Treasury Committee

Oral evidence: HMRC Annual Report and Accounts 2014-15

HC 588

Tuesday 10 November 2015

Ordered by the House of Commons to be published on 10 November 2015

Watch the meeting

Members present: Andrew Tyrie (Chair); Mr Steve Baker, Mark Garnier, Helen Goodman, George Kerevan, Chris Philp, Mr Jacob Rees-Mogg,

Questions 1-61

Examination of Witnesses

Witnesses: **Lin Homer**, Chief Executive and Permanent Secretary, HMRC, **Edward Troup**, Tax Assurance Commissioner and Second Permanent Secretary, HMRC, and **Jim Harra**, Director General Business Tax, HMRC, gave evidence.

Q1 Chair: Thank you very much, all three of you, for coming to give evidence. All three of you are very experienced witnesses in front of parliamentary committees. Can I begin by asking you, Mr Troup, a question or two about the tax gap? In the last Parliament, this Committee said that it was not convinced that the process of calculating, publishing and publicising this single aggregate figure for the tax gap said very much that was helpful to the wider public. It may be useful for HMRC's purposes because it tells them how much should have been collected and has not been collected, but it could be misleading, because the public might then conclude that it is basically down to tax evaders, fraud, the black economy and so on when in fact it, or part of it, may be down to simple error, including HMRC error. Is that not the case?

Edward Troup: That is not entirely right. It is worth stepping back a little to say that we are the only country in the world that estimates our tax gap annually and publishes it. A few other countries have tried to publish a comprehensive tax gap, but none does so on a regular basis. It is quite explicitly described as an estimate of the tax gap, because it is an intrinsically difficult thing to measure.

However, what we are measuring—this is absolutely of value to us and, I believe, to the public as well—is the difference between the tax the law says is due and payable and the amount that is actually collected. The difference, of course, is down to a whole lot of different causes: failure to collect, evasion, avoidance, and companies and individual taxpayers going bust.

There are a whole lot of elements to the tax gap. What it does not do is measure amounts of tax that might be payable if tax law were different. If, for instance, we had a different rate of tax, if we had introduced fully the BEPS implementation scheme, more tax would be payable than is potentially payable at the moment. As published, the tax gap does not seek to measure that.

It does help us, because it is a long-term measure of how well we are doing our job. The tax gap[1] has dropped over the last five years and over the last 10 years. As a result, we are collecting about £57 billion more tax than we would have been collecting if the tax gap had remained where it was 10 years ago. Although it does not tell us what to do day to day and month to month, it does provide us with an indication as to how we are doing and also an indication as to where we should be devoting our resources so as to reduce the tax gap—so it is useful for us.

In terms of the public, it is also useful. I appreciate, absolutely, that the public do not always understand this.

Q2 Chair: They do not ever understand it. They do not know that error is in the tax gap: honest error by you or by the taxpayer.

Edward Troup: That is saying there is scope for us—and possibly you and others—to publicise more what the tax gap is and, hence, what it is not.

Chair: That is what is going on now in this hearing.

Edward Troup: The thoughtful readers and commentators will take some reassurance from the tax gap figures, particularly when such international comparisons as are possible are made, that we are doing a good job and that there is not an amount of money uncollected by us that is significantly out of line with our competitors. Indeed, on many, if not most, accounts, the UK is doing as well, if not better, than other tax administrations.

Q3 Chair: Since no other country calculates it on the same basis, what basis is there for the claim, as has been made indirectly and almost directly by you a second ago and also by the Government, that the UK has one of the lowest tax gaps in the world?

Edward Troup: This is a whole tax gap—i.e. attempts to measure the tax gap across all taxes—but tax gaps are estimated for a variety of taxes in other countries. The EU publishes annual figures on the VAT gap across the EU, albeit on a slightly different basis.

Q4 Chair: It is on a very different basis.

[1] The tax gap percentage

Edward Troup: It is still comparable across countries, even though it does not give the same figure as us. Again, that is reassuring.

Q5 Chair: Is that really the case? What I am trying to convey, Mr Troup, is that we are using this number as if it is telling us a great deal, when in fact as a cross-country comparison it is an extremely weak tool. Even within the UK, it is likely to be highly misleading to large numbers of people who think it is a synonym for nasty tax evaders, when in fact it is nothing of the kind. It is bundling together a whole heap of different types of uncollected tax.

Edward Troup: I accept that, internationally, it is of less value than it is domestically, simply because of the lack of good-quality international comparators. Internally it is of value, and we have set out very clearly—

Q6 Chair: Did you say "internally"?

