

Public Accounts Committee

Oral evidence: HM Revenue & Customs Annual Report 2013-14, HC 458-i

Wednesday 16 July 2014

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Members present: Margaret Hodge (Chair); Guto Bebb; Mrs Anne McGuire; Austin Mitchell; John Pugh; Nick Smith.

Sir Amyas Morse, Comptroller and Auditor General, Robert Prideaux, Director, and John Thorpe, Executive Leader, National Audit Office, and Richard Brown, Treasury Officer of Accounts were in attendance.

Witnesses: Lin Homer, Permanent Secretary and Chief Executive, Simon Bowles, Chief Finance Officer, and Jim Harra, Director General Business Tax, HMRC, gave evidence.

Q1 Chair: We are slightly in holiday mode, because this is our last session. I know you all work hard; we work hard too, so we're feeling slightly like that. I hope we will have a very good interactive session and both sides will benefit. Thank you for making this the subject of our last session—tax. We are going to start, Lin, on all the issues around tax revenues. I suppose my opening question is about giving you the opportunity to explain to the Committee what a key indicator was for you on your performance. You managed to get the baseline so horribly wrong that you were measuring in £1.9 billion more of tax revenue than you should have done.

Lin Homer: Thank you, Chair. I hope we will put you in the right mood for your holidays, and thank you for the opportunity. You have done part of the explanation for me. Essentially, in the period immediately after the last election, the Government made a decision to invest a significant amount of money in us. They basically wanted to know where to measure improvement from, so work was done in 2010-11 to try to work out where to start measuring improvement from. I am sorry, and I have tried to be very clear about that apology in our report: we got that initial estimate wrong and therefore the judgment about where we were going to measure improvement from was based on an incomplete assessment of our performance at that time.

What I want to stress is that, in being asked for some return on that investment—we have talked with you a number of times about the rate of return we have given the Government for the investment—we were asked, essentially over a four-year period, to give a climbing return that would essentially give £18 billion back for the £1 billion of investment, and we have honoured that commitment; we are on target to honour it. Obviously this year we need to deliver as well. So each year, even allowing for the adjustment in the baseline, we have delivered what we told the

Government we would. Because we got the baseline wrong, we thought we were over-delivering and therefore we believed we had overachieved when in fact in the first two years we had achieved, and in the third year, even against the baseline we have overachieved.

The lesson for us to learn is that we need to take care when we are producing those baselines and I am very happy to accept Amyas's recommendation that we should involve the NAO in auditing those figures in the future, because that gives us all much more security that we are not inadvertently getting those things wrong.

Q2 Austin Mitchell: Why was it undetected for three years?

Lin Homer: Because essentially, after the negotiation about where to measure from, we measured in-year activity, so thereafter we measured real out-turns, which were all correct, and we measured activity, so it was "Where are we starting from?" rather than "What did you do last year?" All the printed figures in our previous annual reports about out-turns and in-year achievement were right, but the question of where we started from was what we got wrong.

To HMRC's credit and to my people's credit, they thought they had achieved their target and gone beyond it, but they did not stop when they achieved their target. If we had done that, we would have lost money for the country, but they went beyond what was asked, and I think the phrase that Amyas captures is that HMRC did not lose its focus when it achieved the target. I think that is part of the reason, Mr Mitchell, why we didn't spot it. We were just delivering absolutely every pound we could in-year, and therefore the question of whether we had started from the right place was not something any of us looked back at and checked.

Q3 Chair: I accept that. We accept the public acknowledgement of having made the mistake, but what worries me is that it needs the NAO to come in. We have had quite a lot of discussion in this Committee over the last four years about governance in HMRC, and it worries me. I am worried about why your governance is such that it took the NAO, the external auditor, to discover an internal mistake when your governance structure and the information that you have should have identified it, as Austin said, before three years were up.

Lin Homer: Audit is there for that critical challenge, and we have our moments between—

Q4 Chair: Internal audit?

Lin Homer: Both.

Chair: But internal audit didn't get it.

Lin Homer: What we did this year—chapter 3 of NAO's Report covers this—was to look at how we invest compliance resources, and it is something we have talked about a lot with you. Actually, NAO came in to do that piece of work, and I think that is a good example of the NAO looking at a particular area of our work. To do that in-depth look at whether we were investing in the right things, we all went back and baselined. I think NAO would confirm that when we started that work we collectively found this error.

Q5 Chair: You haven't really answered the question of why your governance structures were not sufficient to identify the mistake.

Lin Homer: I will just say again, if I may, that in a sense the absence of that figure being right didn't change the things we were tracking in-year, so the figures we have reported to you that we have achieved as extra compliance yield were right. The £23.9 billion was right, and that was what we were tracking.

Q6 Chair: Okay. Let me ask the question in another way. What have you changed in the way that you internally demand management information and systems to make sure that a mistake of this enormity—I come back to this as your key indicator—

Lin Homer: I don't quite agree with that. The key indicator of compliance yield that we were tracking was robust, and again I think the Report acknowledges that. We have been tracking those figures, and I think the NAO is content that the methodology and approach we used during that period have been prudent and robust. What I think it does teach us is that the judgment about how much we will try to achieve in a forward period is one that will be better for being scrutinised from more directions. The point where we will change that big-time will probably be after the next election when we commit to another period of activity.

Q7 Chair: Have you changed any of your internal systems, your management information, your governance or anything like that? A quick yes or no.

Lin Homer: No, because I do not think that we need to. I do not think this error suggests that the information on our monthly boards is wrong or that anything we have put in our annual reports is wrong. I am open to that discussion, however, and we have agreed with Amyas that we will involve the NAO in our view of how we should measure compliance performance in the future. By doing that, we will expose ourselves to more critical challenge. The decision on our overall measurement of compliance is that we go about that in a way that is sound. That is therefore where I am resting at the moment.

Q8 Chair: Okay. May I ask a second set of questions about revenues? You produced a document, which I am assuming you have updated now—¹

Lin Homer: "Fast facts".

Chair: "HMRC fast facts". In that document, you look at revenues and you track them from 2005-06 to 2015-16. How do I put this? Do the figures in 2005-06 and probably up to 2010-11 compare the same compliance activity and data that you are measuring in 2011-12, 2013-14 and so on?

Lin Homer: Well, no.

Chair: Yes or no?

¹ "Fast Facts" was updated in July 2014 to reflect the correct figures

Lin Homer: No.

Q9 Chair: The other place we have got is on page 8.

Lin Homer: Yes, and if you look at page 10 of my annual report, you will see that we clearly say that we accept the advice that we have been given, that there is enough difference in the underlying data to make that broad comparative five-year to five-year view such that you would need longer caveats than made it worth doing the comparison.

Q10 Chair: I will tell you what worries me. If you go to what you are measuring in 2011-12 and 2012-13, which is in the Report that the NAO has produced, you admit that there is a methodology. On the chart on page 8, you say: "Methodology for measuring compliance yield is updated to reflect latest evidence of the impact of compliance work". You put in a little proviso. I object to the chart, because you are looking at earlier years and later years, and it is apples and pears.

Lin Homer: I think we have accepted that point. On page 10 of my report, we have said that a statistically sounder way is to measure—

Q11 Chair: Why do you not put that in the short, brief facts?

Lin Homer: Because at the point that that was published, we had not discovered this error.

Q12 Chair: In publishing the new version, because of the error, have you taken the chart out?

Lin Homer: We now plan to use the chart that we have put on page 10 of our annual report, which starts in 2011-12 and shows the 44% increase we have achieved against the re-baselined figure. Again, I have tried to be clear that we have taken that advice on board.

Q13 Chair: I think the easiest figure is cash in, which is £9.2 billion in the year we are looking at. What was cash in, if we go back to 2009-10 or something like that?

Lin Homer: It is on page 11 of my report, right at the front of the annual report. I do not agree with you about only cash being important. In fact, a lot of—

Q14 Chair: I will come back to the others, but I am not asserting that. I am interested in how cash in moved over time.

Lin Homer: In the table at the bottom of page 11, we have shown you the four categories that we think are important and the movement in each of them, so, again—

Chair: I think your report is fine. It is this that I object to.

Lin Homer: I will apologise again, but once we understand an error, we can move on. You asked me about that publication, and I have had this discussion with Amyas. We need to try to produce easily accessible information. We included a caveat. We accept now that it was not sufficient. You have all said to me on many occasions that tax is very complex. If the only way you can think about what HMRC does is by being prepared to read all this, I don't think we are helping the debate. You yourselves have tried to engender a lot more debate. I want to try to put simple information out there, but I have accepted the challenge from the NAO and others that we have to be very careful that we are measuring apples and apples, not apples and pears. We are building that into our expectation but I want to continue trying to present accessible information. Tax is such an important part of our deal with the citizen that I don't want to be driven back into only talking about it in the kind of tables that feature in the back half of this Report. I will try to play that line and I am sorry if, in seeking to cross that line, we got it wrong. But I think the Report from Amyas is clear that we did that inadvertently and certainly did not knowingly go into that space.

Q15 Chair: Okay, I hear that. I now have a third issue on this, which is about another bit of simplifying and perhaps not being entirely correct in terms of some of the figures—page 11 might be as good as any to go on. If you look at the NAO critique of it, both the revenue losses prevented and the future revenue benefit, where you're trying to measure the impact of your avoidance work, are estimates.

Lin Homer: An awful lot of what we do is based on estimates and future activity as well as current. It always has been.

Q16 Chair: But the cash isn't. The cash is cash.

