credits after their introduction in Westminster, when the then Minister told us how wonderful everything was and how we could rely on the system, every single one of the cases that I have raised over the years ended up being written off because of the errors in the system. There is not a lot of confidence there to kick off with, but the other point I will make is that these are the citizens who we have decided need support from the state. We are not talking about fraud. This is genuine mistake on one side or the other, usually. We all know that. They have filled it in and they have been told they can have a certain amount of money. They get it. They adjust their lifestyle accordingly. Normally it means not a lot of difference, but it is helpful. Then suddenly somebody comes along and says, “Oops, that was all screwed up four years ago and you owe us £70,000. We know that you have been busily saving away in an ISA and you have the money, so we will have it”.

Lin Homer: I think you made an earlier comment about why you would only contact someone nine times if they have had a pattern and a history of paying before. Whether it is tax credits or general tax debt, I just would want to assure you that it is not nine strikes and you are out. What we are trying increasingly to do is to adjust to the individual. If we see someone go through a life event, for instance a bereavement, we will try to put in place extra support. Where people have generally been compliant we will try to understand what might have tipped them into non-compliance.

In tax credits we go to quite significant lengths to try to attach any debt associated with tax credits to an ongoing payment. We arrange time-to-pay arrangements, and in tax credits we accept both much longer periods for time to pay and much smaller repayments. As long as we are getting something back we will try to accommodate. Again, I emphasise that the direct recovery of debt is not an

approach that we envisage taking at anything like the level other countries do. We are talking about a limited number of debtors who have made limited or no effort to either discuss whether the debt is due with us or any arrangements for repayment, in that space I believe, whether it is tax credit or tax, it is right that we consider further steps to make those people pay.

Q72 John Thurso: The Chairman wants me to move on, but one last point. As you say in your report, “Given the sheer size and scale of our organisation, it is inevitable we will sometimes make mistakes and receive complaints from customers.” We can take it as read you will make some mistakes in this process?

Lin Homer: We would accept that, yes.

Q73 John Thurso: We all accept that. At the moment that is not your problem, because you make a mistake and the law exists to deal with it, but now you are going to take be responsible for it. So you have made a mistake and you have whacked into the ISA at a moment when there is a big dip in the market. You have flogged his ten grand of shares, and six months later the market goes up. If you had just left it alone it would have been substantially more than you realised for it. Will you be compensating in that circumstance for the full loss that has occurred, or will you just be saying, “Well, no, that was an accident of timing”?

Lin Homer: The one thing I am not sure we have explained clearly is that we are not taking away any of the existing rights to go to tribunals. People can take their tax—

John Thurso: The compensation—

Lin Homer: You have said several times, “You are removing yourself from the judicial system”. That just is not so, and I would want to emphasise that. This is a step we would take after and in addition to all the other things we currently do. We would accept we will make mistakes. In the main, if you have taken money out of an account, it is arguably easier to rectify that than it is to get back the goods you have distrained and sold at auction, which is one of the things we do now. We would accept there will be limited—

Q74 John Thurso: But you need a warrant to get inside a property.

Lin Homer: We do not use a warrant. There are circumstances when we have the power to get one, but we have—

John Thurso: You have to go to a magistrate. You can take it outside, but you can’t go inside.

Lin Homer: No, we can and we do. If people refuse us we have to have a warrant. The position is that we think it will be easier to switch back on a bank account and, of course, in relation to something like an ISA, we would, of course, have to accept that there might be rectification needed.

Q75 John Thurso: It might be very rare, it may be a one-in-a-million case, but if a house sale falls through because you have had the deposit for the house and did not realise it, if you sell at the bottom of the market or before a particular share goes up, will you pay the full compensation of loss or not under the redress?

Lin Homer: I know you like yes or no answers, but it would depend on the circumstances. There are many cases where—

Q76 John Thurso: Who will judge the circumstances?

Lin Homer: Those would be circumstances that would be determined by a court, and I can assure you in the rare cases where a mistake was made we would rectify that. That is an important part of the safeguarding.

Q77 John Thurso: Will it be full compensation?

Lin Homer: I want to emphasise that we would hope and expect that our ability to use this power, if it were granted, would prompt people to have the discussion with us that we would like them to be having now. I would be delighted if we never had to use this power, but what I do not think is fair to the general taxpayers who do pay is that a small minority just fold their arms and say, “We know it is too hard for you to chase us. We are not going to bother”. I want to emphasise that it is a small number of people who are wilfully not paying their tax. This is not our first—

Q78 John Thurso: You and I will have a long-standing difference of opinion on that, because I think there are fair and legal ways of recovering that money and penalties that you can put in. That is up to Parliament. What is not fair is for Mr Harra and his team to decide what I might or might not be allowed to spend while accessing my bank account, and that is what Parliament needs to scrutinise.

Lin Homer: I will hope and expect that you are not one of the debtors we focus the power on.

Q79 Chair: That is a very interesting final remark, Lin Homer.

Lin Homer: Because 99% of people pay their tax. I just really don't want the Committee to have a sense that we believe we should be given a power to dip into everyone's bank accounts. We do not. We don't need to, because the vast majority of British people pay their tax.

Chair: Other colleagues want to come in on a similar point.

Q80 Steve Baker: Reflecting on what you have said, what I have understood is that the justification for this power is necessity. Is that right?

Lin Homer: I think what we are trying to do is ensure that the system has an ability to collect the tax that is due from people, and that people do not think simple delay or ignoring is a solution, which I think some of these debtors do. I have been out on a field force visit myself, challenging an organisation that the next step we will take is distraint, which is a current power. His basic answer was, “But I treat you as my overdraft. I always pay my VAT late”.

Q81 Steve Baker: You very skilfully avoided saying yes, that necessity is the reason, because, of course, I wanted to remind you of what William Pitt said about necessity. I am horrified that this exception is being made, essentially because HMRC is frustrated with a small minority of people who simply should go to court.

Chair: We need a question, Steve.

Steve Baker: That is the point I wanted to make.

Chair: Okay. Well, we are interested in your replies rather than—

Lin Homer: Understood. It is out to consultation. I am sure you are all going to be giving us your views.

Chair: Our views—there is a collective view of the Committee, which I might come on to in a moment.

Q82 Mr Mudie: I am tempted to ask, Ms Homer, has it ever crossed your mind that these people who have not replied to your letters have tried to phone in and could not get through?

Lin Homer: If that were the case that would be a good point to make to us when we do speak to them. There is going to be a dedicated—

Q83 Chair: Before we go off that point, you do agree that it is inevitable that eventually it will be the case?

Lin Homer: Well, there is going to be a dedicated helpline for this power, and if it prompted us to be in a circumstance where somebody had tried, of course that would then be a reason for us to back off using those powers. I think it is a good example.

What I would say is that there are increasing opportunities, and when we entertain debt proceedings we are writing, we are trying to call or we will do field force visits. We will try to make contact in a number of ways, but if someone were unfortunate enough—I would very much regret if that were the case—that we were at that point and they could show us that they had tried purposefully to get hold of us, that would be a very good reason not to proceed.

Q84 Mr Mudie: It is not great odds, is it? It is one in five. It is not exactly winning the lottery. One in five of your customers cannot get through.

Lin Homer: Well, what we do—no.

Q85 Mr Mudie: Anyway, go on, we are dealing with this. How much is owed? What is this target sum that you are after? What was it last year, and what was it the year before?

Chair: This is for the 17,000 we are talking about.

Lin Homer: In relation to direct recovery of debt?

Mr Mudie: Yes.

Jim Harra: For this measure specifically, we expect that we will recover an extra £375 million over the first four years of this.

Mr Mudie: How much?

Jim Harra: £375 million within the first four years.

Q86 Chair: The question was: what is the total amount that is owing, in your view?

Mr Mudie: In both years. Not the last financial year that has just finished. In fact, I would not chase the figure necessarily if you confirm this. Are you saying that it would improve by £350 million?

Lin Homer: Yes.

Jesse Norman: Over four years.

Mr Mudie: No, over one year.

Lin Homer: No.

Mr Mudie: Over four years?

Jim Harra: Yes. The extra tax revenues that we expect to collect as a result of this measure would be £375 million cumulatively over the first four years.

Lin Homer: Perhaps, Mr Mudie, I could compare that to time-to-pay arrangements, just to balance out our efforts to help people pay debt. At the moment we have £2.4 billion of debt covered by time-to-pay arrangements², a significant amount of that being tax credit debt; so I just continue emphasising that this is an additional tool on top of all the other tools.

² *Note by witness:* “At the end of March 2014, HMRC had debts totalling £2.6 billion in managed payment plans. Of this total, £2.4 billion represented Time To Pay arrangements, which includes £1.3 billion of tax debts and £1.1 billion of tax credits debts. See also response to Q128”

Q87 Mr Mudie: Yes, but that has been accumulated over years?

Lin Homer: But that is the current amount.

Mr Mudie: You have given an average figure of £5,800?

Lin Homer: Yes.

Mr Mudie: That comes out to £100 million, does it?

Lin Homer: Sorry, are you asking us the annual amount that might be owed?

Mr Mudie: What does your annual amount for these 17,000 people who you are chasing at £5,800 a year come out at?

Lin Homer: I am not sure I have that immediately to hand.

Jim Harra: We expect to apply this measure to 17,000 debtors a year. Their average uncollected debts are about £5,800 each. Whether we will be able to recover all of that debt—

Mr Mudie: No, I am just asking—

Lin Homer: The total amount.

Mr Mudie: —if you got all 17,000 and on average they are £5,800, what does that add up to?

Jim Harra: You are asking me to multiply 17,000 by £5,800.

Mr Mudie: You must know. You are coming here to the Committee saying this is very important, and I am just asking how much is at stake.