Edward Troup: I mean domestically within the UK. If you turn to page 5 of the tax-gap document, it has a very clear list of the value of the tax gap by different behaviours: criminal tax evasion, hidden economy avoidance, legal interpretation, non-payment, failure to take reasonable care, and error. It shows exactly what the amounts are. I do take the message that we perhaps should do more in our annual publication of this to get those points out to the public.

Q7 Chair: Since this is probably the single number with which the public associate the whole issue of non-compliance with tax or failure to collect the right amount due, it is important we get some better information out there and possibly consider using another measure or an amended measure of the tax gap that can be used and better understood by the public for what the public think they are hearing, which is the amount that people are intentionally doing their best to avoid paying.

Edward Troup: There is a suggestion that we should publish a sort of "intentional" tax gap and an "unintentional" tax gap. That is something we could think about. Some of these behaviours do not break down that easily between deliberate and not. It is certainly something we could look at, and every year we improve the methodology and also try to improve the way we present the tax gap. I am happy to take that away.

Chair: I have laboured this point long enough. I will move on to Jacob Rees-Mogg.

Q8 Mr Rees-Mogg: Chairman, I am coming on to avoidance, evasion and tax planning. Before I do, can I say thank you? The best responses I get from any governmental organisation to my constituents' inquiries consistently come from HMRC. I know you have had some criticism recently, and this is entirely separate from that, but when I write in on my constituents' behalf, I have had really good responses. I did want to say thank you publicly for that.

On the issue of avoidance, evasion and tax planning, everyone knows what evasion is: it is criminal and deliberate. How do you differentiate avoidance and tax planning?

Lin Homer: Our approach is to regard aggressive avoidance as being things that are undertaken that are not the intent of Parliament. Through our avoidance legislation, as well as utilising investigative powers, we seek to establish that our interpretation of what Parliament expected is right and, therefore, to delegitimise what is sometimes called "exaggerated activity".

We are pretty successful in that—Jim could probably give you some examples—but what we will do, if necessary, is take those all the way through the courts to establish that our understanding is correct, which we do in more than 80% of cases. Indeed, in a few rare cases, where the court says, "Well, whatever Parliament thought, we think what you have passed is being used in the right way," very often Government will legislate to change that and ensure their intent is put into effect.

In a sense, it is about hearing what Parliament said and then very deliberately trying to squeeze in something egregious that does not fit. A good example might be people trying to exploit charitable tax reliefs, which have been created to allow a charity to do good works. Very elaborate schemes are set up—there was a very famous one a couple of years ago—that simply try to take tax reliefs out of all relation to the charitable activity underneath it.

We would regard those things as aggressive tax avoidance and try to stop them—versus legitimately using, say, reliefs that might be there for businesses, entrepreneurs, pensions or whatever.

Q9 Mr Rees-Mogg: Avoidance is the period between Parliament legislating and the court determining what the law really means, with the Inland Revenue taking one view and the taxpayer taking another. Is that fair? It is not clearly illegal at the point at which it is taking place, but it may turn out to be a wrong interpretation of the law.

Lin Homer: I am going to ask Jim to come in and explain it. There is an argument that says that, but in the vast majority of the cases we are talking about, it is crystal clear from the beginning what Parliament intended. Our experience of many avoidance schemes is that everybody knows from day one they are not going to work.

Often what is being sought is simply delay in paying and the hope, perhaps, that we will give up and go away. I would suggest that this is not people being genuinely uncertain. In most of these cases, this is people at best kicking the can down the road. Would that be fair to say, Jim?

Jim Harra: Yes, a key feature of tax avoidance is that the avoider is trying to find a way of reducing their tax bill without breaking the law. They are trying to find a way within the law that does that, usually involving contrived arrangements where the outcome does not fit with the commercial or economic substance of the transactions that they are undertaking.

The distinction between that and acceptable tax planning is that most wealthy people and businesses will have to plan their tax compliance; they will have to make decisions about how much pension contribution they are going to pay or whatever. Those are all things we do want people to sit down with their financial advisers and tax agents and figure out—but they are not about manipulating the reliefs or other provisions in a way that was not intended to get a result that was not intended. That is the distinction we would make.

We tackle avoidance. We win about 80% of our avoidance litigation cases. In the event that we lose, it means the law permits the outcome the taxpayer was seeking and then it is a matter for Ministers and Parliament to decide whether they are going to leave the law like that or change it.