Lin Homer: Even some of the cash is due and may not all be literally in the bank at the end of the year, but it will come in. You started to say, "Surely only cash is important," and I would really want to challenge that. A great deal of what we are trying to do is stop either error or cheating happening in the system. More and more of our investment will actually be put up front. That might be us filling out a self-assessment online, so that we prompt someone to say, "Actually, you disclosed something last year that you haven't disclosed this year. Have you forgotten it?" That is all very much in the space of either future revenue benefit protected or revenue losses prevented. This would be a bit like, in my old life, only measuring fire services by how many fires they put out, not how many fires they prevent. I would argue long and hard with you about the importance of all four categories. We do accept, and are now very happy, that our compliance activity should always be broken down so that Committees like your own can see the proportions of activity in each. That is completely reasonable.

Q17 Chair: Okay. I understand what you're getting at and the complexity of it, but a swift glance at this and the way it was used in the media—you have nearly £24 billion in.

Lin Homer: Which we did.

Q18 Chair: Well, you didn't. Some of these estimates—if we look at the NAO's Report and the revenue losses prevented, it says on paragraph 2.19 on page R25 that "the second is a prediction of the impact" of losses. Paragraph 2.20 says, "These two measures carry different levels of certainty

and precision,” and later, “Estimates of the impact of HMRC’s compliance work in disrupting organised crime are less certain and more judgemental.” In paragraph 2.22, it says: “Future revenue benefit is inherently less certain, harder to estimate and more susceptible to errors as estimation is judgemental.” The only one I will give you is that the NAO does verify where you have changed the law and closed a loophole, but in terms of product and process yield, it says in paragraph 2.25, “This means estimates are reasonably certain and accurate.” It then says in paragraph 2.26, “As a result, what appears to be an upward trend in product and process yield is partly a consequence of the methodology HMRC uses and not necessarily the result of better performance year-on-year.” I am saying that, in going through your simplification, you are including in these figures—which the press has a different interpretation of—uncertainty that I don’t think is helpful in measuring your performance. I should say that this is all preface. We recognise that you are making great efforts here.

Lin Homer: Certainly, talking about all four categories, by their nature some of those are based on a methodology, not on having one of my team counting the money as it comes in. If you don’t mind, I would refer you paragraph 14 of the NAO Report, which is on R7, where the NAO are confirming that we take “a prudent approach” to measuring these things. We collect evidence. We have shown them places where we reduce estimates when we think there is uncertainty. There are several billion that we exclude from the annual amount, where we regard the items as one-off and exceptional.

The NAO goes on to say that it found “the methodology and processes...used to estimate compliance yield...sound” and to provide “a reasonable proxy for the beneficial impact of its compliance work.” So it is right to challenge us, but I would say again that we have a clean bill of health and that it is right for us to go after all these areas of activity. In inviting the NAO to be even more involved in measuring how we measure these things, it gives you and us ample opportunity to ensure that we are sufficiently challenged. They are the right things to be doing.

HMRC has just had its best ever year in this field and I am enormously proud of our folk for delivering it. It is real money in the bank for the country and it is 44% more than they were achieving at the beginning of this period. Forget 2005; it is 44% more than we were delivering at the beginning of ’11-’12. That is a massive improvement. The fact that some of it is us stopping money ever being lost is a good thing, not a bad thing.

Q19 Chair: I think I accept all that. All I really want is that we have to be really transparent and open in using these figures.

Lin Homer: And I totally accept that.

Chair: And therefore there is a difference between an estimate—I do not know what will happen to those estimates. We were talking before about it, and maybe that is what John wants to talk about. I hope estimates will get better over time, but at the moment we have to be clear about them.

Lin Homer: That’s a fair challenge.

Q20 John Pugh: I just wanted to carry on challenging you a little bit, because if you look at your diagram on page 11 of your report, you can see that the cash collected has gone up by £1

billion but revenue losses prevented have gone up by about £2.5 billion, so in percentage terms there is a bigger increase in that category. It is almost twice as big and makes a bigger contribution to your generally favourable set of stats than otherwise. It is right that we probe that a little bit.

Lin Homer: Of course.

John Pugh: In terms of revenue losses prevented, there are two categories, aren't there? There are losses when criminal activity is disrupted, where "HMRC seizes illicit goods". Presumably, there is more in that than the value of those goods. Is that right?

Lin Homer: Yes. Perhaps a better example would be where we stop a fraudulent VAT claim. We have talked with you about missing trader income. We, and other European countries, have seen massive attempts to defraud the VAT system.

Q21 John Pugh: There are two categories—1 and 2—in the NAO Report. For one category, 87% of that £8 billion is losses prevented when HMRC refuses or reduces repayment because they are incorrect or fraudulent. Presumably that includes the missing trader fraud, doesn't it?

Lin Homer: Yes. I just think that is a really good example of something you would want us to do. You wouldn't really want us to pay out millions in VAT repayments to people who do not deserve it, only to then spend even more money trying to collect it. If we can put a better system in place, as we have, for spotting and actioning those errors and weaknesses in the system before they happen, that is good upstreaming of compliance. We think that is better than losing money, having to investigate it and then getting it back. Whether that is a small trader who thinks they can be under our radar or a big, organised criminal, with the kind of work where we are preventing losses arising—we have talked a lot about it in tax credit—I think you would want us to stop overpayments occurring rather than having to chase them down.

Q22 John Pugh: But you have reduced the size of your missing trader unit, haven't you? Presumably, you think you are getting on top of that.

Lin Homer: We think that peaked. It was very significant at one time. It is the nature of serious and organised criminals, particularly, that when one form of trade goes down, they tend to pop up somewhere else. The issue for us is identifying where—

Q23 John Pugh: So the fact that you are scaling down the missing trader unit will not necessarily lead to the revenue losses prevented figure going down as well.

Lin Homer: No, because we are acquiring new approaches and techniques that allow us to upstream compliance—that is an illustrative phrase. We are trying to catch the possible risk much earlier in the system. We believe that we are quite leading-edge in that respect. It is where some of our technology-based patterning and trending happens. In the past year, we have acquired the right to look at merchant acquirer information so we can triage the information that a business tells us against what goes through their credit card results. We think that we are rightly focusing on this area, and that we will get increasing benefit out of it.

Q24 John Pugh: I came across a quote from an international law firm, Pinsent Masons, which said that the number of information requests on individuals' tax affairs made by the HMRC to foreign Governments—those will obviously be some of the missing trader frauds—has declined. Is that because there is less going on, or because you have got fewer resources to put to it?

Lin Homer: No, we have more resources going into this area. Pinsent Masons publishes a lot of information based on our stats, and I don't know that particular item.

Q25 John Pugh: So your inquiries are comparable. You have international data that shows you are making as many inquiries as the Germans.

Lin Homer: Well, we put our resources where they need to be. Chapter 3 is about whether we flex them enough. If we have a period of intense international fraud, you may see a period of high activity. Focusing on upstreaming compliance work is an area that is growing for us, rather than diminishing overall. If it needs to involve European work, it will. It is increasingly technology-based, and increasingly productive for us.

Q26 John Pugh: On your use of resources to ensure compliance, you decided not to allocate more staff to the big business unit. Instead, you put them on SME work and things such as that. Is that correct?

Lin Homer: I think you are referring to the proportions of investment that we allocated to SMEs versus large businesses.

John Pugh: The ratio of 1:1 is quoted, although some businesses are absolutely huge and may need more than one.

Lin Homer: Yes. Jim is in charge of large business. I may get him to briefly answer you point about our investment on SMEs. An analysis of the last decade or so shows that prior to SR10, for understandable reasons such as the return on yield, we maintained a high level of investment in large business, but we reduced our coverage of small businesses to quite a low level—about 2% coverage. In this period of investment we rebalanced that to a significant amount.

Q27 John Pugh: I don't know whether the ratio of one officer to one big business is good figure. Do you know whether that is a good figure? Have you any international comparison? Presumably other Governments are dealing with big business as well.

Lin Homer: Out-turn yield is one indicator. Jim, do you want to answer that?

Jim Harra: Yes. It is pretty coincidental that the ratio is 1:1. We do not work on that as a principle. Roughly speaking, we have about 2,000 people in our large business directorate, which deals with about 2,075 businesses. They are supported by officers in other parts of the Department—our special investigations unit, the solicitor's office and the technical specialists elsewhere. There is a larger number of people working on large business than simply the ones—

Q28 John Pugh: Given that large businesses are, generally speaking, international businesses, how do the resources we commit to that task compare with the resources that other nations in Europe commit?

Jim Harra: We don't all organise on the same basis, and we don't all have the same definition of what we treat as a large business for this purpose. Different tax authorities are organised in different ways.

John Pugh: So you probably don't know.

Jim Harra: No, I don't know exactly.

Q29 Chair: The interesting thing, Jim, from that exchange is that your business unit covers both SMEs and large businesses.

Jim Harra: I've got responsibility for the Department's tax policy and strategy for all businesses, but, in terms of operations, I just deal with the largest businesses.

Q30 Chair: Because the figures I picked up from the Report show that the business unit—whatever that is—is the only bit in which the staffing has gone down. It's gone down from 3,877 to 3,160.

Lin Homer: In large business?

Chair: Page 17—this is the NAO Report—figure 5. If you look at your change in staff numbers, everything has gone up. Actually, personal tax is down.

Lin Homer: That is the comment I was going to make.

Q31 Chair: But if we just focus on the business unit, that seems odd, given the importance of compliance.

Jim Harra: If I just pick on business tax, which is my area and has gone down, that includes not just the compliance unit that manages the compliance of large business, but an operational unit that looks after processing of VAT returns and things. The reductions are, across my line of business, not targeted at large business.