Lin Homer: Well, we have given Treasury the figure of—

Mr Mudie: Well, you do not know 17,000 times £5,800?

Lin Homer: Well, £385 million over the spending review period. We do not expect to get it all in one year, and we do not expect to get it all. £385 million is the figure.

Q88 Mr Mudie: No. Oh, my Lord.

Let me go on to the next question. I understand, and you have said to John Thurso, that you do not need a warrant on occasions to go in and take goods. If I owe you money, how do you get it from me if I am not exactly willing to pay?

Lin Homer: Well, that is one of our challenges.

Mr Mudie: Yes, okay, but you are in HMRC. It is not a new organisation. What do you do?

Lin Homer: We do a complete variety of things. We will start by sending you—

Mr Mudie: No, no. You go through all the processes, but then it is obvious I am not going to pay you. Where do you go to get your cash?

Lin Homer: At the moment and traditionally, we have had the opportunity to distrain goods, which we do on a number of occasions. On the vast majority of occasions when we suggest that we intend to distrain, people miraculously decide to pay us some money. It is an issue of ramping up the pressure on people until they pay. We can go to court and we do go to court, but the cost of going to court can range between £800 and £10,000. If the debt that you are owed is £1,000, then many debtors will bank on you not bothering. We will use court proceedings, but if that were the only route available to us then some debt would float to the bottom and be written off.

Q89 Mr Mudie: You have dismissed going to court as expensive and slow.

Lin Homer: Yes.

Mr Mudie: Without this measure—leave this measure to one side—if you do not go to court where can you go?

Lin Homer: We use repeat telephony and face-to-face visits to encourage people to pay.

Q90 Mr Mudie: Yes, I know, but I don't care. I am the hard face and I am not going to pay you. Now, your one remedy is to go to court, isn't it?

Lin Homer: My remedy is to come and distrain your goods.

Q91 Mr Mudie: How many cases did you take to court last year? You had 17,000. You are saying on average you have 17,000 villains who will not pay. How many did you take to court last year?

Lin Homer: I am sorry; I do not have that figure to hand.

Mr Mudie: Why not?

Lin Homer: Because as it stands that is one part of a wider approach. We do distrain goods.

Q92 Mr Mudie: The year before, how many did you take?

Lin Homer: I am sorry; I do not have that figure to hand. I will write and give it to you. The point is, it is not an approach that we use for debts of around £1,000 very often, and debtors know that. First, it will take time to get to court and, secondly, it will cost us sometimes as much.

Q93 Mr Mudie: No, but you are suggesting 50% of these have £10,000 in the bank.

Lin Homer: £20,000. These are people with assets, yes.

Q94 Mr Mudie: Right. I think only 23% are below the figure you are suggesting with money in the bank. How many people owe you £1,000 and below, of those 17,000?

Lin Homer: The average is £5,800.

Mr Mudie: I know the average is. How many are below £1,000?

Lin Homer: It will vary from moment to moment.

Mr Mudie: No—

Lin Homer: Yes, it will, Mr Mudie. Quite a lot of people that—

Mr Mudie: How many people who owed you over the average sum—let us make it easy, who owed you over £10,000—did you take to court last year?

Lin Homer: I have told you I do not have those figures to hand.

Q95 Mr Mudie: How do you expect this Committee to support you taking these unprecedented powers when you have no indication that you have used the present remedy? Can I just ask you that?

Lin Homer: I have explained to you that we do not extensively use the remedy of going to court, because in value for money terms it will often not be an appropriate thing for us to do with taxpayers' money.

Q96 Mr Mudie: If you go to court and you get a county court judgment against someone, it affects their life in a very big way. The threat of going to county court, especially if they have money in the bank, means they have to take a decision. Do you threaten to go to county court?

Lin Homer: With most debtors—

Mr Mudie: Do you?

Lin Homer: Yes. With most—

Mr Mudie: But is it an empty threat?

Lin Homer: No, not at all. We do take—

Q97 Mr Mudie: Well, how many do you take?

Lin Homer: I have told you I do not have that figure, so we can go round that again, but the point I am trying to make, and I would like to be honest, is that the people we are talking about know that we will not take them all to court. They take that risk. I go back to the field force visit I made to a small business person who regularly paid his VAT one, two or three quarters behind. He basically looked us in the eye and said, "I choose to pay my VAT late. I know you will never get round to doing something. If I pay at the last minute, you will go away". Now, we will take people like that to court to prove a point, but if we have to do that with 17,000 cases the level of resource that will take will move away from the more efficient debt collection that we do. We have to balance out our resources against yield for the country. What I am saying to you is that in my view, it is unfair on the general taxpayer who pays when they are asked.

Chair: We have that.

Lin Homer: We are not talking about people who have a genuine disagreement with us about whether the tax is due. These are people who are not disputing that the tax is due.

Q98 Mr Mudie: Yes, I accept that. We have that point, but I would say it is unfair on taxpayers that you who are running the tax system have consistently got 17,000 people, over half of them certainly with great resources, and you do not make it absolutely clear without a doubt you will take them to county court. A fair number of those must be businessmen who would fear going to county court, putting it on the credit record.

Lin Homer: I fear you are wrong about that.

Q99 Mr Mudie: Well, why don't you do it?

Lin Homer: I think you are right about the general taxpayer who does pay when we put them under some pressure, but this is a minority who resist pressure.

Q100 Mr Mudie: No, but you have not dealt with John Thurso's case. That is exactly the case with council tax. That is exactly the case with television licences. You can go through the lot. You are almost like a foot in the door. Why would we let you do it and not them? It is the same argument.

Lin Homer: Well, it is for Parliament to decide.

Mr Mudie: It is a very dangerous thing to do.

Lin Homer: We accept this is a consultation and that Parliament will either grant us this power or not.

Mr Mudie: Let me just ask you—

Chair: Hang on, just let her reply.

Lin Homer: The answer I would give to your question is that to allow 17,000 people to get away without paying their tax when 99% of the people do is something we would hope Parliament would be concerned about. We would hope we could persuade you that since this is a power given to many tax administrations and since we are open-minded about the safeguards that would be placed there, it would be reasonable to use a power like this with those people who most strenuously resist paying what is due.

Q101 Mr Mudie: How long does it take me to get to a tribunal when you do something that—

Lin Homer: Well, your first port of call is just to write to us and say the tax is disputed, and we will deal with reviews in a matter of days.

Q102 Mr Mudie: I know, I have done that on behalf of constituents. I am just asking you what the average time is between lodging a complaint, going through all your complaints procedure and getting to a tribunal. You have taken and frozen my bank account to a large extent and you are saying, “Well, you have a chance; go to a tribunal”.

Lin Homer: No, you will have a chance to go to the tribunal before we freeze your account.

Mr Mudie: Sorry?

Lin Homer: This is the disagreement I was having with Mr Thurso. You will have a chance to apply to the tribunal before we freeze your account. We are not taking that away. While you were doing that, however long it took, we would not move to use this power. This is not something we would do before your right to challenge. It is something we will do after.

Q103 Mr Mudie: I did not catch that. Perhaps you did, John. You indicate to me that you are going to do this and I say, “You are wrong”. I send you a letter; you turn it down. Are you saying you will hold off until I go to a tribunal and let them judge the matter or are you going to do it and then I go to a tribunal?

Lin Homer: No, you will have the right to go to the tribunal before it becomes a debt. When we say, “You owe us some tax”, you have a right to go to tribunal.

Mr Mudie: I know.

Lin Homer: If you exercise that right and we—

Q104 Mr Mudie: You will not freeze everything? Nothing will happen to my account?

Lin Homer: We will not have gone near your bank account at that point. If you have not gone to tribunal and you are out of time to go to tribunal and you are a

hardship case, such as some of the ones Mr Thurso described, we still have the opportunity to say, “Take the case to tribunal out of time”. We exercise that case in hardship cases regularly, on a daily basis.

Q105 Chair: But that is a discretionary power?

Lin Homer: But it is one that—

Chair: Sorry, just to be clear, that is a discretionary power? That is not a right in the hands of the counterparty?

Lin Homer: Well, it is a discretionary power that the court can operate as well as us.

Chair: But it is a discretionary power, is it not?

Lin Homer: Yes, because otherwise—

Q106 Chair: You may withhold it?

Lin Homer: Yes, but otherwise you are in a position where the law is not ever settled, and you know yourself, Chair, that the law would not allow that.

Q107 Chair: Sorry to interrupt, George, but this goes right to the heart of the recommendation we have made, which you have seen, which is that we feel, as a Committee, giving this power without some form of prior independent oversight—

Lin Homer: Which there would have been.

Chair: Well, there will have been for sure if the tribunal has been in action to determine whether there is a debt.

Lin Homer: And if there is challenge to the power when you exercise it

Chair: But if there was not—

Lin Homer: Then there will be.

Q108 Chair: But if there was no prior tribunal, you will have discretion to decide whether that tribunal process could be triggered.

Lin Homer: There will have been a prior right to go to tribunal. I am suggesting to you that if that has not been exercised and there was evidence that—

Chair: I am making exactly that point.

Lin Homer: It would be a power available to the court as well as to us. It is not our discretion. It is a discretion we can exercise, but the point I am trying to emphasise is that this is a power we are applying when the tax is due.

Q109 Chair: We understand that. You have emphasised that point. If I may say so, we have heard that one.

Lin Homer: I think it is very important that is understood generally.

Chair: It is an important point and we have it fully on board.

Lin Homer: I will rest on that.

Q110 Chair: The point I would like you to address is whether you think there is merit in the proposal that we ensure for this exceptional power that there be prior independent oversight in all cases.