Q10 Mr Rees-Mogg: How do you differentiate the intention of the law and the black letter of the law? How are taxpayers meant to know that the intent of the black letter of the law is different?

Lin Homer: We have had a case recently that went through the courts where the taxpayers ended up significantly worse off than if they had not entered the marketed avoidance scheme; it was a film scheme[2] under the old system. We have said before to this Committee and other Select Committees that one of the ways that taxpayers can quite readily tell is that they will often be asked to agree not to settle with the Revenue unless the partner or co-operative agrees and, very often, they will be required to put significant money into a fighting fund with an expectation of litigation.

Judges have made comments that this is clearly contrived. A very simple test would be if the profit[3] from the endeavour completely outweighs the original investment. Some of these are very rolled up and very contrived. Most people will be able to tell very clearly, and we have specific laws that require certain types of marketed avoidance to be registered with us. They will have a scheme number and they will be registered, and the organiser will have to tell the individual that. They will know they are entering into a high-risk decision.

Jim Harra: I am not sure that much tax legislation is very mechanistic, so the black letter of the law applies. If you take the film schemes that Lin mentioned, one of the arguments that we have put against those schemes is that they only work if they are carrying on a trade—and that is a matter of substance, not a mechanistic matter. In substance, we say they are not carrying on a trade, which is what the courts have found to date.

Q11 Mr Rees-Mogg: The broad principle—the famous principle—that no man is obliged to arrange his legal relations to his business or his property so as to enable the Inland Revenue to put the largest possible shovel into his stores remains true. You do not have to arrange your affairs to pay more tax than the law requires, but, if the law requires it, you have to stick to that—and the duty of HMRC is to collect the amount required by Parliament, not a pound more or a pound less. It is an equal duty, but it should not be more or less.

[2] Scheme involving film rights

Lin Homer: Absolutely, yes. It is one we try to apply in an even-handed way across the whole system.

Q12 Mr Rees-Mogg: How helpful is the General Anti-Abuse Rule? How much change does it bring to this, in creating clarity for taxpayers?

Jim Harra: The General Anti-Abuse Rule is a backstop, where, if there are very artificial transactions being undertaken and there is no specific or targeted rule in legislation that prevents that from being effective, there is this general rule we can apply. There is no doubt that, since its introduction, we have seen taxpayers with complex affairs taking care to think about whether they are going to be caught by that rule. There has been no case yet where the General Anti-Abuse Rule has been tried in litigation, for example, but it has definitely provoked tax agents, financial advisers, large businesses and wealthy taxpayers to sit down with us and figure out whether they are on the right side of that rule. It has had quite a behavioural effect, I would say.

Lin Homer: There are two other things I would mention, which have equally been behaviourally very important. There is the disclosure of tax avoidance schemes, often shortened to DOTAS. When that was introduced a few years ago, it was capturing hundreds of schemes a year. Last year it captured just a few—six or seven[4]. That has been a very significant change in behaviour.

More recently, there is the scheme we have introduced called accelerated payments, where, when people are using marketed avoidance schemes registered under DOTAS, we require them to pay the sum they believe to be protected up front. Again, that is having a significant effect on people's behaviour. Again, that reduces the benefit of that delay, which is often an encouragement into these schemes over and above whether you eventually are found to be right. One of the tax avoidance advisers who appeared in front of the PAC admitted to the Committee that none of his schemes had ever worked. The delay is one of the big advantages.

Edward Troup: That just confirms that the GAAR is as much about being a deterrent as it is about collecting tax. However, picking up your point that our job is to ensure the tax paid is not a penny more nor a penny less, that implies that it is always clear from the law exactly how much tax should be paid—and it is not. The law is a finite thing and the complexity of commercial and personal transactions is unlimited.

What we are seeking to do is stop people trying to take advantage of some uncertainty over the law to achieve a result that Parliament did not intend. Ultimately, that is what stopping avoidance is about.

Q13 Mr Rees-Mogg: Parliament ought to pass clear law is a starting point, though. A general principle of the rule of law is that the law should be clear. The final question, Mr Troup, follows on from that. As there are areas of uncertainty, is it going to be fair to taxpayers if they are named as tax avoiders until it is certain that they really are? I am not thinking so much of tax advisers,

[4] The total number of schemes disclosed under the DOTAS regime in 2014/15 was 9

because there is clearly a problem with some advisers who give advice they know is wrong, as with the person you mentioned. However, the clients of these firms may be acting in perfectly good faith. It is fine to name them if you know they are doing something improper and they have deliberately done something improper, but it is quite a change—from what HMRC and the Inland Revenue before it have always done—to publicise individual tax affairs.