Q32 Chair: Have you got fewer people working on compliance with large businesses? I don't know where your SME work is done, but have you got fewer people working on compliance than you had in March 2011? Have you fewer or more people working on compliance?

Jim Harra: Overall, across the Department—

Q33 Chair: No. I am asking about your 3,877 as compared to your 3,160. Are there more or fewer people in that business tax unit working on compliance?

Jim Harra: Following the additional investment that we got at autumn statement 2012 we have, roughly speaking, the same amount of resource working in large business now as we had in 2010 when the spending review started.

Q34 Chair: And SMEs?

Jim Harra: SMEs would be more. SMEs are dealt with in the enforcement and compliance, which is the orange block, and that has gone up.

Q35 Chair: So you have the same number working on compliance with the big businesses, but you have lost them on VAT returns?

Jim Harra: No, what we have done—

Q36 Chair: You have lost 700 people.

Jim Harra: For example, during that period, we have moved VAT registration online, so we have fewer staff processing VAT registrations because they are done online. There are areas in my line of business that are not working directly on investigations; they are doing operational processing. Those are areas where, for example, we have made reductions.

Lin Homer: In terms of staff in both enforcement compliance and business tax, and the compliance end of personal tax, we have more than 2,000 more staff working in that area than we used to have. Across the board, we have taken out roughly the same level of efficiency as other Government Departments. In our administrative areas, we have significantly fewer staff than we did, but the balance has been to reinvest those efficiency savings into more front-line compliance staff. Those figures are considerable.

Q37 Chair: Just one other thing on the staffing side: on page 8 of the auditor's report, paragraph 18, that short thing on SMEs—I think there is probably a question about your focus. I understand what you said, that pre-2010 there was a big focus on the larger businesses because of the revenue take, but there will be some concern from us—if Richard were here, he would wax lyrical on it—about changing the focus from large corporations to SMEs. Can you take us through why and give us an explanation of the end of that paragraph?

Lin Homer: As I was saying earlier, there is a useful table in Amyas's—

John Thorpe: 14.

Lin Homer: Thank you, John. There is a useful table on page 37, which shows you the tax gap alongside existing staff and then the additional staff. The red blobs are the extra staffing that we have been able to achieve as a result of the investment. That shows you the position since the start of the spending review. The situation is that the tax gap around SME activity remains significantly bigger than in other areas, and we talked to you about that before. It is a logical and sensible place to go. It does partly recover from a period immediately post this period when we were focusing on, in a sense, return on yield. I have spoken to you on other occasions about my view that you can't

always just chase the biggest return; you have got to maintain coverage. What we have done is recognise that we need to have a certain level of coverage, and we are heading back towards the historic coverage in SMEs of about 8% coverage.

You cannot open an inquiry in every SME, whereas you are effectively inquiring into each large business all the time. They have got to feel that there is enough risk for them to comply with the rules. We think that the more significant investment in SMEs has been necessary. There has been a pretty big investment in relation to individuals, but even in large businesses, where we had 1:1 coverage, we have added extra investment, which has allowed us to improve our capability and get some additional specialisms. Again, you have rightly challenged us to be as good as the opposition that we face, and we think that we are. We are distributing those and that is something that we must keep under effect, but it is being done on that basis.

Q38 Guto Bebb: Just to clarify that point, what you are saying in effect is that, even though figure 14 tends to show that there has been an increase in SME coverage, it is taking us back to a situation pre-2010.

Lin Homer: Not quite.

Q39 Guto Bebb: Not quite?

Lin Homer: Not quite. We had dipped quite considerably in the coverage. Again, you will have heard this from others: in law enforcement you need to do enough enforcement activity to have a deterrent effect. For instance, we have talked to you not just about the direct inquiry work we do, but our campaigns and taskforces.

People generally speaking are compliant, but they make a judgment based on how big they think the risk is. We believe that we are in a position where the level of activity in the SME area was probably getting to a point where we were losing our deterrent effect. So we believe we are now back in an area where SMEs know, increasingly using technology, that we have quite good sight into what they are doing. We think that will tend to encourage natural compliance. That is our preference.

We do not want to catch an SME doing something wrong. We want to give them the support to get it right, whether that it is in Jim's area with help with our apps for small businesses, or our campaigns—a bit like the TV licensing campaigns—in which, if you remember, we had our eyes looking out at people. If we signal to people that it is risky to cheat then fewer of them do it. That is the space that we are in.

Q40 Austin Mitchell: All this moving around and redeployment looks like fire brigade work. That makes me think you might not have enough staff overall. Can you assure us that you have the numbers and quality staff to prevail against very powerful, well paid and expert forces arrayed against you on the side of tax avoidance?

Lin Homer: In our business tax area—

Q41 Austin Mitchell: Is it yes or no? Have you got adequate staff?

Lin Homer: Yes. I am absolutely confident that we have the quality of people that we need and the quantity that we have is sufficient for what we are asked to do. I do not think it is unreasonable for us to be asked to make efficiencies. The example Jim gave was that, if we can put something online that used to be dealt with by people, it is right for you to expect us to do that. It saves money, but it can also give better customer service.

In the tax credit area this year, you know we struggled to deliver good service in the tax credit peak. Because we are seeing you early this year, you might ask me how we are going to do. Last year, you challenged us on how poorly we had done. This year, we have stood up at quite short notice a digital offering in tax credits to allow online renewal. We have already had 200,000 people use that. That is 200,000 telephone calls that did not have to wait in a queue. It is right that we make that saving.

Q42 Chair: How does that compare with last year?

Lin Homer: Well, none online last year because we did not have that offering then. Those are the kind of changes.

Q43 Chair: And that was 200,000 out of how many?

Lin Homer: Still 5 million or so. By next year, I hope that we will be able to have the vast majority of people renew online. That is the kind of example where you could legitimately ask us to take costs out. On quality, Jim, I think our tax experts are internationally regarded. I have no concerns about their quality.

Jim Harra: May I talk a bit about what we have been doing to invest in those skills? For example, for the staff who work on large business, part of the £1 billion reinvestment that we got in Spending Review 2010 was spent on a comprehensive skills package for 2,400 staff who work with large businesses. That was in order to ensure that their skills are improved and stay up to date. In addition, we have a tax academy where we have been recruiting 200 new graduates a year, coming in to refresh our work force. We are both improving existing skills and building for the future.

Q44 Austin Mitchell: A year ago when we were looking at the big audit houses—the big four—we were told by a whistleblower that one of them was quite prepared to sell tax-avoidance schemes that had a 70% chance of being struck down on the grounds that it would be so long before the Revenue caught up and compliance proceedings were enforced that they would get away with it for a long period, by which stage they were merchandising another scheme even better than the first one. Can that happen now? Is that happening now?

Jim Harra: I will talk in a moment about a new power that hopefully you will give us in a day or two which will make a major difference on that. But you are right that it can take a long time to investigate avoidance cases and get them into court, and the promoters of these avoidance schemes ensure that they throw every obstacle in our way to make it difficult for us to do that. However, we do persevere and we do get them into court. Last year, we defeated 30 avoidance schemes and protected £2.7 billion through litigation.

What is coming in, which I think will be a complete game-changer for us, is the accelerated payments measure in this year's Finance Bill. That will mean that the 43,000 people who are in marketed avoidance schemes must pay the tax up front if they want to dispute their liability. That really will change the economics of avoidance and prevent that kind of behaviour.

Q45 Austin Mitchell: Are you sure that they are not still leaping ahead of you, as they seem to have been? Penalties fall on the person buying the scheme, which they must pay, but not on the person devising and selling it.

Jim Harra: We certainly do have penalties for those devising the scheme if they are not transparent and do not tell us about the schemes that they are devising. In terms of the people using them, one of the measures in this year's Finance Bill means that if we win in litigation against a scheme and we believe that you have used the same scheme but you refuse to concede because you argue that you are different, you are free to do that, but, when we demonstrate that you are wrong, you will have to pay not only the tax but a 50% penalty on top.

Q46 Chair: Is that the individual or the promoter?

Jim Harra: That is the user of the scheme.

Q47 Chair: What about the promoter? The Americans are much better at getting them than we are.

Jim Harra: We do have measures going through in this Bill which are about tackling what we call the high-risk promoters, because where I think the profession has moved—you have got lots of insight from the witnesses you have had before you—is that it has split into a very small hard core of promoters who continue to market schemes in much smaller numbers and the mainstream of advisers who now stay well away from aggressive schemes and try to encourage their clients to do so as well. This year's Finance Bill enables us to target that small hard core of high-risk promoters and put additional obligations and burdens on them. We cannot stop them from designing avoidance schemes, because that is legal, but we can circulate that with lots of rules that make it very difficult for them to operate without us knowing what they are doing.

Q48 Austin Mitchell: You have got a new directorate to co-ordinate and lead the work to counter tax avoidance, yet we heard earlier that your estimates of a product of the Anglo-Swiss agreement on tax avoidance were pathetic: £1.7 billion or something like that. Now we have a situation where Europe's top expert on tax avoidance, Jean-Claude Juncker, is President of the Commission, which seems to me to be some kind of endorsement of the rackets perpetrated in Luxembourg.

We were told earlier that when it came to agreement between Luxembourg and Amazon—I am not being critical in any way, of course—*[Laughter.]* We were told that we could not be given any details of the agreement which allowed Amazon to pay its taxes in Luxembourg rather than here where the money is owed. What is being done about that? Do you know the details of those agreements?