Lin Homer: No, I do not think there is merit, because that places us back in the position where these recalcitrant debtors know that effectively there has to be a court order and they continue resisting. Mr Mudie did a very good imitation of one of my recalcitrant debtors in saying, “I am just going to fold my arms and say no”. If at the end of the day we cannot progress without a court order then we are in the same position as we are now, so there becomes no additional power. I would accept that we should be very open-minded about your and any responses to the consultation about safeguarding and I think, as commissioners, we would have to exercise a very strong duty of care and we should account very clearly for how we use the power and in what circumstances. I would expect as commissioners that we would be held very closely to account for this, because I accept it is a significant power, if you had granted it.

Q111 Mr Mudie: Just a question—you may have answered it in reply to John. When you go into a bank, you are going to exercise the right to get 12 months’ bank statements.

Lin Homer: That is a consultation proposition.

Mr Mudie: No, that is one of your propositions for consultation.

Lin Homer: Yes, but we have already had some feedback as to—

Mr Mudie: Do you confirm that is one of the propositions you have put forward for consultation?

Lin Homer: It is a question we have asked, yes.

Mr Mudie: Do you have that power now?

Lin Homer: No.

Q112 Mr Mudie: This is an additional intrusion into people's lives. You are going to have the power to get 12 months' bank accounts from people, building society accounts, the lot.

Lin Homer: We would be very open to people's reaction to that consultation. The purpose in seeking information is to try, as Jim Harra explained, to make a careful judgment about how much you leave in the bank. If the feeling was that we should only be given less information, I think that is something we would consider very carefully. Our view is that we want to ensure the debtor can make a case to us about a need for more than £5,000 to be left, and there is sufficient information available for us to be able to consider that. If there are other ways of achieving that, we would be very open to that proposition.

Q113 Mr Newmark: Just before I touch on my points, I have had an ongoing disagreement with Mr Thurso on this whole direct recovery of debts, as maybe you heard on Radio 4 the other day.

Chair: We do at least have a recommendation here.

Mr Newmark: I agree it has nothing to do with the Magna Carta because the Magna Carta is to protect the law, not the poor people from the king. I just want to be clear on the DRD issue that at any point someone can effectively pull the trigger by replying to one of the letters they have been sent and HMRC will not dip their hands into someone's account. Right?

Lin Homer: Absolutely. Even after we have frozen the account for 14 days, if a debtor came back and said, "Can I make an arrangement now?" we would do all our normal discussions. We would consider time to pay. As I have said, if they, at that late stage, suggested the tax was not due, if there is good reason for us—

Q114 Mr Newmark: Generally there is over £5,000 in the account, so these are not exactly poor people.

Lin Homer: There is over £20,000 and, in fact, I think about 20% of them have over £100,000 in their account. These are not—

Q115 Mr Newmark: These are not poor old people who are preyed on by heavy lenders and stuff like that.

Lin Homer: We do not believe these are people who cannot pay. As Mr Mudie illustrated, these are people who will not pay that are gaming the system.

Mr Newmark: These are people who are playing the system. He did have a reasonable point—

Chair: We are not going to re-open the discussion that has taken place on the airwaves.

Mr Newmark: One quick question, Mr Chairman, because it was not—

Chair: It will have to be a quick question, because you have asked—

Mr Newmark: Thank you, Mr Chairman.

Chair: Order. You have asked to ask other types of questions. By all means ask a quick question, but it will have to be a third quick question.

Q116 Mr Newmark: Yes. One point I thought was reasonably made was why we do not add any extra bit to the legislation to say, “Well, if you do want to go into somebody’s account why do we not have a court order?” What was your reply to that? I was not clear on that?

Lin Homer: Because essentially that puts us back in the same position as getting a court order for debt. If people are wilfully choosing not to pay they will balance the risk of whether we will have the time and resources to take them all to court. Our feeling is that that will so diminish the effect as to make the additional power not very useful, but I am perfectly happy—well, I will wait to see your recommendations.

Chair: It is public.

Lin Homer: Yes.

Q117 Mr Newmark: One area we have felt strongly on obviously is this area of retrospective legislation. All of us have constituents come to us who feel that legislation comes in and suddenly the goalposts are moved. They have been advised in good faith, and these are not people trying to game the system at all. These are people who have gone to their accountants and their accountants have given them advice to say, “If you do set up this particular sort of scheme then tax will not be due”. Suddenly legislation comes in and suddenly they have to owe, in some cases, several million pounds, and they are small businesses. I am curious as to what your thinking is on the principle of retrospective legislation. I do not believe the majority of people are trying to game the system or doing that. They are taking advice from their accountants and suddenly they are faced with huge tax bills.

Jim Harra: You are right that legislation that retrospectively applies a tax liability to events from the past, where there was not a liability at the time when the transaction was taken out, is extremely rare. The Government has published a protocol about when it would and would not exercise retrospection, and it has done so—this Government and the previous Government—on only a couple of occasions I can recall. In those cases that was after Government had given clear warning that if people continued to engage in avoidance schemes in that area they would act and would act retrospectively. It is something we would not do very often and it is only done in accordance with a strict protocol.

Q118 Mr Newmark: If I can just go on to the accelerated payments proposal, which I understand applies to disputes already in progress prior to the passing of

legislation, concerns over the retrospective nature of the proposals were raised by many of the people who wrote in to HMRC's "Tackling Marketed Tax Avoidance" consultation paper. However, HMRC has said they do not agree that the proposals are retrospective. Why is that?

Jim Harra: That is correct. These measures will say that people who have engaged in certain types of avoidance schemes that we have been disputing will no longer be able to hold on to the money while they carry on their dispute with us. There is nothing retrospective about the legislation and, in particular, the legislation will not retrospectively alter the tax treatment of what the taxpayer has done. They are fully entitled to continue with their dispute, fully entitled to continue to argue that HMRC is wrong and they are right.

Q119 Mr Newmark: I do not understand the logic of that, because the logic, as I understand, is that you guys are winning 80% of those cases, or whatever it is, and historically I have been able to hold on to that money until I win. You are saying, "Given that we are winning four out of five cases, we should be holding onto that". Is that right?

Jim Harra: Yes. I think it is in effect saying, "Pay now and dispute later", in these circumstances.

Q120 Mr Newmark: Not that I am a lawyer or anything like that, but is that not a little bit like saying guilty until proven innocent and, "Give us your money. We will hold onto it and we will see whether or not we win"?

Jim Harra: It is not at all unusual in the tax system. For example, in VAT it is the rule and has been for a long time that you must pay tax before you—

Q121 Mr Newmark: But VAT is much more clear-cut than a lot of these other systems, which are up for debate.

Jim Harra: We are looking here at taxpayers who have engaged in a tax avoidance scheme, often where we have won litigation against the scheme, but they are holding on and, again, it is about their behaviour. Why are they doing that? First of all, because they believe they are gaining an advantage by being able to hold on to the money and, secondly, because they hope and believe it will take us a long time to get round to their case. This is about changing the economics of engaging in tax avoidance.

Mr Newmark: To change the economics in your favour.

Jim Harra: Correct, yes. Prospectively—

Q122 Mr Newmark: Just to be clear, it is not 99.99% of cases that you are winning. There is a reasonable chance. I appreciate that 20% is not a huge number, but it is a reasonable number.

Lin Homer: Not quite, though. The plan with accelerated payments is that we will serve notices and seek payment in cases where there has already been a tribunal decision either against the avoidance scheme they are in or in a similar case they have attached themselves to as a follow-up. There has probably been a tribunal decision in our favour in either the case or a similar case, and we are seeking to get those cases sorted. The question about whether we then go on to those cases where there has been no case at all in that setting—

Q123 Mr Newmark: The Committee's budget report of 2012 said that the Government should restrict the use of retrospective legislation to wholly exceptional circumstances that should be narrowly and clearly defined. Can you explain what is wholly exceptional about this policy?

Jim Harra: First of all, as I have explained, we are firmly of the view that the legislation does not have a retrospective effect. However, it is nevertheless the case that we have narrowly defined and targeted the group of cases this will apply to. It will apply where you have entered into an avoidance scheme that has had to be disclosed to us under DOTAS, and we intend to publish a list of those schemes that have been disclosed under DOTAS that this applies to.

Q124 Mr Newmark: But that is all new. That did not exist before, right?

Jim Harra: That has been in place since 2004.

There are also cases where we have invoked the general anti-abuse rule for the most egregious forms of avoidance, and there have not been any to date. The third situation is where we have already won litigation in a similar case. It is, in my view, in any event quite tightly targeted, and we intend to make sure that these taxpayers are well aware that they are within the scope of this legislation. It will do two things. First of all, prospectively it will change the economics of entering into avoidance in the first place. Secondly, it will tackle a stockpile of existing cases where it is clear that, despite us winning repeatedly in litigation, taxpayers are holding on because they believe they are gaining an advantage by sitting on this money.

Q125 Mr Newmark: The flipside of that again—and I am only saying this because I have a constituent who is suddenly facing this accelerated payment scheme now—is that they end up in bankruptcy. Again, I have been in Parliament long enough—I appreciate it is not forever, but nine years—to get a sense of when people are pulling your leg and not pulling your leg. There are a lot of small businesses out there that are going to now be caught into the net of this accelerated scheme, and I fear they are going to be pushed into bankruptcy. My question to you is: what assessment have you made in relation to the number of individuals and businesses that could be forced into bankruptcy and liquidation by the accelerated scheme?

Jim Harra: There is absolutely no automatic way that could happen. If we establish the right to receive an accelerated payment, that becomes a debt like any other tax debt. It is then subject, for example, to time-to pay-arrangements, so for anyone who comes along and says, “I cannot pay”, or, “I can pay but only over a period of time”, like any other debtor, we will enter into a discussion with them.