Edward Troup: As you probably know, we are consulting in a number of areas on the possibility of naming taxpayers as part of the overall deterrence for non-compliance. Ultimately, the choice is for Parliament. It is not for us to decide, although we can in certain circumstances within our existing powers, as we do under the publication of persistent defaulters legislation—where we do publish names from time to time. Ultimately, however, it is a matter for Parliament and the points you make are something Parliament will want to take into account before giving us powers to name.

We do think there are circumstances when naming can be a powerful deterrent. Just as people have used the factor of time to take advantage through litigation, in some circumstances they use the benefit of anonymity to feel they can push further than they would do if they felt their actions were going to be exposed. As ever, these things are always a balance.

Lin Homer: To be clear, we will not breach taxpayer confidentiality, but, obviously, when a matter is being argued in front of a tribunal, the participants in the scheme will often be publicly named in those proceedings. That has been one of the sources of information. Again, for someone considering these schemes, there are a number of indicators that would help a taxpayer think about the risk they are entering into.

Q14 Mark Garnier: Can I turn to customer service? In particular, there is the thorny issue—I do not know if anybody else around the table also finds this—of when you see a group of accountants getting together and almost playing Top Trumps as to who has had to wait the longest in order to get an answer from HMRC on the inquiry line. In 2014-15, you talked about the fact that only 72.5% of calls were handled, which means quite a significant number are not being handled. In recent evidence to the Public Accounts Committee, you said you were dipping down to 50% of calls over the first half of this year. That is a pretty staggeringly bad outcome by anybody's measures.

Lin Homer: Yes, when I was in front of the PAC in September, I was at pains to bring them up to date with the first quarter particularly. We were not serving to a level we believe we should have been, and both I and my DG have sought both to explain and to apologise for that. Taxpayers and tax credit claimants have a right to make a call and expect to get through. Between April and June, we were struggling to do better than about 54-55% much of the time.

We did respond very quickly to seeing that we were struggling. We analysed what was causing the problem and we felt there were two or three things we had done that were giving us some difficulties. Some of those are important for the long term, so we have moved to a new form of telephony that allows us to drop calls into any of our call centres.

My chief technology officer believes that we probably now have the largest virtual call centre either in Britain or the world; I am not sure which, but it is one of those.

At any one time, we have the ability to have up to 20,000 people answering the phone—and they are not all in the same place. Making that change was really important and it is one of the things that will help us serve better. As we implemented it, as major change often does, it was challenging for our people to adjust to; call handling took one or two minutes longer for a number of months. When you have 50 million calls a year, that is quite a lot of time lost.

As I say, we are very apologetic for that period of poor service. We responded quickly by upping our recruitment, because one of the other things we realised is that, in reducing our recruitment to a level we thought we could manage with, we had ended up with a more traditional workforce working the traditional nine-to-five hours. Quite a lot of people want to call in the evening, so we were seeing very poor performance in the evening. We have gone out and recruited some people who are prepared to work those hours, and since July—i.e. by the time I updated the PAC on those figures—we were already improving. Our performance from July to September was marginally higher than last year—about 76%.

We are very committed to continuing to improve. We have had to learn some things about transition, and we take those very seriously. Overall, however, we are moving to a position where we can serve better. The other thing I would say is that about 25% of our calls are for very routine things. They are tax credit people telling us about changes of circumstance; they are people asking which tax year we are in or what their code is.

We also think a big part of this is to provide more of our services online and allow people with those kinds of routine calls to be able to say, "I can just do this online. I do not have to wait five minutes, let alone risk my call not being answered or wait longer." We are determined to try to continue making improvements in all those areas, but the first quarter of this year was unacceptably poor.

Q15 Mark Garnier: What level would be acceptable? What are you aiming for? You talk about the improvement, but nonetheless 24% of people are still not being answered.

Lin Homer: It is 24% of calls. It goes back a little bit to the Chairman's first questions. There is lots of evidence, not just the tax gap evidence, that voluntary compliance in this country is very high. When we talk about not answering 25% of calls, what we are really saying is probably 25% of people had to make two calls to get through. There is very little evidence that people who know there is something they need to tell us make a call, cannot get through and give up.

The frustration we are giving people is either not getting through or waiting a long time. One of the things we have found is that people would prefer to hang on and wait to make a call than receive a busy tone. In our experience, what we think good would look like is giving people choice about how they can contact us: doing simple things more online or knowing which times of the day our call lines are less busy and so forth.