Lin Homer: I am sorry; there was quite a lot in there and I am obviously going to leave your comments about Mr Juncker to one side. Since we sat in front of you last year, what we have done generally about tax avoidance is bring together the experts across HMRC. It is a fair challenge to us that, in the past, our avoidance work was spread out in various places. We have created the counter-avoidance group and David Richardson, who is one of our most experienced directors, is now in charge of this resource and effectively he has both Jim Harra's and Jennie Granger's back-up and support—and indeed Ruth's, because specialist personal tax is in this. He has all the resources in one place. We have new tools going through the Finance Bill, some of which are focused on the high-risk promoters. I was going to intervene, Chair, because I think one of the promoters owned up to you that none of his schemes had ever worked. So I think, for some, it is higher than the 70% Mr Mitchell referred to. We continue to have an impressive record on bearing down on counter-avoidance.

We have explained to you before that our initial estimates about the Swiss agreement were not right. We have rebalanced that, and I think that that has been subject to discussion. All I would want to say is that it was still a leading-edge agreement, and it brought into focus for us some evasion that had been out of reach before. Although the figure is less than the original estimate, it is still a tidy sum for us to get in for the Exchequer. It is still something we are pursuing heavily.

Right at the end, I think we got back to our traditional discussion about taxpayer confidentiality. That remains a complex and challenging area for us. I think we are putting out more general information about what we are doing. We have moved to description of schemes—

Q49 Austin Mitchell: Can that information be made public?

Lin Homer: We have put a great deal more information out about schemes. We continue to feel that Parliament has given us a framework within which to operate, which puts a high expectation on us of taxpayer confidentiality. I suspect that we will have that debate again, but I do not think it is preventing us from tackling tax avoidance.

We would share your view that there needs to be wider debate about tax avoidance and about the risks of them. Just yesterday, we published disclosure information, so that any member who is in an avoidance scheme will know whether they are in that list that Jim alluded to. To be honest, many of them will have known that they were in an aggressive scheme anyway, because there will have been a clause in there saying, "You have to agree to fight this if HMRC challenges it." Some of them will have had clauses saying, "You must not concede this case." I think there is a need for all of us to work together on these aggressive avoidance schemes, but we accept that we have a duty to give information out about our views about these schemes.

Q50 Austin Mitchell: What is the main problem? Will you ever be able to require these multinationals to pay tax here on the profits they generate here? What is stopping you?

Lin Homer: International law.

Jim Harra: We have discussed in the Committee before that there is an international framework of laws. There is an OECD project in which the UK is a leading participant.

Q51 Chair: Are you working on that?

Jim Harra: Yes, the BEPS project. There are 15 action points in that project, the first seven of which are due to report in September this year to the G20, and the remainder in 2015. In there are policy changes aimed at ensuring that profits are allocated to the place where they are earned, and also that there is greater transparency between multinationals and tax authorities about where they operate and where their profits are.

Chair: Okay. I will come back to some of these issues; I did warn you before you came to the Committee. I am going to Anne and Guto, and then I will come back on some of the issues arising out of what Austin said.

Q52 Mrs McGuire: Could I have some information on one of the high-profile areas of tax avoidance, which is employee benefit trusts? I note that you have had a reasonably good year in terms of pulling back some significant sums. My understanding is that there was a 160% increase in the amount of money that you have managed to pull back. What criteria did you use for settlement opportunities? I understand that the aim of HMRC is to reach a settlement rather than go for an expensive court case. Where are the opportunities for those settlements?

Jim Harra: We have published the settlement opportunities that are available to employers who have engaged in employee benefit trust avoidance. A significant number have stepped forward and settled on that basis. I can certainly send you a link to the detailed explanation of that. It gives a settlement opportunity that is within the law, but which is more attractive to the employer than the worst-case scenario if they go into litigation with us and lose. So a number of them have concluded that the best thing to do is to settle on that basis. It brings in an amount of tax that ultimately could be what they are liable for. It saves us a lot of resource, which we can then deploy on those who are fighting us and enables them to move on.

There are a significant number of variants of employee benefit trust avoidance. One issue for us is that if we were to try and litigate—unlike marketed avoidance schemes, where you usually have a large number of followers of schemes with exactly the same pretty much in each one—these companies are pretty bespoke, so I think the settlement opportunity is the most effective way of resolving the bulk of these cases.

Q53 Mrs McGuire: Can I ask what the current legal status is of employee benefit trusts? Can I turn to a piece of documentation or a link that will give me secure information? Can I be confident that an EBT is in compliance with HMRC rules? Or are they all up for grabs?

Jim Harra: Employee benefit trusts are entirely legal. There can be good non-tax reasons why an employer would wish to set one up, but we did see a significant drive a few years ago. One of the key reasons for setting them up was to avoid pay-as-you-earn and national insurance obligations. We have published information about what is and is not acceptable from a tax point of view, and what we will challenge from a tax point of view, as well as the settlement opportunity that is available to companies if they choose to avail themselves of it.

Q54 Mrs McGuire: You've lost a pretty high-profile case in Scotland recently. It is in the public domain, so I am not putting out there what has not been in every Scottish newspaper and probably every football newspaper. One of the criticisms from Sir David Murray—or, if not him, certainly his spokesperson—was that you had various opportunities to settle with Rangers football

club, but you decided to push to the upper-tier tribunal, which you lost. I know there are four or five outstanding issues to do with a referral back. If you do not want to speak about that particular case, can you tell me what the criteria would have been for not going for a settlement in cases such as that? I am not entirely convinced of all the financial arguments on this point, but the ramifications that have been suggested are that you may, by your action, have put the club into serious financial jeopardy.

Jim Harra: First of all, if I can correct that misapprehension, which has been—

Q55 Mrs McGuire: That's fine. This is your opportunity.

Jim Harra: It has been in the media. This dispute on employee benefit trusts was not the reason why Rangers went into liquidation. It was for non-payment of their standard pay-as-you-earn and VAT obligations.

Q56 Mrs McGuire: That's why I caveated my question.

Jim Harra: In terms of when we decide to litigate, we have a published litigation and settlements strategy that states we will settle only for what we believe we are due under the law. If we believe that we have a greater than evens chance of getting more by litigating than what we can get by settling, generally speaking that is what we will do: we will litigate. We are proud of the success record that we have in litigation. In avoidance cases, we win about 80% of all the cases that we litigate, but that does mean we are not successful in 20% of them. We are disappointed by the upper-tier tribunal decision in the Rangers case. It is still something that can be the subject of appeal, so I cannot go into too much detail about the litigation itself, but, as I said, we have a very good track record and we may not have reached the end of the line on this one.

Q57 Mrs McGuire: Given, though, that it is in the public domain that Murray International Holdings wanted to have a settlement, was there any opportunity at all, from your point of view, for some consensus to settle on this case? Or, as some would allege—certainly some supporters of Rangers football club—were you out to take a high profile business to court when you could have actually reached a settlement?

Jim Harra: I can't discuss what discussions we had in that particular case. It certainly is the case that where we receive a settlement offer from large businesses, whether the case workers are minded to accept or reject them, they come to the tax assurance commissioner and two other commissioners to make the decision. That has been the case since 2012, and that would include major EBT cases. It is certainly the case that we reject settlement offers where we believe that the better value for the Exchequer is to proceed with litigation, but we do that in accordance with published criteria.

Q58 Mrs McGuire: So you are rejecting the allegation that this was a high-profile case that you could have settled in a different way?

Jim Harra: Yes. We certainly don't decide to take people on because they are high-profile; we use objective criteria for deciding whether to litigate.

Sir Amyas Morse: Just for clarity—forgive me, because this is due to my faulty memory, I am sure—you did have exemplary criteria in individual tax avoidance, didn't you? So if you had an individual who was in a prominent position, that would affect your approach to investigating tax avoidance, or your policy in terms of settlement, or what you would look for in terms of penalties and disclosure. Or is that not a factor at all? Exemplary issues are not a factor for you—is that what you are saying?

Jim Harra: I think when it comes to litigating a technical tax issue, that is not a factor for us. There are certainly some people from whom we expect higher standards of behaviour than others, and therefore we can take a tougher line. For example, if an accountant in the tax profession does something, we may decide to penalise them more or to take a criminal approach, whereas if it was a plumber, say, we might have taken a slightly different approach.

Lin Homer: Just to be very clear to both of you, no, we do not take cases with a view to the headlines, if that is the suggestion. Indeed, I think quite a lot of our debates with you about taxpayer confidentiality are partly because we believe it is very important that we apply our principles consistently and fairly. That is why it is so important that the published guidelines are applied. Also, it is why we think the tax assurance commissioner role has been a big part of trying to ensure that consistency over the last period, and of course Edward has just published his second report.

Q59 Mrs McGuire: Could I ask one final, more general question on EBTs? Reading the professional press, there appears to be a view that some companies involved in promoting EBTs are beginning to feel that it is about time to bite back at HMRC, and collectively they are looking at whether or not they challenge your interpretation of EBTs, as opposed to waiting for you guys to come for them. Obviously, you will be aware of that, given that you will scan the professional press, a bit like ourselves, but do you think that that is a realistic option for some of those companies and firms?

Jim Harra: They are perfectly entitled to challenge us; we are no more in the driving seat on litigation than the taxpayer is. At any point a taxpayer can say, "I've had enough of talking to you about this, HMRC. I believe you are wrong, and if you don't concede, I'm taking this to tribunal," and they are perfectly within their rights to do that. I have to say that to date the trend on EBTs has been to come to us and to settle.