Q126 Mr Newmark: That is not the sense I got. I met with this particular constituent and their accountant and I had the sense their feet were being put against the fire and they had to come up with something like £1.8 million within X number of days, and if they did not they would have to go into bankruptcy.

Jim Harra: No one’s feet is being put against the fire, because the measure has not come into force yet, so we have not contacted anyone requiring them to make these payments. I do not rule out that, like with any other debtor, we will have to take enforcement action against people, but if anyone believes they do not have the money to pay the accelerated payment then, like with any other person who owes us a debt, we will enter into discussions with them about whether they can or cannot.

Lin Homer: We do have disclosure proposals out, so I would strongly encourage any of your constituents who are in a scheme they think is caught that they do not need to wait until we have this power and we apply it. There are disclosure schemes running in relation to the major avoidance schemes whereby they can talk to us now. Again, that allows us to come to arrangements for the tax that is due to be paid on terms that take into account the circumstances. A number of people who have used these schemes have made use of those disclosure schemes and we would encourage others to do so.

Jim Harra: If I can give you some information about the assessment we have made about people’s means and the type of people who are involved here, we expect that over the course of 18 months this power will apply to about 43,000 people, and their gross mean annual income is about £260,000. That is not to say they do not have a large liability under the scheme, and that is something we would have to look at carefully.

Mr Newmark: That is quite a lot of people, 43,000.

Chair: We are going to have to move on shortly. Do you have one more question?

Mr Newmark: I have lots of questions but I will pull up stumps, Mr Chairman, because I came in with a question earlier on that I appreciate ate into my time.

Chair: Are you sure?

Mr Newmark: Yes. One of the questions that Teresa Pearce wanted to ask relates to a point we were going to come on to. That is why I am going to ask it, Mr Chairman.

Chair: Okay, go ahead.

Q127 Mr Newmark: There are disputes. Out of the 43,000 a number of them will be disputed. Do you have the resources effectively to take on these disputes? It could be very costly for HMRC. That is my final question.

Jim Harra: If I may say so, that is a very good question. It is one of the reasons why we intend to ramp this up fairly slowly, so we will start with a relatively low number. We will see what the response is. We will see what kind of resources we need to deploy. It certainly is the case that when someone has paid their tax they have a right to expect us to promptly resolve their dispute with them. Although we expect to be able to manage this volume over 18 months, that is something we will be trying as we go along.

Chair: We are going to call a break for five minutes now, because there are three more colleagues who want to come in. We will resume at 12.07 pm, if that is agreeable to you. We will re-commence in five minutes.

Sitting suspended.

On resuming—

Q128 Chair: You would like to correct a piece of evidence from earlier this morning?

Lin Homer: Apologies, I just obviously misread my briefing. We have £1.3 billion in current time-to pay-arrangements³. I think I said £2.4 billion. I do not know where I made that figure up from, but apologies for that.

Chair: All right. We have the right figure on the record now.

Q129 Mr Love: Remembering what the Chairman said at the introduction to this session, which is now some time ago, is HMRC doing enough to collect the tax due from large multinational companies, Ms Homer?

Lin Homer: I think we are. As we have described, we maintain—properly, we think—a level of confidentiality for all taxpayers. We have been involved in discussion about this in a number of places, and Jim's business, the large business tax service, effectively landmarks all large business. We believe we are getting a very high degree of compliance as a result of that. I do not know whether, Jim, you would like to just put a little bit more flesh on how we do that.

³ *Note by witness:* "At the end of March 2014, HMRC had debts totalling £2.6 billion in managed payment plans. Of this total, £2.4 billion represented Time To Pay arrangements, which includes £1.3 billion of tax debts and £1.1 billion of tax credits debts. See also Q86."

Q130 Mr Love: Perhaps I can add to that by putting a question to Jim. The Public Accounts Committee said in a recent report on Revenue & Customs, “We were not convinced that HMRC has the determination to robustly challenge the practices of these companies.” Perhaps you could respond to that in giving your answer.

Jim Harra: Yes. I believe we do robustly challenge large businesses where they are non-compliant. In the last four years, we have secured £31 billion of additional tax revenues from large businesses as a result of our compliance work. It was £8 billion last year alone, which represented about a third of all the additional tax revenues that the department secured. I think there is a challenge for the department in getting that across, because most of that tax is recovered by large businesses settling their tax affairs with HMRC. As we discussed earlier in the hearing, taxpayer confidentiality means that it is then quite difficult for me to disclose anything other than the total figure, but we do also litigate against large businesses. We did issue a press notice last year identifying how we had saved about £1 billion in tax revenues from litigation in the first six months of that year, to try to demonstrate that, while most of this is recovered by settling, if the business will not settle with us on the basis that we believe tax is due, we do not hesitate to litigate.

Q131 Mr Love: But if you take the cases of Starbucks or Google or any of the other companies that have been in the news, there is a real public perception that we are not doing enough; the old rubric about, “One rule for us and one rule for the others”. Are you aware of that, and what are you doing to tackle that public concern?

Jim Harra: Absolutely very alive to it, and I think probably two things are being conflated. One is, do the tax rules result in multinationals paying as much tax as people feel that they should pay? The other is, is HMRC effectively applying those tax rules? As I have explained, I believe we are robust and effective in applying them, but there is genuine debate and disagreement about whether the tax rules are right. The UK has been—

Q132 Mr Love: But there are also mistakes made. Let me take a different example, not a multinational: Swiss bank accounts. HMRC had projected a forecast that they would raise £3.1 billion from this exercise on high net worth individuals who owed tax in the United Kingdom. The last I heard it was £0.5 billion that was being collected. What is happening, and how can you reassure the public that we are getting the money that is due to the tax authorities?

Jim Harra: The agreement with the Swiss related to tax evasion mainly by high net worth individuals, as opposed to large businesses, who had money offshore in Switzerland. It was a ground-breaking agreement at the time it was entered into, and it obligated the Swiss either to disclose information about bank accounts to us or, if their bank customers were not willing to do that, to pay withholding tax to the UK. You are right that our forecast of how much we would receive under that agreement has reduced substantially. I believe that over the lifetime of the

agreement we now expect it to be £1.7 billion⁴, which is significantly less than was forecast.

Q133 Mr Love: How has that come about? Is this difficulties in your forecasting method, or is it that people are getting away with paying their fair tax—

Chair: Can I remind the Committee of what was originally forecast at the time? This is something on which we took evidence, I recall, at that time from the Treasury.

Mr Love: The initial figure was £3.12 billion, I believe.

Chair: Three point something billion.

Jim Harra: I think that is correct. In terms of what has happened, it is a—

Chair: You received about how much did you say, one point—

Lin Homer: £1.7 billion⁴.

Jim Harra: Yes, £1.7⁴ billion is what we now expect to get over the lifetime of the agreement. What has happened is a combination—

Q134 Chair: To be fair to this Committee, we did express considerable scepticism about that number at the time.

Jim Harra: I appreciate that. It was our estimate at the time, but you were right and we were not. I think what has happened is a number of things.

Q135 Mr Love: The important point here is whether it has been a problem with your forecasting or whether it is people evading their taxes.

Jim Harra: I think it is a combination of two things. First of all, I believe that we have had to adjust some of our estimates about how much money was offshored in Switzerland by UK taxpayers and how much of that represented evasion. But there is also a concern that we have had all along that, as the Swiss agreement began to bite, people would then move their money elsewhere, and that is why we have done two things.

First, in the agreement with the Swiss there is a provision whereby the Swiss will give us information about where money is moving to if it leaves Switzerland, apparently trying to escape the terms of the agreement. Alongside that, the UK, with a number of other countries, has been leading international efforts to improve the automatic exchange of information right across the world so that there are no safe havens for this money as it moves. I can assure you that to the extent that the fall in the estimated yield from the agreement is as a result of people moving their money, we are after that and we are increasingly, along with other tax authorities, getting effective at finding it.

⁴ Correction by witness: £1.9 billion

Q136 Mr Love: The Committee and the public will know what you say.

Let me come back to the Starbucks/Google question because HMRC has been criticised in relation to this matter. Let me again quote from the Public Accounts Committee. It said, “HMRC needs to be seen to challenge practices to prevent the abuse of transfer pricing, royalty payments, intellectual property pricing and interest payments.” Clear criticism there. How do you respond?

Jim Harra: First, I would say we absolutely do challenge those, and the fact that we have recovered £31 billion of additional tax over four years demonstrates that we do. However, it is recognised right across the world—it is not just a controversy in the UK, it is a controversy in the United States and in France and other countries as well—that the international tax rules under which multinationals operate limit HMRC’s ability to recover the amounts of tax that some people would like to see us being able to recover. That is not because we are ineffective as a tax authority, it is because the rules do not have the results that people would like to see them have.

Mr Love: But the public—

Chair: Could you let Mr Harra carry on just for a second? He was going to make another point.

Jim Harra: The UK has been leading the international drive to reform those rules. The Prime Minister, when he had the presidency of the G20, led with this. There is now a project in the OECD called the base erosion and profit shifting project, which the UK has contributed a significant amount of money to funding, which will be reporting partly later this year and partly next year on 15 action points to strengthen the international code that multinationals must follow. That is about getting fairer tax outcomes for multinationals and the public.

Q137 Mr Love: There is cross-party agreement on that. We wish that well and I think international opinion is moving in that direction, but the criticism that the PAC made was that you were not being robust enough in the context of the rules as they currently exist, and in particular, I think they were highlighting the fact that many of these companies create vast incomes in the United Kingdom, but pay no tax. Surely there is a role for HMRC to say, “Come off it, chum. You are making enormous profits in our country and yet you pay no tax”. I know that the rules do not help you in relation to that matter, but I think that what the Public Accounts Committee was getting at was that you needed to be more robust in drawing it to the attention of the public—naming and shaming, if necessary. That is the response I am looking for. What are you doing in that regard?