Q60 Guto Bebb: In relation to the annual report and accounts, it is fairly clear that you seem to be doing more with less. However, I am just interested in the comments you made about the need for small businesses to know that there are people looking over what they are doing and making sure that they are aware of the potential for somebody to take an interest in their position. Do you do any research when you withdraw services from tax offices at a local level and move to a more centralised structure? I am not blaming you for that centralised structure; it is a response to the challenging fiscal situation that you are facing. For example, in north Wales everything will be done from Wrexham; we are losing tax offices in places like Colwyn Bay. Is there any research done about the impact of that withdrawal from an area to a centralised location?

Lin Homer: I think it is really important to emphasise that we are trying to get a very rich mix, really, between what our centralised and increasingly technological systems can tell us and what our experts on the ground can tell us. We still have—gosh—around 17,000 tax professionals. I can assure you they are not shy about telling their central colleagues about what they think about

emergent risk. One of the things we do try to pick up on is what people are picking up from the ground, alongside what are we seeing from the trend data. Certainly, there have been experiences since I joined the organisation of it being very much the front line that has kind of signalled risk, but we can then really put the technology in.

There is a little bit of tension—there always is, isn't there?—between the front-line professionals. It is a bit like policing; the bobby on the beat still thinks they can sniff out the criminal and the CI thinks that without their leads you would not catch the baddies. We have that debate, but I would put it in the healthy debate space—not the dominance of one side or the other.

We do not think we can solve this problem by just maintaining an eyes-and-ears presence on the ground. We still have people out buying meals in fast food restaurants, and going into small businesses and looking through their books. That is an awful lot of what we still do. We would not cover the ground if that was the only way we tackled tax avoidance and evasion.

Q61 Guto Bebb: Is there any specific research that we could see, or is it just this general debate?

Lin Homer: If you just look at the yield levels that come from the locally-based targeting versus the centrally-based targeting, the centrally-based targeting wins hands down. So yes, we have got yield evidence to support the fact that a more risk-based approach does work—again, it is something I think we talk with the NAO about—but that is not to say that the local folk should not feed into that risk-based approach. Getting that balance right is important.

Q62 Guto Bebb: There are three other areas I want to touch on. VAT seems to be a huge impairment; I think it is in figure 2 of the NAO Report. Could you briefly explain—I am sure it is in the Report, but I hope you will forgive me—

Lin Homer: It is quite long.

Guto Bebb: What are the main impairments under VAT? What are the main areas where potential revenue is lost in terms of VAT? The impairment figures in terms of VAT seem significantly out of kilter. It is a significant sum in comparison with the others.

Lin Homer: I might need Simon's help, but let me have a go without turning to the pages.

In terms of losses to the Revenue, as you know from previous discussions a significant proportion of our annual losses is due to insolvency. At the point when small businesses go insolvent, VAT debt will be a part of that and therefore will form part of our losses. In the same way, when we look forward, in terms of the VAT due to us, to say, "How much should we impair our expectation of what we will get?", we anticipate, in ongoing expectations, that some proportion of that will escape us for those reasons. VAT is, by its nature, subject to being one of the debts that is on the book when companies go down.

It is also the case, as we discussed earlier with colleagues, that VAT can be subject to quite a lot of evasion and, indeed, downright criminality, so, again, for all those reasons, it is a tax where our expectation of how much of what is due we will get in—I have not brought my tax-gap figures with

me, but either Jim or Simon may be able to help you—is put against the fact that we accept that we lose some to write-offs and some to impairments. Have I got that broadly right?

Jim Harra: Yes. I will certainly let Simon pick up on the explanation of impairments, but, yes, in terms of the VAT gap, that is our third largest tax, but it is the largest tax in the tax gap, in percentage terms, so that is a lot of evasion by a lot of small businesses and it is quite difficult to tackle. I will let Simon—

Q63 Guto Bebb: On that point, you mentioned a lot of evasion by a lot of small businesses. I am concerned that a lot of small businesses—I am not defending them in any way, shape or form—feel that they are evading because they hit the VAT threshold and hide the fact. Have you done any work internally to identify whether there is a significant loss of income around the point where businesses should become VAT-registered?

Jim Harra: I think there certainly some evidence, which our intelligence staff who select the cases for investigation are well aware of, that you can get bunching around thresholds, such as the VAT threshold. Sometimes that can be genuine, in that people make genuine choices not to cross thresholds, but sometimes it can be that they are tempted to under-declare and stay below.

I would say that the UK has one of the highest VAT thresholds in Europe—I think it is the highest in Europe—and as a result, a significantly smaller number of businesses bunch around that threshold than would be the case if we had one of a similar size to other European countries.

Q64 Guto Bebb: In terms of the VAT threshold, is that a calculation you do, in terms of the VAT expenditure and having such a high VAT threshold?

Jim Harra: Yes, and the main reason for having such a high threshold is because it reduces the admin burden on small businesses. Obviously, a small business can voluntarily choose to register below that threshold, and many choose to do that, but it does mean that they are not obliged to do so. Generally, businesses welcome that. We do quite a lot of work to try to convince small businesses that crossing the threshold is not going to involve them in a huge transitional effort and that actually, when you get into running VAT routinely, it can be relatively straightforward. Ultimately, it is a political choice as to where you put the VAT threshold, but successive Governments in the UK have valued a high threshold.

Q65 Guto Bebb: Just a final question on this, because I know that I am going off on a tangent that is perhaps of interest only to me, but a key concern I have is that although it is very easy to become VAT registered from an administrative point of view, the actual hit for a small business in becoming VAT registered can be £12,000 or £15,000. Has your organisation done any work to look at the potential for a more graduated approach, rather than the cut-off of £82,000?

Jim Harra: I am not sure about that. I am very conscious that I have on my right the person who used to be the Treasury's VAT expert.

Q66 Guto Bebb: I keep asking these questions to the Treasury but don't get a response, so I thought I would ask you.

Richard Brown: The short answer is that European law would not allow you to introduce it. Measures have been taken to help businesses to reduce the degree of compliance that they have to go in for, such as the flat rate scheme.

Jim Harra: And certainly no other European country has one, but as I said, with a very high threshold, businesses can choose to register below that, and a significant number do.

Lin Homer: I think I got it broadly right; I am not sure that there is much for Simon to add, unless you want us to go further into impairments.

Q67 Guto Bebb: No, no. There are two other areas that I want to ask about quickly. On debt management, I would obviously say that Time To Pay has been appreciated by many constituents, and you should be applauded as an organisation for being very sensitive—much more sensitive than some of the banks, I would argue. What is the percentage of Time To Pay agreements where there is an expectation that there will ultimately be no recovery?

Lin Homer: Actually, recovery is very high. I got the figures slightly wrong in front of TSC, and in very broad terms—I am probably going to get them wrong again—we have about £2.4 billion under Time To Pay at any one moment.

Q68 Guto Bebb: How many businesses would that be, roughly?

Lin Homer: Well, about £1.3 billion of that is in the non-tax credit area, because a significant number of those are tax credit.

Q69 Guto Bebb: So £1.3 billion would be small businesses.

Lin Homer: Yes, if you like, small businesses. Well over 90% are honoured, so it is very high. The other thing I would say, which is why we continue to see this as a significant, sensible part of our approach, is that very many of those Time To Pay for non-tax credit are honoured within a relatively short time period—seven to nine months—whereas with tax credit, because it is attached to an ongoing payment, it can sometimes take in excess of four years, which is a much slower rate of return.

By and large, we think that we are getting the judgments about Time To Pay for small businesses right, and that it is a logical way for us to act. Obviously there is a small risk that you are going to have a business tip over into insolvency, but one thing I am pleased about is that the overall level of write-offs and remissions we are seeing is staying steady, despite receipts going up. We think that Time To Pay continues to be a logical, sensible thing for us to do and hopefully it allows a small business to ride out some moments of difficulty. What we will not do is offer it where there is clearly an underlying lack of sustainability—we do not think that that is fair on the business, its investors or the taxpayer—but where we believe that it is logical, we will continue to use it.

Q70 Mrs McGuire: Can I ask where the decision is made about an extension on a Time To Pay? I have had a really difficult constituency case in which there seemed to be a reasonable case to

be made for an extension. I could not get to grips with where that decision was made—how far up the HMRC hierarchy. It became quite frustrating trying to work out who to put the case to.

Lin Homer: Well, we try to take the majority of decisions close to the front line—the vast majority are taken by the call handler, on the line, when they are talking to the client. That is right, because that gives that instant relief. If they say no, it is sometimes the case that businesses will lobby us quite hard, and that can go up to and including MP correspondence, so I get sighted on some of those. What I will say is that it is sometimes the case that not all businesses are completely transparent with their MP when they go into a surgery about how many times before they have had Time to Pay. I am not aware of many cases getting very high up, but if I could put it this way, I think I have sometimes been able to explain why we have said no to some MPs. By and large these decisions are taken—rightly, I think—near the front of the organisation.

Q71 Mrs McGuire: The interesting thing was that this case was when I did intervene. I then managed to have a meeting with two of your officials and there was an understanding of the individual business's case. I think most MPs, with the greatest respect, reckon that you do not always get the full story, so we do test out the facts. In this case, it took an intervention, which I felt was a bit disappointing, because if you had managed to get the decision in the first place, we would not have been in this situation.

Lin Homer: I apologise for that. We are trying to get decisions right. We have internal reviews of decisions, not just Time to Pay—

Q72 Mrs McGuire: My problem was that I did not have enough confidence that the level at which the decision was being made was the level at which it could and perhaps should have been made. That is all.