Jim Harra: Earlier in the hearing we discussed taxpayer confidentiality and our ability to disclose what individual taxpayers are doing, and we are subject to rules that mean that we are unable to do that. I think there is a fair point about whether HMRC has been sufficiently transparent in a general sense in letting the public know what goes on and what it is we are battling against or how the rules work.

Lin described earlier in the hearing the journey we have been going through to be more and more transparent in a general sense about what we see. I am interested in what more we could disclose about large business behaviour that people would find useful, but ultimately, we are robust in how we are applying the rules as they exist. We do engage very closely with other tax authorities, and I am confident that we are among the best in the world at doing this.

Lin Homer: Just to be clear, I do not think it is our position to ask companies of any size to pay tax that Parliament has not said is due, so there is a difference between collecting what is due—it goes back to the discretion point—and making up what we think people would like people to pay. We have had some healthy debates about what our position is, and our position is to apply the laws. I think our large business service is very effective in ensuring multinationals are compliant with the tax rules.

In another part of the jungle, we are contributing to whether the law should be different, but we have strong evidence to support the fact that our current approach is increasing the compliance from multinationals and indeed making them more transparent themselves, not only, as Jim said earlier, about their tax policy, but at the level of tax compliance. We do not describe the—

Q138 Mr Love: This is not a matter of confidentiality. Drawing to the public's attention the disconnect between the income generated in this country and the tax paid without saying the taxpayer would go a long way to naming and shaming people into doing the right thing about that.

I need to move on to Eurobonds: HMRC carried out a consultation on that. They are widely regarded as a tax loophole, yet at the end of the consultation you decided not to pursue them. Why?

Jim Harra: Yes, that is correct. There is an exemption from withholding tax on Eurobond interest. We did have a concern that that was resulting in a loss of tax over and above the policy intent behind the measure. The measure does enable UK companies to access finance in an efficient way, so it does help with economic growth and—

Q139 Mr Love: I am not really interested in a description. This is widely described as tax loophole. Why did you decide not to close it?

Jim Harra: I think it is important to give the context, because it is not a loophole, it is a deliberate measure that was introduced into the tax system to help UK companies access finance.

Q140 Mr Love: Did you consult with the Treasury in relation to your final decision?

Jim Harra: Absolutely. When we consulted on this, we believed that there could be as much as £200 million at stake, and that if we could reform the rules, we

would be able to get that and stay within the policy intent of the legislation. I think two things happened as a result of the consultation. First of all, we learned that the amount at stake was considerably less than £200 million, and secondly, we learned that the proposition that we had would not have helped significantly in closing the gap between how we would like it to work and how it is working. The conclusion that was drawn—ultimately it is a matter for Ministers, but it is one that I am completely comfortable with—was that the measure was not going to succeed in achieving the outcome that we set out for when we consulted.

Q141 Mr Love: The Public Accounts Committee commented on that, saying, “While HMRC did carry out a public consultation, it explicitly sought comments from those who benefited from the loophole and who therefore opposed the change”. How would you comment on that criticism?

Jim Harra: First of all, it is not a loophole. If it had been a loophole, we would not actively seek the views of people who exploit it. It is a measure that has a policy intent, and we were keen to hear from taxpayers who benefit from it in accordance with the intention that Parliament had about what the impact would be of the change that we proposed, although it was a public consultation and everyone else was open to comment. What we learned in that consultation was that we were a bit wrong, first of all, in what we thought was happening and the tax at stake, and secondly, that the measure would have done more harm than good in the end. That was the conclusion that was reached.

Mr Love: Can I come on to Starbucks specifically?

Q142 Chair: Sorry, before we come on to Starbucks, could I just have clarification of a couple of points? When you said that the yield would be considerably lower if you close the supposed loophole or removed the measure, you did not give us the number. Originally it was intended or thought that it might be £300 million knocking around, I think.

Jim Harra: Originally, I think we thought that we could target about £200 million through the measure that we were suggesting. First of all, I think that we found that that was an overestimate of the tax that was at stake.

Q143 Chair: What would be the correct number, do you think?

Jim Harra: I do not know that I have any correct number. I think what we have is information that it was significantly less than we thought.

Chair: I think it would be helpful if you could supply us with your best guess of that later, if not now.

Jim Harra: If I can, I will, but then the other thing that we found was that while the measure that we were proposing may have placed an obstacle in the way of people avoiding or withholding tax, there are a number of other routes that

multinationals could use, so it was not going to be effective in having the outcome that we wanted.

Q144 Chair: But there is a second and important aspect of this—it was a measure introduced when?

Jim Harra: I think it was 1984 that the Eurobond exemption was introduced.

Q145 Chair: So it has been around a very long time and Governments of all sorts of colours, both Labour, Conservative and coalition—

Jim Harra: I would like them to come back to it—

Chair: Just a second, can I just finish? As I recall—it is a very long time ago—this measure came in partly because it was thought it would bring more business overall to the UK, which itself would increase the yield. Therefore is there not a dynamic aspect—it is the fashionable term; in the old days it used to be called behavioural effect—in the tax system that would also need to be taken into account in order to establish what the overall yield effect was? Did you do any work on that issue as part of this consultation?

Jim Harra: Yes. It was one of the outcomes of the consultation—we learned some of the harm that would be done by the measure that we were proposing as well as having the desired outcome.

Q146 Chair: What was your estimate of what the behavioural or dynamic effects on the yield might be?

Jim Harra: I do not have that, and I do not know whether the consultation arrived at a figure.

Chair: I think it might be helpful if we also take a note of it, because it seems a very basic policy question.

Jim Harra: I will have that information.

Chair: Is anybody considering this measure? We want to examine it. I am sorry, Andy.

Q147 Mr Love: No, I think that would be helpful. If you could write with the detail, that would inform the Committee's work on this.

I wanted to come to Starbucks, because of course as a result of all the bad publicity, they then made an offer to provide £10 million, I think it was, of corporation tax payments, even though it was not necessary. What was your conclusion from this, and have you accepted additional corporation tax payments from Starbucks?

Jim Harra: I am afraid I cannot disclose any details of Starbucks' tax affairs. I can give a general comment, which is that multinationals do have some considerable ability to plan their tax affairs, and how aggressively they do that is a policy that they need to formulate within their organisation. We do welcome it where any organisation, any large business decides not to have an aggressive tax planning policy, and we encourage them to do that.

Q148 Mr Love: Can I ask you the general question of whether there are cases in HMRC where international firms have voluntarily paid more corporation tax?

Jim Harra: I think there are a range of different attitudes that large businesses take to the amount of aggression and risk that they want to take in their tax planning. We do have roughly a third of our large businesses we regard as being low-risk, because they take a conservative approach to tax planning and they do not want to get into trouble or into dispute with HMRC. At the other end, we always have some large businesses in our high-risk corporates programme because they either are engaged or have historically engaged in more aggressive tax planning. Part of my work with large businesses, quite apart from getting them to comply with the letter of the law, is to work with them at board level to make sure that at a very senior executive level and non-executive level within their organisations they consider what kind of tax policies they wish to adopt and are well aware of the risks that they run, both reputational risks and risks in terms of getting into a dispute with HMRC.

Q149 Mr Love: But taking that point, since they do recognise—or a lot of them recognise—there is a reputational issue here, and undoubtedly that was at the forefront of Starbucks' calculation of what they should do in these circumstances, doesn't that argue a strong case for HMRC, while respecting the confidentiality issues that you have brought to the attention of the Committee, being more robust at drawing the attention of the public to the attitude of these international companies to tax paid in this country?

Jim Harra: As we have discussed earlier in the hearing, I am subject to taxpayer confidentiality, so there are limits to what I can disclose to the public, even though the public may be interested in having the information. We can disclose in general terms what we see in the behaviour of large businesses, but I am not able to disclose details about a particular large business' tax affairs. Many of them are increasingly being transparent about their tax policy and the principles they have signed up to because they see that as something that their customers and their investors value, and that is something—

Q150 Mr Love: One final question—

Chair: It will have to be a quick question and reply.

Mr Love: It does not relate to base erosion and profit shifting and all the international discussions and the description you gave, but have there been any

circumstances over the last two years where you have gone to the Treasury or to Ministers and asked them for powers in order to enable you to better manage the tax take, particularly from international companies?

Jim Harra: Yes, and there have been measures in Finance Bills, including in this year's Finance Bill, to tighten up the rules that apply to large businesses. I think Ministers are on record as saying that where something has to be fixed through a change in the international tax rules, they want to work internationally to do that, but where there is a problem that can be solved unilaterally which will prevent large businesses from avoiding tax, they will act. For example, there are measures in this year's Bill and previous Bills that have done precisely that.

Chair: I have two more colleagues who want to come in. I am sorry this has been a long hearing, but it is inevitable, given the importance of some of the issues.

Q151 Mark Garnier: Lin Homer, what do you class as a tax haven and what do you think the public class as a tax haven?

Lin Homer: I think it is quite a difficult definition to apply very accurately, and many countries will regard other countries with a lower corporation tax as more of a haven than themselves. In relation to our position, we would want to work with the international community in bearing down on those places with a very low rate of tax linked to very superficial arrangements for the payment of taxation. It does form part of the work that we are doing internationally.

Q152 Mark Garnier: During the Pfizer AstraZeneca bid, there was some accusation that the interested parties were looking to come into the UK because the UK had a lower tax rate than America, so on that basis, the UK can be classed as a tax haven.