Lin Homer: I am happy to try to learn. We have nearly 800,000 going on at the moment. Healthily, most of those are made by the call handler quite early on. I know that Jennie Granger and Graham Brammer try to ensure that lessons learned are almost constant. If we see a type of case come through, the answer is to try to flick that into our system, not to escalate more cases. It just slows down the whole system if everything has to go all the way to the top to get an answer.

Q73 Guto Bebb: My final question is completely different. It goes to the sub-note you have somewhere in the accounts, which highlights the fact that you paid out £600 million in child benefits, which will hopefully be recovered because of the new high earnings recovery system—

Lin Homer: High-income child benefit charge.

Guto Bebb: That's the one. There is £600 million paid out that you are expecting to recover. Are you expecting any impairments? What is the estimate of the cost of recovery? I am only asking for estimates.

Lin Homer: Obviously we are in the first year of operation, and so far we have been really pleased with the level of compliance, which looks to be around 90%. What we have not done is complete a cycle of compliance. We do intend to follow through. We did commit, and we mean it, that—

Q74 Chair: So you have not got an estimate.

Lin Homer: Not yet. What we have been working hard at in this first year is making sure that people knew that they needed to do something and assisting them to do it. If anything, we have been slightly generous in saying, “Come on, you were meant to do that”, but we will follow through with our normal approach to compliance. Until we have completed that cycle, it is a bit difficult, but on the face of what we see so far, 90%-plus compliance.

Q75 Guto Bebb: And the estimated cost?

Lin Homer: Gosh. Now you have asked me a question that I do not know. Costs were considerably lower than expected when the matter was put before Parliament—about half. I will correct this if I am wrong, but my recollection is that we thought it was going to be about £22 million, but it turned out to be a bit more than half of that. It was a considerable reduction on our initial expectations.

Q76 Nick Smith: I am not sure that anyone has said it yet—someone may have—but it is worth saying, big picture, that getting tax revenue in of over £500 billion, with a £30 billion increase in a year, is a good thing and is to be applauded. Well done to the staff and to you—that’s great.

Having said that, at the risk of appearing churlish, I want to come back to this business of measuring compliance work in yields. We talked at the top of the sitting about the baseline calculation error and, on page 98, there is a reference to staff bonuses. In terms of getting money in, you did well, but not as well as you thought you had. In terms of bonuses, were they paid on very good performance, rather than on good performance, which is what it turned out to be?

Lin Homer: I don’t think so. We have applied the bonus scheme that is available. I am not conscious that we have made any decisions that said, “If you had only done the stretch target we originally gave you, we wouldn’t have thought that was good enough, but since you exceeded, we do.” You have to remember that this is thousands and thousands of our staff who have brought this target in and we have tried to ensure that we are rewarding a very good performance from a number of people. In relation to that I am confident that the bonuses we have given out were deserved. I don’t feel that anything we have explained to you has warranted any review of that.

Chair: Okay. May I move you on? I did give you some notice of some of the issues that I want to cover.

Lin Homer: Yes, you did.

Chair: And there are others that I didn’t quite give you notice of, so apologies for that.

Lin Homer: No problem.

Q77 Chair: Can we start on the tax avoidance schemes? We will start with Liberty, which is the one that was in *The Times*. I want to ask you several questions on that. My understanding is that that was promoted in 2005 and closed down by you in 2009. Is that right?

Lin Homer: The first scheme: I think I'm going to get Jim to do this, if you don't mind.

Jim Harra: First of all, I have to be slightly circumspect about this scheme because—

Q78 Chair: I am not asking you about any individual. I have been very careful not to ask you about an individual.

Jim Harra: I appreciate that.

Chair: Although I could mention a few: Arctic Monkeys; Gary Barlow, Katie Melua, blah, blah, blah. Go on.

Jim Harra: So you have mentioned a few. But there may well be litigation in relation to this. Yes, there were broadly speaking two variants of this scheme for technical reasons. The first one, I think, was in 2005-06. It was closed down in the sense that legislation has been introduced which means that it could not work after that date, but we have never accepted that these schemes can work. That is why I say that there could well be litigation for the period before that, which means that I have to be slightly careful about what I say about it.

Q79 Chair: So it was a DOTAS scheme, wasn't it? I cannot remember when DOTAS first came in.

Jim Harra: DOTAS came in in 2004.

Q80 Chair: So everybody should have given you notice of it.

Jim Harra: Yes, if it was caught by DOTAS.

Q81 Chair: According to *The Times*, £1.2 billion was hidden by this. I don't know whether you can confirm that figure. Not the £1.2 billion tax avoided, but the £1.2 billion that was hidden.

Jim Harra: We believe that the tax at stake in this scheme was about £400 million.

Q82 Chair: Okay. The assertion in *The Times* was that you didn't issue your section 9 inquiry notices in time to get back for the Exchequer the totality of the tax demanded, assuming that you win the case. How many people did you not issue a section 9 notice on and how much tax, if you can give us an estimate, could we have lost?

Jim Harra: We believe that there are around 2,000 users of these schemes. As I have said, the tax at stake is about £400 million. We believe we may have not issued inquiries in time in about 30 cases.

Q83 Chair: 30?

Jim Harra: Yes, and the tax at stake is certainly well below £10 million.

Q84 Chair: So the 78 is the wrong figure?

Jim Harra: I don't recognise that. I have seen figures in the press that I don't recognise, but we have done a review internally of that and we have identified around 30.

Q85 Chair: So it is 30 and the tax at stake is what?

Jim Harra: It is certainly well below £10 million

Q86 Chair: Can I then ask you the wider question, which comes out of the story that you told *The Times* yesterday that there are 1,200 suspected tax avoidance schemes? How many section 9s across all those schemes have you failed to issue on time, which could mean that the Exchequer does not get the money due, assuming that you win?

Jim Harra: I can't answer that question. It is exceptional for us and I apologise that we made that error in that small number of cases. These schemes vary in terms of how complex they are to investigate and how long it takes. Over the course of a year we will do well over three quarters of a million section 9 inquiries in the Department as a whole, and I am afraid that we will make some mistakes. But I believe that for all our marketed avoidance cases, as with Liberty, the vast majority of them are well covered by our statutory powers.

Q87 Chair: There are 1,200 suspected tax avoidance schemes that you gave notice that you will publish in *The Times*. I don't know when you are actually going to publish them—have you published them?

Jim Harra: They were published yesterday.

Q88 Chair: For those you published yesterday, how many individuals are there?

Jim Harra: There are about 33,000 individuals and about 10,000 companies involved in those schemes. The reason we published the numbers is that those are schemes that will be caught by the accelerated payments provision I mentioned earlier. Publishing that gives taxpayers the opportunity to check whether the avoidance scheme they entered is on the list. If so, they know they are going to have to pay up.

Q89 Chair: And do you have an estimate there of the amount of money that was hidden and the amount of potential tax—I understand these are all estimates—that could have been lost if you hadn't taken action?

Jim Harra: Our estimate of the tax at stake in these 43,000 cases is about £7 billion.

Q90 Chair: It is £7 billion?

Jim Harra: Yes. We expect that the accelerated payments measure will bring in about £4.9 billion. The reason for the difference is that we would have defeated some of the cases and collected, in any event, before we use the power. But that is the scale of what we are involved in.

Q91 Chair: For how many in those schemes did you fail to do the section 9 notices on time?

Lin Homer: That is inevitably something that is going to happen on that scale—you know, it is three quarters of a million cases—but we think it is a very small number. Also, just to be clear, failure to open an inquiry does not always mean the end of the issue, because where the taxpayer has failed to disclose there are powers for us to pursue for up to 20 years. We will always absolutely endeavour to make sure we pursue these as thoroughly as we can, but we want to be honest: there will be a small number of cases each year that, as a result of human error on our part, we do not pursue. It is a very small part of what we think is an increasingly successful operation. Tax avoidance is something we think we now have a much stronger toolkit on.

I mentioned the counter-avoidance group. One thing that has enabled us to do is have a picture across the business. You have challenged us on occasion as to whether we are joined-up enough. One challenge in the past was whether one bit of the business knew what another bit of the business was seeing. One of the benefits to us of the new approach is that we have a much more joined-up picture. We think that will really help us to reduce the risk of someone slipping past without us noticing.

Q92 Chair: My final question is on Liberty, because it is the one we know most about—I don't know the details of the other 1,200. Why on earth did it take you from 2005 to autumn this year to get them to court? Why? However I think about it, I cannot comprehend that 9 or 10-year delay.

Jim Harra: We haven't actually been in tribunal on Liberty.

Chair: I know. You are expecting to go in this autumn, aren't you?

Jim Harra: Yes. First of all, these schemes can be extremely complex. As I said earlier, the users and the promoters can often throw every obstacle in our path when it comes to gathering the information that we need. For example, we sometimes have to go to tribunal to demonstrate that we are entitled to use our power to get information from them—that is part of the game that they play. It is also important for the deterrent value that we have a very high success rate when we go to tribunal or court—that is the 80% success rate that I talked about.

Q93 Chair: I don't buy that argument; I really don't. I think if you are completely obsessed about only taking a case if it will be successful you are going to lose out on the deterrent. I would argue completely the opposite. It is not so much the little ones, but when we saw the big four they all said to us that they were promoting schemes—I hope they have changed their culture now—where there was just a 50% chance that they wouldn't be challenged, so you have to be after them harder. That would be my take on that.