Lin Homer: I suppose I was trying to make the point that the difference between havens and competitiveness is definitional to some degree, but I think everybody would agree there are some places that are running in effect an offer that is only about tax rather than a mixture of things, whereas I think many of us would argue that there is a bigger, wider offering about the competitiveness of your labour field, your financial institutions, your credit arrangements, which are part of the competitive offering. We are in a global competition, and rightly so, so one of our offerings is that we put very good advice alongside big business—and indeed small business—that is thinking about setting up here. We would see that as competitiveness, I think, not—

Q153 Mark Garnier: No, sure, but it is an interesting point, because that is how some people would regard it if a big multinational organisation has tax arrangements that take advantage of offshore jurisdictions, so therefore there could be an argument that we are perhaps not getting taxation that we would otherwise have seen had there not been those arrangements. There is an argument that says

we do receive tax income because we are benefiting from arrangements that favour our tax rate. Is that a fair comment?

Lin Homer: I think you have to look at this as a complex issue, and certainly the OECD's definition of what is a tax haven—

Q154 Mark Garnier: The point I am trying to make is it is not all disappearing out, some is going into the UK that otherwise would not have been taken.

Lin Homer: Definitely. We have seen a number of large firms relocate here to great benefit for the economy.

Q155 Mark Garnier: Do you think that that point has been aired sufficiently?

Lin Homer: We have tried to let it be known.

Jim Harra: I think Ministers are clear that they want the UK to have the most competitive corporate tax system in the G20, and that is part of being a competitive country, but that we also have a fair, transparent tax system that meets good international standards and any company coming here must be willing to live up to those. We are quite clear that the OECD has its definition of tax havens, which involves a country having no or nominal tax rates and not having transparency and not exchanging information with other countries. Far from the UK being in that camp, we are exemplars of international standards in those areas.

Q156 Mark Garnier: I think that is a very important point to make.

Can I turn to this perennial Starbucks question? You cannot obviously speak specifically about Starbucks, but one of the things that seems to have arisen out of this is arrangements whereby we can have notional fees levied on intellectual property that, of course, clearly does have values—I think we have to appreciate there is a definite value on intellectual property. But then there are interesting originations of product—in this case coffee, but it could be anything else—from areas where there are advantageous soft commodity taxation regimes for whatever it happens to be.

I was an investment banker over a number of years before I came to this place, and taxation was something that could be negotiated. My question to you is, where you have these arrangements, where you have maybe more expensive interest rates than would be expected charged on international loans, to what extent do you almost negotiate with the company in order to try to say, “Look, charging a loan at 25% interest per annum is clearly rubbish when the base rate in the UK is 50 basis points”? At what point do you go back and say, “This is an acceptable bit of internal book-keeping, and this is unacceptable”?

Jim Harra: We risk-assess every single large business: the top 2,100 large businesses are risk-assessed every year for the tax risks that they pose, including transfer pricing risks of the sort that you have described where they may be

paying excessive interest payments or excessive royalty payments offshore. We do open inquiries into those cases, and we do expect those companies to engage with us. When you say “enter into negotiation with them”, what we do is carry out an in-depth investigation and obtain a lot of information from the companies, including information about comparables. In the case of transfer pricing, we will often be working bilaterally or multilaterally with other tax authorities on the same case, because by the nature of a multinational, if it is doing it in the UK, it is doing it in other countries as well.

Ultimately, we do resolve the majority of those disputes by sitting down with the company and reaching an agreement about what the arm’s length price is, and if it was not the price that they returned, then getting them to make an adjustment. But it is clearly an area of evaluation and an area of judgment. We would expect professionals to sit down and do that. It is often my tax inspectors who do that, but it is in the nature of transfer pricing that we have to bring in economists and specialists, because we are not specialists in how much royalty to pay on a brand, we are specialists in tax loss, and we do bring in the relevant people to make sure that we have the right expertise to work effectively in those areas.

Q157 Mark Garnier: This is why I was asking about this negotiating point as opposed to a specific point. If you had a situation where an independent economist and independent assessor came along and said, “No, this is probably not the right thing” do you simply go back and say, “We are going to charge you tax based on this”, or do you then go back and have the negotiation with them and say, “Look, we think it should be X, you think it should be Y—shall we meet at X and a half”?

Jim Harra: We have a published litigation settlement strategy that sets out the basis on which we will reach agreement with any taxpayer in a dispute. We do not split the difference, but it is in the nature—

Mark Garnier: This is not negotiated, it is—

Lin Homer: It is a judgment.

Jim Harra: Yes, it is a judgment, so if we believe that we are being presented with an unacceptable valuation and a business will not shift, then we will litigate. If we believe that, having investigated it, we have been presented with a correct valuation, we will concede and withdraw. It is in the nature of valuation issues that there will be a range of what is acceptable, and what we are looking at when propositions for settlement are made to us is, “Is this a case where we are more likely to win than lose if we continue to fight, or is this a case where the company has now reached a valuation that a court, supported by independent expert witnesses, might not agree with?” In that case, it is time for us to move on to another case.

Q158 Mark Garnier: Would it ultimately go to court?

Jim Harra: We have only brought one transfer pricing case to court in the past, and in that case I believe the question of the valuation was remitted back to the taxpayer and the tax authority to sort out. It is in the nature of valuations, I think, that it is quite difficult for them to go to court, but we would if we do not get an acceptable valuation from the business. We certainly have been at the door of the court before in some major transfer pricing cases.

Q159 Mark Garnier: So you consider yourselves to be quite robust in this.

Jim Harra: I believe we are, and I compare ourselves frequently with other tax authorities, and I discuss with the commissioners of other tax authorities the approaches that they take. I regard the UK as among the best, and so do others, at operating transfer pricing, and of course we do it collectively with other tax authorities. As I said, we often work these cases bilaterally or multilaterally.

Q160 Mark Garnier: Lin Homer, your department has come under a huge amount of criticism for being lax, for being pushed around, for not standing up for British interests, for allowing all sorts of bad practices going on with these international companies. Do you think that is an intelligent or fair criticism of your department, given what we have just heard?

Lin Homer: No. I have sought to challenge that in a number of places. My experience of the department since joining it is that we have highly professional people, highly capable people, and in my interactions with business, I think that is reflected from business as well. They take the views of our professionals seriously. I have also had the opportunity of meeting and discussing with other tax administrations, and in many of these areas we lead the way in how to approach these issues. I think we have a very high standard; I think it is down to us as the executive team to maintain that, but I think we are robust and good at what we do. When it comes to more general public criticism, it does rather go back to the question of whether we are getting the tax that is due or the tax that people would like to be due. In the latter category, inevitably it is harder to satisfy people.

Q161 Mark Garnier: Do you think people do not understand the difference between turnover and profit, and clearly some people really ought to know the difference?

Lin Homer: I think tax is an emotional subject as well as a technical subject. People have a stronger sense of what others should pay, which is understandably not steeped in a detailed knowledge of what is going on. My personal view is that is a space in which, if we can, having more informed debate about tax is helpful for everyone concerned.

Q162 Mark Garnier: Do you think Parliament is helping you with this or hindering you?

Lin Homer: I personally have not minded that we have been the subject of more conversation. I would quite like tax to be discussed in more places, and indeed, we are looking very seriously at whether we could take tax into the school and college setting more, working with some of the associations on that. I find it sad in a way that quite a lot of people will probably know and understand more, for instance, about their mobile phone contracts than about their relationship with the country on tax. I think there is a fear about tax that sometimes keeps people away. I have not found it unhelpful for it to be the subject of debate, but there has been some pretty uninformed debate and I think that is not always helpful. Certainly we have tried to correct that where we can.

Q163 Mark Garnier: Mr Harra, in your dealings with these big multinational companies, clearly when you get these big employers in the UK and these companies come in and they find themselves being roughed up in the media and possibly here in Parliament, do you get any sense in your dealings with the public that there will eventually come a point when they just lose interest in investing in the UK?

Jim Harra: I think certainly the controversy that surrounds multinational taxpayers is something that a multinational will take into account, particularly if it is thinking of locating in a country. I would say, however, that the controversy about multinational taxation, although it may have perhaps gathered steam first of all in the UK, is occurring in other countries as well. I think multinationals are well aware that they are in the spotlight no matter where they locate. There is probably grudging but growing acceptance among multinationals that their tax affairs are not simply a matter for them and their tax advisers; they are increasingly accepting that they have to be able to manage their reputation in this space as they would in their impact on the environment or anything else.

Q164 Mark Garnier: What I find most perplexing about that comment is that there is talk about our having 15,000 pages of the tax code. I do not know whether that is true or not—I do not think anybody knows whether it is true or not—but we have a hugely complex tax code here that you are there to administer, and people are paying taxes in the context of that tax code. They have huge numbers of tax advisers, accountants and auditors that are enormously expensive, and there is a huge amount of stuff going on. At the end of it, when they come up with an answer that you agree with, their accountants agree with, potentially courts agree with and all the rest of them agree with, they then have to have an extra notional amount of money that is simply put aside to buy a better profile in the court of public opinion. In the case of Starbucks, they announced that cost was £10 million, and as it turned out, it was not enough. Do you think this sort of expectation that there should be a voluntary conscience level of taxation is a bit of a nonsense, or do you think this is possibly the start of a new way of random taxation?

Jim Harra: I think as a tax inspector, I would have to say a voluntary conscience tax is a bit of a nonsense. That is not to say that people cannot make donations to the country if they wish. However, I think it is the case that multinationals are

increasingly concerned about the reputational damage of being too aggressive in their tax planning, and therefore I think they are increasingly doing two things. First of all, they are looking at the tax policies and assessing whether they can justify them; secondly, they are looking at the perceptions that they generate from where they are located in their accounts and seeing if they can be as transparent as they possibly can.

Q165 Mark Garnier: I am not trying to be a champion for the organisations, and I am not an apologist for them, but if you specify the rules that are there and the rules are pretty clear, and they are being interpreted by all these advisers and everybody else, including the courts, how is it possible that it can be so difficult for them?

Jim Harra: There is obviously a school of thought that says if a business is complying with the rules, that is as much as people should expect of it. However, multinationals have lots of choices about how they structure themselves and where they locate, and part of those choices is the tax consequence. Whether they like it not, the public have a view about what is acceptable and what is not acceptable when they are making those choices.

Q166 Mark Garnier: Parliament made a great, and I think very justifiable, complaint that shareholders were not intervening in the banking crisis, that shareholders had not been standing up when they should have been and putting pressure on the people who managed the banks, yet in this case, you have the directors of these companies, who have a fiduciary duty to their shareholders to maximise the returns they possibly can, and part of that is tax planning.

Jim Harra: I am not aware that the fiduciary duty of a director requires them to take the most aggressive possible tax planning stance. They do have to have regard to the reputational standing of their company, because that will have effect ultimately on their profitability, because consumers and investors will make choices based on that. I am sure they have a richer obligation than simply minimising their tax bill. In my experience of dealing at a lower level with multinationals, they are increasingly taking that very seriously, and at board level they are having discussions about whether their tax policy is one that they can stand by and be proud of.

Q167 Mark Garnier: None the less, it is still very difficult for them to know where the boundaries are and what is acceptable and what is not.

Lin Homer: I just want to refer back to something Jim said a while ago. Part of the reason we provide a very high level of capability and resource to multinationals is that we are in that space and we do talk with them and we do advise them, and Jim has mentioned that we have very clear discussions with them about where they are on the risk ratio. To go back to certainty, we are not leaving them to flounder and make up their own mind about these things, but some companies are in a high-risk corporate group, and we are saying to them, just as we are saying to

individuals, as we talked about earlier, “You are taking some decisions that we think are risky or at the edge of acceptability”. This is an ongoing conversation. What we are clear about is that there is reputational impact for multinationals, not just about their taxation position, about their corporate social responsibility agenda overall.

That, we believe, is for companies, their investors, shareholders and customers. It is a private conversation that we have with them, and we are confident that in the multinational space, as across the board, we get a high level of compliance. Generally speaking, the UK is somewhere where the laws are respected, applied well and generally complied with, and I think it is important for us to say that we see that across the board in business—medium-sized businesses, small businesses, rich individuals, less rich individuals—so we are a generally compliant tax administration. Within that, people are making choices about how near to the edge of risk they get, and in the corporate area, it will always be the case that some of the people who either buy or invest or are associated with companies will want to know the philosophy that is shaping those companies.

Q168 Chair: I think it is just important that we clarify what you have been saying over the last few minutes on multinationals, the high-risk group where they may move towards, as you put it, the edge of acceptability. Does that not scream at one that we need a tax system that is clearer and provides more certainty so we know where that edge exists? Should we not be demanding of these companies that they obey the rules rather than some very subjective measure of what constitutes right and wrong?

Lin Homer: I think we do demand that they obey the rules, and the very purpose in having that group is to be clear with those companies what is and is not acceptable. Those are the kind of cases where I think the strength of our professional judgment is critically important. The point I was trying to make is that that is a constant conversation.

Q169 Chair: It is this clarity and certainty point that I am asking you to comment on.

Lin Homer: Absolutely, but you will not in an international setting be able to get to a point where there is such detailed certainty that every single multinational has the same view about risk. That is the case around investment, tax, a number of areas, health and safety.

Q170 Chair: We must be clear; this Committee wants you to take every legitimate step to ensure that the correct amount of tax is collected in all cases, not least to protect other taxpayers and also as a point of principle.

Lin Homer: Yes, and I think we do that, absolutely. What I was trying to give an assurance on is that I think we do that, and we do it well and consistently. I think

one of the debates most recently has been whether we are less successful in that space than in other spaces. We do not believe that to be the case.

Q171 Chair: But in responding to the comments I have just made and also to both Mark Garnier and Andy Love, haven't we arrived at the point where we are agreed that it is extremely difficult to arrive at the correct amount because of the complexity of the tax system? That is what creates this sense that there is something called the edge of acceptability, and isn't that made even more complex, as you have just said yourself, by the fact that there is an increasing amount of tax arbitrage with globalisation? Therefore, aren't we going to be fighting a losing battle on trying to arrive at—

Lin Homer: I do not think we think we are fighting a losing battle.

Chair: —clarity about what constitutes the correct amount of corporation tax in large firms?

Jim Harra: I think ultimately the correct amount of corporation tax that a company owes is what the Supreme Court rules that it owes.

Q172 Chair: That is a cop-out, if I may say so. That is saying someone else will—

Jim Harra: No, but then what is not a cop-out is what HMRC and these companies have to do, day-in, day out, which is reach judgments about what we think that outcome would be and decide on that basis whether to enter into disputes, whether to concede disputes or whether to settle disputes. But what we always have in front of us is the ultimate arbiter of what the correct amount is—a court. I can be presented with a number of possible figures for what that may be and I have to conclude, based on what I think the litigation risks are, which one I am prepared to settle on or whether I am going to fight on.

Chair: Lin, did you want to add something?

Lin Homer: Just that generally speaking, the success rate in the cases we do take to court is reducing, and so is the number of cases outstanding, particularly in relation to large business, and the length of time they are outstanding for. That does suggest that we are being more and more successful in this space. This is an area we have invested in, both in terms of the numbers of tax professionals that are working, but also in the support we give them. My personal view is that our work in this space is getting more successful, and we see that in terms of the yield that this part of our business generates and the tax gap in this space, which is lower proportionately than in other areas.

Chair: These are very malleable concepts, tax gaps and—

Lin Homer: I know it is not your favourite concept, Chair.

Mr Love: It is not just the Chair who does not like it.

Q173 Chair: Not this Committee's favourite concept either, on the cases that have been produced in the past.

I opened the hearing by asking whether you have back-of-an-envelope thoughts about fundamental reconstruction of the tax system when you are meeting in your darker moments as commissioners. Have you been asked to produce a paper or thoughts on fundamental reform of corporation tax in the light of the kind of points we have just been making?

Lin Homer: This feeds into the international work.

Jim Harra: Yes. First of all, this Government published its corporate tax roadmap when it came into power, so it set out the series of reforms that it intended to make over the lifetime of—

Q174 Chair: We are four years down the road and in a different space now.

Jim Harra: Yes, and that roadmap is implemented. The other blueprint is the international blueprint that we are working on with our international colleagues through that BEPS project and obviously that is officials working on those projects, but they do come back to Ministers—we certainly do in our own country, and I am sure they do in others—and ultimately the propositions will come back to the G20 in the autumn.

Lin Homer: We are very actively engaged in that. I think that is the answer to your question—we do think that is a really important piece of work. It will be hard to strike approaches that gather the support across the piece that they will need, but we do think that is an important piece of work. We are heavily engaged.

Q175 Teresa Pearce: Recent figures from the ONS show that the economy is growing, yet the tax take from income tax and capital gains receipts this year compared to last year has gone down. Why do you think that might be?

Jim Harra: You are right that the amount of income tax and mix on capitals gains for April and May this year was lower than the previous year. We cannot read too much into two months' figures, and there is a specific reason why there is a distortion, because in 2013, that was when the 50p rate was reduced to 45p—

Lin Homer: Income shifting.

Jim Harra: —and we saw income shifting into the first two months of the tax year, which is not something that we see in the first two months of this tax year. I suspect we will see a further distortion later in the year in that for people who pay their tax through self-assessment who shifted income at the beginning of the last tax year, it will be January when they are then paying the tax on that, so we will probably see another blip there.

Q176 Teresa Pearce: You believe that it is probably about income shifting and it will level out?

Jim Harra: Yes, that is right.

Q177 Teresa Pearce: According to recent Office of National Statistics figures as well, national insurance contributions have fallen in the same period and yet you have 800,000 more people in employment. Is that also income shifting, or is it that the extra people in employment are below the NI level?

Jim Harra: I do not have a complete answer for you now, but I do suspect that the income shifting plays a significant role in that as well, because for those higher-rate taxpayers, it would have been a liability to national insurance contributions, for example, by the employers as well as income tax.

Q178 Teresa Pearce: So you believe that that is the reason, rather than low pay?

Jim Harra: That is a significant part of it. I do not have information about whether the pay levels of employment are also playing a part, but I am not aware of it. We believe that on the distortion we are seeing in the first two months, we need to wait a bit longer before we can draw conclusions other than that income shifting is a key feature.

Q179 Teresa Pearce: The number of people paying the wrong amount of PAYE has risen as well, to around 5.5 million in 2013-14, an increase of 1.3 million over the previous year, and this coincides with the introduction of real-time information. Surely real-time information should mean that there are fewer people paying the incorrect PAYE, or is real-time information used only to see what has been deducted and what has been paid—it is only a collection device? Do you not use the information in any way to check the codings or rates of tax?

Ruth Owen: I will address the figures first and then explain what the real-time information system does. On the numbers, we do not know how many people have paid the wrong amount of tax yet, because we are right in the middle of reconciling them all. There are 62 million records to go through and we have only done 30 million so far, so the numbers that you refer to are our best estimates, which are roughly what we saw last year. The reason we are assuming this year remains the same as last year is because when we brought in real-time information, we did not deliberately exploit all the data from real-time information in the 2013-14 tax year. That is something that we will be doing increasingly this year, and more so next year, in terms of cumulative real-time changes to tax code, which is how you avoid small underpayments and overpayments.

Q180 Teresa Pearce: For instance, I used to be a chief executive of a council, and we have just had local elections, and it is very, very common that

someone gets elected to the council, and in two years' time they get a massive PAYE bill because additional council money would have been put on basic-rate code and they are probably due a higher rate on that. Will real-time information pick that up in-year?