Lin Homer: We are. It is one of the reasons we are really hopeful that we will get this new tool with accelerated payments. We have talked to you before about both prosecutions and tribunal work. It is time-consuming, both for us and for the courts. With the best will in the world, if that is the only stick we have to beat them with, time is always against us.

Jim referred to it as a game changer. We believe that shifting the balance so that they pay up front will significantly increase the number of people that settle. For a lot of the promoters and people that participated in the old system—you have taken evidence and know a lot about this world now—simply delaying the outcome was, in many ways, as good as winning. We needed something else in the mix because, otherwise, just putting off the obligation until the future gave an individual the money to play with during that time and the risk that they would get away with it. Once you shift when payment occurs, we think it fundamentally alters the decision about going into the scheme. We have added some other penalties. We would accept your point that we needed a stronger toolkit in this space, but we think we are in a good place now on this.

Q94 Chair: I think we all accept things are getting better. We recognise that, but I think—Liberty was the one that's been around—that 9 to 10 years to end up in tribunal, despite all the complexity and the litigious nature, is just not on.

Lin Homer: I buy that. I think it has to be quicker and we have to have more on our side of the seesaw. If, in the next couple of days, we get accelerated payments, with the addition of the other new powers in the Finance Bill and the new avoidance group—if you and I were still sitting here in another 10 years' time and you were able to say to me, "This avoidance scheme was promoted in 2014. Here we are in 2024 and it's not sorted," I would be really disappointed. We have to be able to bring these matters to a conclusion much more speedily.

Q95 Chair: Let me just ask two more questions. One is about one of the people who gave evidence to us. I accept that you probably can't comment on the individual who, as you know, upset me particularly because I had ministerial responsibility for some of those issues at the time. If you are successful in the challenge around the film tax relief scheme being misused and not used for the purpose that Parliament intended, it seems to me that the promoter cheated on tax. It's as simple as that. When I've talked to tax professionals, I've thought, "How do you let these promoters get away with it?" On the fact that they have cheated, I think you can pursue them. I can't understand why you are not doing that more assertively.

Jim Harra: Obviously, I'm not going to talk about that particular firm, but there has certainly been a major case where we have prosecuted the promoters of an avoidance scheme because, while they purported to be doing something clever and legal, they were in fact misrepresenting the facts and committing fraud. They went to prison for that. As you know from the people who appeared before you, these are very clever people who try hard to design clever schemes that are on the right side of the criminal law. Where they don't get that right, we have demonstrated that we will prosecute. But this is an activity which people argue is legal, albeit one that we need to tackle hard.

Q96 Chair: Three people sent me an ad which is corporate tax planning—Goldfinger. Does that ring a bell with you?

Jim Harra: It doesn't.

Chair: Okay, I'll read it you. "We recently made you aware that we were in the latter stages of developing a new piece of corporate tax planning. However, due to the complex nature of our structure, it is likely to be a month or two before it is ready for launch. We have had a number of accountants contact us, suggesting that they have a raft of clients who have a requirement to transact corporate planning prior to that date. So we are pleased to inform you that, as a temporary solution, we are able to implement a strategy which has been designed by a third party. The strategy is called Goldfinger, or you may be aware of a competitor of ours referring to it as Echo Rewards. The advice on the planning is that it is non-DOTAS, non-GAAR. It achieves a corporate tax deduction in a company and results in an employee being in the position of receiving PAYE-free funds in his/her hands. We are able to offer this planning to you and your clients for an up-front fee of 14%, with 2.5% of that fee being paid to the introducing accountant as a referral fee. Fee insurance is also available via Abbey Tax Protection, should it be required. The minimum level for this planning is £200,000 per individual, not per company. For further information please get in touch with your usual C3 contact." I have no idea what that is.

I read that at length. It was not last year or the year before, before you started doing it. This is today and it was sent to me very recently. What are you doing to keep up with these accountancy firms who are devising more complex, new tax avoidance schemes that will get around both DOTAS and GAAR and undermine the progress that the Government want to make?

Jim Harra: First of all, we do not rely solely on the DOTAS scheme to identify avoidance schemes; we use risk assessment of returns, but I assure you that we also monitor that kind of thing within the department and we have people who do that, because there are online chatrooms for tax avoiders, swap stories about what they think works and what doesn't. We are in those chatrooms, so although I may not personally know about those schemes, I can be pretty confident that several people in our organisation do.

We have recently announced that we are reviewing DOTAS. Since 2004, it has been periodically reformed to increase its ambit to catch more and more. Avoiders try to design schemes that are outwith DOTAS and that is why we keep that under review. A specific review, which we have announced, is going on on whether those rules need to be changed to catch more things within its ambit as we go forward.

Q97 Chair: So with a bit of luck, you would close it down. How would you close it down? Here are these guys—it is clearly designed to do nothing else but avoid tax, if I read the ad right.

Jim Harra: First of all, we review the scheme very quickly. If we conclude that it is one that we will challenge, we publish in our online magazine, "Spotlight", a warning to taxpayers and particularly to tax agents not to go there because although they may have been told that the scheme works, that is not our view and we will be challenging it.

We also look at whether legislation is required. I think our fastest time from learning about an avoidance scheme to getting legislation out was one week. Sometimes we conclude that we must counter with prospective legislation. Often, we believe that we can win litigation but to prevent growth of a scheme in the meantime we must act fast with legislation as well, which is where that product process yield that we discussed earlier comes in. Then, of course, we will investigate.

Q98 Mrs McGuire: This is on a slightly different tack to do with all these clever people who are around both in the private sector in accountancy and legal firms and in the Treasury. It is about how you recruit and retain staff from that pool of clever accountants and tax avoidance experts and all the rest of it. Is it a difficulty given that civil service salary scales perhaps do not meet private sector scales? Is there a lot of cross-fertilisation between the two sectors? I am just interested in the interaction in terms of staff and recruitment.

Jim Harra: First of all, as a lifer in HMRC, I never celebrate the fact that there are intelligent people in the Treasury, but I agree that there are. I think we have demonstrated in the last few years—for example, in our graduate recruitment programme—that we can recruit very high-calibre people who very much value the professional training and the excellent day-to-day work that they get. We have been bringing in 200 really bright graduates every year for the last few years and continue to do that. We also offer them a first-rate training package which is accredited up to degree level—

Q99 Mrs McGuire: Up to what level?

Jim Harra: Up to degree level. So when it comes to recruitment, I don't have concerns at the moment. Obviously, that is something we keep an eye on because the employment market changes all the time.

On retention, we have over the years seen ups and downs and movement between the private and the public professions in tax. For example, when I joined the Department in the mid-1980s, there was quite a drain of tax inspectors out to the private sector. Today, it certainly happens. There is movement both ways, and that is probably at some level a healthy thing. But we do not have a significant retention problem in HMRC.

Q100 Chair: Okay. May I move on to discuss the Lagarde list, which I also said I would raise with you? We have talked about that, I think, at a couple of our hearings. There were 15 cases that were live. Can you update us on that, please?

Lin Homer: We talked to you about 15 cases that we were investigating. In the majority of those, progress has been made. Two have been settled as civil investigations. Four more are still open and under investigation. Five have been settled within the disclosure, so people have agreed to come into the disclosure and settle, and four are still being negotiated within that disclosure arrangement. In addition to those 15, we currently have 13 other offshore evasion criminal investigations ongoing.

Q101 Chair: Okay. The Lagarde list comes off a bigger database. I'm going to mispronounce it—Falciani. That was a list of 130,000 potential tax evaders that was passed from HSBC—the Geneva branch—and was allegedly stolen by Mr Falciani. HMRC received the list. Just to put it into context, I understand that the Spanish have recouped £220 million in tax avoided in Spain and the French £188 million. My understanding is that we were passed a whole list, so the Lagarde list is only a section of that total list. My understanding is also that there were from 6,000 to as many as perhaps 10,000 British names on the list, and many had accounts in Jersey, so how many names, apart from the Lagarde list, have been passed to you from the Falciani database?

Jim Harra: Obviously, we do have exchanges of information periodically, but I think the list that you are referring to is from 2010, when we received details of accounts referring to about 6,800 entities—that is, individuals, trusts, partnerships and companies—which pointed to about 5,000 UK addresses. I’m afraid the quality of the data was not always good enough for us to be able to identify who was involved, but we did identify over 3,500 taxpayers, whom we pursued.

Q102 Chair: Whom you pursued.

Jim Harra: Yes.

Q103 Nick Smith: Three thousand and how many?

Jim Harra: Over 3,500.

Q104 Chair: And what is the tax? The Spanish claim they have recouped £220 million and the French £188 million. What have you recouped or are you hoping to recoup?

Lin Homer: I think that when Edward spoke to you in 2012, he spoke about this. So far, we have a yield of £135 million, but we are not finished.

Q105 Chair: This is different from the other Swiss—

Jim Harra: Yes, this is—

Q106 Chair: I don’t think we have talked about it before, because I think I’ve only just discovered it.

Jim Harra: Well, we feel we have talked to you about it before, but we may have been at cross-purposes many times.

Q107 Chair: Have you? We have talked about the Lagarde list. I didn’t realise the Lagarde list was very much longer.

Jim Harra: On the list of cases that we received in 2010, there was—yes, £135 million is the yield to date from those cases that I described.

Q108 Chair: Are you expecting to get more in? Have you an estimate of “more”?

Jim Harra: I don’t have an estimate of “more”, but we certainly have not finished the work on the cases that I mentioned.

Q109 Nick Smith: Tell us more about this. Have you got special units on it? What’s going on?