Ruth Owen: From when we introduced real time information, when you start a job and when you leave a job, that information flows through to RTI into our back-end systems, so we do refresh codes as you start the new job. What we do not do is necessary accumulate through the whole year to recognise what different patterns of employment earnings you have had through the year, so I guess what I am trying to say in layman's terms is increasingly that will happen less often, first, because we know you have moved job—

Q181 Teresa Pearce: But it will still be an end-of-year reconciliation and not an in-year change of code?

Ruth Owen: No, increasingly it will be in-year.

Lin Homer: But this is the first year of RTI. I think it has been very successfully implemented. It was a big change. We have tried to learn the lessons of previous changes and be very careful as we went. In the first year, it has already made for much more accurate reporting of PAYE and enabled us to collect more of that tax in-year, but we are moving to its full functionality over time. We would anticipate a movement towards less end-year reconciliation.

Q182 Teresa Pearce: But you can see that as a group of individuals, because you go into their wages and take money out, they think you know everything, but you do not until often the end of the year and often later on than that.

Ruth Owen: That is the way that it has always worked.

Q183 Teresa Pearce: That is why over previous years we have had problems, because we have had more than one source of income. You and I can understand that RTI, from your point of view and from a collection point of view, works very, very well, but when will it work for an individual to make sure that real-time information is going in? You have their record, they have a national insurance number, so you should be able to look at the whole person and all this sort of information. You are saying you are moving towards it. Do you have a time scale for when people can expect in-year changes to be picked up?

Lin Homer: We are expecting to introduce some of these changes with effect from next April, so that cumulative picture is there. I would not want to suggest that will mean there are no end-of-year reconciliations, but I think we would expect two things. We would expect the numbers of end-of-year reconciliations to reduce, and we would hope that the amounts involved in the ups and downs will also reduce, but there is the complexity of people's employment picture—as you say, it is not only councillors, there are a huge number of people who have more than one job.

Q184 Teresa Pearce: No. There are lots of people who have a pension, a job and it all fits in on the PAYE pool at the moment.

Lin Homer: We would expect this to get better, but this is one of the phases where I think we have to flex out muscles and work out how we can make it work for taxpayers as well as possible. We would absolutely share that aspiration: that over time there will be more use made of what we know, more in-year changes and less end-of-year reconciliations.

Q185 Teresa Pearce: Something else about the PAYE and the RTI. Most SMEs have an agent, and agents can see online what tax and what VAT has been paid, but they cannot see the PAYE. Why is that?

Jim Harra: We do have an online service for small businesses called the business tax dashboard where they can see all of their liabilities but, to date, we have not been able to open that up to agents, mainly because businesses sometimes use a different agent for different heads of duty and our systems have not been able to cope with displaying to each agent what they are allowed to see. However, we do have in development at the moment an agent online service, which will mean that when that goes live—we are hoping that the test bit of it will go live later this year—they will for the first time be able to see that full dashboard that their clients can see.

Q186 Teresa Pearce: What is the time scale for that, do you think?

Jim Harra: We hope by the end of this year to have a test service out for agents, and we are already engaging with them on what we call the alpha.

Q187 Teresa Pearce: Tax credits are very complicated. Trying to get it right is very difficult both for yourselves and for individuals a lot of the time. The Citizens Advice Bureau recently reported that there was a 14% increase in the number of people contacting them with debt problems due to overpayment of tax credits from HMRC. Does that concern you, that there is an increase in indebtedness?

Lin Homer: Yes, of course. The tax credit system is very complex. There are some changes that we are trying to make. It is obviously a system that in due course will be superseded by Universal Credit, but we are doing a number of things that we think will help. One of those is that we are seeking to put much more resources into early tackling of error and fraud, and we know a significant amount of this is error, although some is fraud as well. We have just let a large contract that will allow us to make many more interventions with tax credits.

Q188 Teresa Pearce: That contract, I know it was coming in in the autumn. Has that been signed now?

Lin Homer: Yes.

Q189 Teresa Pearce: How long is that contract for?

Lin Homer: I have the detail of that. It will be for a number of years, but it is subject to us being able to test and make sure that it is working and that they are complying with our expectations.

Q190 Teresa Pearce: What is the cost of that contract?

Lin Homer: This is a payment by results approach, so it depends on them being successful and what we—

Q191 Teresa Pearce: The reason I asked for the length of the contract is that according to the DWP, everyone is going to be on Universal Credit by 2017.

Lin Homer: Oh, but this is an approach that can then be transferred over, so we are doing quite a lot of things in relation to tax credits where we are absolutely clear that to a degree what we are doing is getting ready for Universal Credit.

The other thing we are doing that I wanted to mention is that we are trialling many more digital services for tax credit people. We are doing this for the renewals, which is one of our busiest times of the year. Ruth has launched a couple of digital projects, and we would hope over the next 18 months that we can do more digital, so people can do change of circumstance much more readily.

Ruth Owen: It was on breakfast TV this morning.

Teresa Pearce: Excellent.

Lin Homer: We are keen that people understand that they can renew online.

Q192 Teresa Pearce: But tax credits are a massive undertaking by HMRC. Given that there is this 2017 deadline when everyone is meant to be on Universal Credit, do you recognise that deadline? Is that what you are working towards?

Lin Homer: We are working towards the transfer and we think everything we are doing will help Universal Credit to go forward, so the error and fraud contracts we are letting are an approach that DWP will be able to take on. So to a degree, the problem should diminish, because Universal Credit is better designed than tax credits and it does not have the fundamental retrospection problems that the tax credits have.

Q193 Teresa Pearce: If that 2017 timetable slips, do you have the resources to deal with that and to continue with tax credits?

Lin Homer: I am confident we can keep improving service for tax credit claimants while they are our responsibility, yes.

Q194 Teresa Pearce: Two more questions. In your annual report somewhere—

Lin Homer: It is a weighty document.

Teresa Pearce: —there is a figure for £250 million to be collected for tax on child benefit for higher earners.

Lin Homer: Yes.

Teresa Pearce: How is that figure made up? Is that £250 million over a period of what, or is that per year or—

Lin Homer: This is high-income child benefit?

Teresa Pearce: Yes.

Lin Homer: That is the tax due within this period.

Teresa Pearce: Within this period?

Lin Homer: Yes, so the year.

Q195 Teresa Pearce: Given that people are meant to either stop claiming or tell you so that you can tax them, what percentage of people that are in that bracket do you think have done either of those things?

Lin Homer: Close to 90%; just over, I think. We are obviously going to do some backward evaluation, but we had a significant number of people opt out. I do have all these figures—

Ruth Owen: 350,000 people opted out, 370,000 people were already in self-assessment and declared it, and 230,000 people declared themselves newly into self-assessment.

Lin Homer: Out of about £1.4 million.

Q196 Teresa Pearce: At what point are people going to get those tax demands? Will it be next year?

Lin Homer: It is every year, but obviously for the first—

Teresa Pearce: Yes, for the first time. I am just wondering when my postbag is going to explode, that is all.

Lin Homer: No, lots of them have already paid it. The first—

Q197 Teresa Pearce: So there are people who stopped claiming it, there are people who need to make a payment and there are people who will not be caught up until they do the self-assessment.

Lin Homer: They had a proportion from January to March of last year in this year's self-assessment, so all of those people in SA will have made their first payment this year, obviously except for people coming into this because of children being born, so it is already working. The reason it is a smaller amount is that that SA was for a part-year.

Q198 Teresa Pearce: I think it is going to be really problematic for lots of people who maybe did not do a self-assessment form, because that year they had worked half a year so they were not over the amount.

Anyway, last question. Mr Harra, you said you cannot discuss individual companies' tax affairs, but Ms Homer, I wrote to you last month—given that in the public domain there has been an awful lot of discussion about the number of illegal payments that were made by media companies in return for information—to ask whether or not you are going to revisit those companies' tax affairs to make sure that those are illegal payments were not allowable for tax. I do not know if you have seen my letter yet.

Lin Homer: I have not. I suspect it is with one of my tax experts, but I will look at it.

Q199 Teresa Pearce: Clearly there have been court cases, which we do not need to discuss here, where it has been shown that it has been a widespread practice among some newspapers to pay cash often for information that they should not obtain, which is an illegal payment, which should not be allowed for tax purposes as an expense. I would just like some reassurance that HMRC will look back on the accounts of those companies to make sure. I know you cannot discuss it—

Jim Harra: I cannot discuss particular taxpayers, but first of all, we will obviously reply to your correspondence. The general rule is absolutely that if we obtain intelligence from any source, public or otherwise, that suggests that a tax return may have been wrong- for smaller businesses, that would feed into their risk assessment and a decision about whether to inquire.

Q200 Teresa Pearce: But this seems to be industry-wide.

Jim Harra: For larger businesses, that would be part of the regular engagement with the customer relationship manager, who would expect to be told how that had been handled for tax purposes.

Q201 Teresa Pearce: Because it is payments over a number of years, which could amount to a significant amount. It will not be missed, is that what you are saying? Someone somewhere will look at it?

Jim Harra: That kind of information would not be missed, absolutely, and we will reply to your correspondence.

Chair: As you probably will have noticed, there is a great deal of interest and also concern about aspects of tax policy and tax administration, and this has been one of the longest hearings we have had in this Parliament. This has been a test of your stamina, all three of you, and we are very grateful to you for the contributions you have made, which have been detailed and robustly put, even if the Committee may not agree with all of the points that you have been making. Thank you very much for offering us up Edward Troup for a subsequent hearing. I am sorry that this hearing has eaten a little bit into your lunch, which we will all now take. Thank you very much for giving evidence this afternoon.