Lin Homer: We have got specialists working on it and we do work utilising our special investigation teams. Within Enforcement and Compliance, we have specialists in this area, so yes.

Q110 Nick Smith: Have you swapped notes with your continental counterparts?

Lin Homer: We have quite wide international networks, yes. A lot of this work does depend on close co-operation.

Q111 Chair: Are any prosecutions arising out of that?

Lin Homer: We have prosecuted one individual so far, who was ordered to pay fines and compensation totalling £830,000. That was in 2012. And, as I say, 13 other investigations are going on—

Q112 Nick Smith: How many?

Lin Homer: Thirteen. But, obviously, we are also seeking, as we do across the piece, to get people to come into the disclosure arrangements voluntarily. We are focusing on getting the tax out into the open air and collected.

Q113 Nick Smith: Your body language is a bit defensive about this. I do not get the impression that you are licking your lips and thinking, “Thar’s gold in them thar hills!”

Lin Homer: I think I am a bit defensive about prosecutions, because we have this debate so often. Prosecutions is one end of a toolkit and it is quite an expensive end. I was sort of waiting for the follow-up question from the Chair, “Why don’t you do more prosecutions?” I apologise if it was that obvious.

We think that we need the whole range of approaches. If we rely on taking each of these through criminal prosecution, we are just not going to get through the 3,500. We are very interested in and determined about shaking some money out of these people, but I do not think that it will all be via prosecutions.

Q114 Chair: All I want is the money. I do not mind how you get it. I think if you used prosecution a bit more, it might help.

The other issue that I wrote to you about and told you that I was going to raise with you was the one raised with me by Lidl, funnily enough—I will not expect you to reply instantly. It is a German company that is expanding its business here in the UK, but it does not file annual accounts with Companies House for its business here in the UK. That is probably quite lawful, but the company is limited by guarantee here in the UK, so it gets all the benefits of that status. Can you help me there? Do you know how many companies limited by guarantee, which get the benefits of that status, fail to file in Companies House? What do you do about it? The consequent question, which again I wrote to you about, is, what about foreign-controlled companies operating in the UK,

but registered as British limited companies? Do you know about those and what do you do about them?

Jim Harra: I am afraid I cannot give you information about which companies do and do not file at Companies House—

Q115 Chair: Because?

Jim Harra: I am not responsible for Companies House.

Q116 Chair: I know, but it is a database—

Jim Harra: Certainly—

Q117 Chair: You know which companies are registered as limited companies, don't you?

Jim Harra: We have companies that are within the charge to UK corporation tax and therefore have to file returns with me, but that are not registered companies in the UK, which have to file returns in Companies House. So our databases are slightly different.

Lin Homer: One of the things you talked to us about is dormant companies. They might be on the Companies House list, but we were not pursuing them because we think they are dormant. We are now checking those companies annually. I do not think that we think that we are missing a risk there, but we felt that if there was interest, it would be sensible for us to have greater assurance. We certainly pursue penalties against any companies that fail to file a company tax return, when they should do so.

Q118 Chair: So this sort of example—I do not want to go to the specific—of a company that is limited by guarantee here in the UK, but is part of a global empire, does not file. So there is a transparency issue, which I completely accept if we get the OECD international rules rewritten would be helpful, because that would no longer be a problem. For the present, however, we have not had them rewritten. In the current context, is there nothing you can do about that?

Jim Harra: We can obtain the information from those companies whose tax affairs we need to administer. What HMRC cannot do is to publish the accounts, because we receive them under our tax commissioner powers and therefore they are confidential between us and the taxpayer. I am aware that the UK has led the way in the G20 on improving international transparency of beneficial ownership of businesses. That is the route that will be gone down to make sure that these businesses, which use different forms to avoid having to be transparent, cannot hide behind those forms.

Q119 Chair: The final issue I wanted to raise with you—and then I think we're at an end—is about the bit of work we did around tax reliefs. We're going to return to it, but I am just interested. Let's take the patent box first. When you first introduced the patent box, looking back at it you put

the cost to the taxpayer of introducing it—I can't remember the term we used now, but it is a tax relief—

Lin Homer: Tax expenditure.

Q120 Chair: Thank you. The tax expenditure for that in 2013-14 was £350 million. In 2016-17, it is £900 million. Those were your estimates. Did you at the same time estimate the economic benefit from, in effect, lowering corporation tax by introducing the patent box relief—if that was the cost to us as taxpayers?

Lin Homer: We discussed this when Nick Macpherson and I came before you. I know you have just published your Report. When we put forward the policy proposition to the Government, we will include our estimate of benefit as well as of cost. I am afraid I cannot recall now whether the published documents around the patent box included that, but I am very happy to write to you setting out what was in the consultation document relating to that policy.

The discussion we had with you is that it is completely reasonable for Parliament to have a debate about whether this policy-led approach is a good thing or a bad thing. My position is that that is for you to discuss when it is on the Floor of Parliament and you are thinking about introducing it. When it is then handed over to me to do, I will focus on delivering it within the price we said. It will have been part of the policy document.

Q121 Chair: I understand that, but from our point of view and looking at value for money, clearly the cost is one side of the equation and the benefit has to be the other side. It is perfectly valid for us as the value-for-money Committee to ask what that was. I will come back to why I have asked it. The other one is the CFC rules that were changed. I do not know what the estimate there is, because I haven't got it. Perhaps you can give it to me. What is the estimate of the cost there?

Lin Homer: I haven't got it with me, I am afraid.

Q122 Chair: I should have written to you. This was my doing, but will you write to me on that?

Lin Homer: We are doing some more work on this area.

Q123 Chair: And the estimate of the economic benefit, as well?

Lin Homer: I will write to you and share the information that was put into the public domain when that policy was put before Parliament.

Q124 Chair: This has all struck me in the wake of the Pfizer bid, really. There was a very interesting bit of work done by a gentleman who has helped us quite a lot in the Committee, Tom Bergin, who looked at seven companies that have chosen to relocate here because of the tax benefits—that is, the tax expenditure—around those two things. That is why I am interested in the balance on both sides. These are companies that I haven't heard of. There is Rowan Companies,

which is one of the largest operators of drilling rigs; there is also Ensco, and Noble. I think I am right in saying that Rowan did not create any jobs. Ensco and Noble created 30 jobs each. Aon employed 16 people and reported that they had tax credits and were not paying any corporation tax because they had a tax credit. With Delphi, none of the senior officers are based in Britain. Liberty would not say how many jobs but filings at Companies House say that the CEO still lives in America. When Starbucks had the courtesy to ring me and tell me they were relocating, I asked them, "How many jobs will that bring—100?" They said, "A few less than that." I said, "10?" They didn't confirm even that, so I am assuming it is under 10 jobs.

There is an interesting issue here. Taxpayers are paying out a lot of money—because it is an expenditure—to provide an incentive to bring in the inward investment, but the evidence appears to be that there is not much coming in. In fact, here we are: the total thing is seven companies incorporated into the UK, with 73 directors, but only 14% live in Britain, up from 4% before they moved their HQ here, and 80%, or 86%, of directors continue to reside in the US even after they have shifted their HQ.

Lin Homer: I think this goes back to the heart of the debate that you had really more with Nick than with me, which is on what basis a Government puts forward proposals for tax reliefs, particularly those that are the tax relief expenditure type. I am paraphrasing Nick and probably putting it less eloquently than he did himself at the time, but in a sense his comment to you was that it is for the Government of the day to make a proposition to Parliament and for Parliament to agree or reject that. Some issues are policy-led. Marriage was the example he gave. The Government want to support marriage. They do not necessarily have to put forward a case that says it produces value for money. You go back to what case the Government put to Parliament in bringing these in. I think, on the patent box, we said to you last time that it was too early but at some point you can say, "Have you implemented this in the way you said you were going to and has it been an efficient way to do it?" But one is a question for Parliament and another is a question for you.

Q125 Chair: I accept that.

Lin Homer: And I think you have to give us a chance to get it in. If we had asked those questions about film relief—in the first 10 years, we all accepted that we weren't getting there. It took us a few times to go round the loop. I think we have now got to where Governments of more than one colour—

Q126 Chair: I hope to God you have the regional theatre relief right—

Lin Homer: The new film relief works, we believe, but we wouldn't say we got it into that shape straight away.

Q127 Chair: The global head of tax at Herbert Smith, Isaac Zailer said: "In terms of governance and presence, it requires actual substance if you want to set up in the Netherlands, whereas you can achieve a UK residence just by having board meetings in the UK". Is that true?

Jim Harra: That is not something I recognise. There is a distinction between US multinationals and multinationals from other countries. Most countries, including the UK, Germany—it's the international standard—have a test called control and management. A foreign

company would not become taxable here and not taxable in their home jurisdiction simply by setting up a company here because if control and management remains overseas then that is where they remain taxable. We would not have taxing rights and their home country would. The US do not operate that rule. They operate quite a different regime, which means that US multinationals can invert their tax residency, provided that they can pass the US rules—there are rules; they are just different from ours—without having to move the substance of what they do out of their home jurisdiction. But that is a peculiar feature of US tax law and would apply to a number of countries, not just the UK.

Q128 Chair: The patent box is being looked at by the EU, and the OECD, when we were there, talked about both the CFC rules and the patent box in their terms being, allegedly, harmful tax practices. How are you responding to that assertion from both the EU and certainly from the OECD when we were in Paris?

Jim Harra: Again, these are all questions about tax policy, which are matters for the Government and Parliament. But the Government are on record as saying that these are not harmful tax practices and are confident that that is what will be found.

Chair: Okay. Thank you very much indeed.