It is not about manning telephone centres to bigger and bigger levels; it is about a different range of services.

Q16 Mark Garnier: It is very encouraging to hear that you worry about it, but you have just said that 25% of 50 million calls are routine calls, which means 37.5 million calls are ones that need a specific answer. You have talked about the fact you have 20,000 people answering these calls. You have reduced your full-time equivalent number of staff from 26,900 in 2012 to 14,900.

Lin Homer: That is in PT Ops, yes.

Mark Garnier: Yes. You are allocating £45 million to increase the number of staff by just 3,000. People listening to this want to know how long into the future they are going to have to be waiting up to three-quarters of an hour to have their calls answered. There are many people who are very frustrated with it. You have slightly skirted around answering the question specifically. What would be acceptable? What levels of calls being answered would be acceptable?

Anybody would agree—I am sure you would agree—that 24% of calls simply not being answered is completely unacceptable. You cannot try to justify it in any way, shape or form. If it was a commercial service, it would go bust, frankly. The only reason people put up with this is because they have to speak to you. They have to speak to you because they are trying to tax plan. I hesitate to use the words "avoid paying unnecessary tax", but they are trying to plan to make sure they do not pay unnecessary tax.

It puts you in a position of advantage, because I suspect that 37.5 million people are trying to make sure they do not pay too much, and you can sit there and you know they will wait not just three-quarters of an hour but two hours, three hours or four hours, because it is worth their while not to have to pay extra tax. If you have overcharged them, again they are at a disadvantage. As I say, if you were a commercial business, you would have gone bust.

I am really trying to get to what would be acceptable. If you were a bank or another commercial business, you would try to answer 98% of calls within two minutes or something. Why are you not going for that?

Lin Homer: I definitely was not trying to avoid your point. The point I am trying to make is that we do not think the answer to this is simply to focus on telephony.

I should say that we do tax credits as well as tax. Many of our calls are from tax credit claimants. In the run-up to tax credit renewals in July, when we were having difficulties, by using staff from the wider organisation we ensured that we could handle the surge, and we brought more than the 14,000 staff in PT Ops into that space. We have also offered a simple, easy-to-use online alternative. In the last week of tax credits, nearly half of the people wanting to renew used the online system. There were nearly 90% satisfaction rates with that service.

My point is that, knowing we will always struggle to give a commitment to a particular amount of time spent waiting, we believe we have to offer alternatives. We are already one of the most digitally enabled departments in Whitehall and we think more and more people will use online services if we provide them. Jim is currently developing online services for small businesses; Ruth is developing them for individuals. If they can go online and check things, get reassurance and tell us simple things, we think that is a far better service than waiting on a telephone.

For instance, already a significant number of people who call our telephone line can deal with the call before they are ever put through to a human being. They can leave the information or check something. We have introduced tweeting; we do webchats; we are doing online. Good service will be giving people a range of ways so that it is not just a choice of, "When do I make the phone call and how long do I have to wait?" On average, people will wait—and they would prefer to wait than for us to give them a busy tone. However, if we give them good online, that will be good service, too.

Q17 Mark Garnier: I have a couple of questions about the trends throughout the year. It would be very interesting from our point of view to see what the trends of calls coming in over a two-year period would be on a week-by-week basis and how many calls go unanswered. I am just wondering, however, whether you find you have seasonal surges. Do you find that you have annual traditions? There is obviously a seasonal surge when we come to the end of the tax year; I can imagine that.

Lin Homer: Yes. There is one for tax credit renewals.

Q18 Mark Garnier: There is one for tax credit renewals. You get a certain amount of that. Presumably you get a little bit when there is a budget coming out and there are some changes in the tax system, and people want clarity on that. Overlying all this—this is the point of the question, and I can appreciate you having peaks and troughs throughout the year—is there an overall increase in dissatisfaction, if you like, among your consumers?

Lin Homer: No. You are absolutely right: you might define ours as a business with peaks. Some of those are very large: on 31 January and 31 July we get hugely more calls. For SA peak, on 31 January, we have 10 million people doing SA. Well over 80% do it online, but there is still a significant number who leave it until the last minute—and they will all want to make phone calls on the same day. It is very difficult for us to staff up to that level all year round. It would be a poor use of resources. We have a core of people who answer telephones in personal tax all the time, and we have increasingly trained up to 2,000 of our other staff, who can be moved into these areas in peak times.

There are set peaks, and there are really three. We have tax credit renewal in July, SA peak in January and we also get a surge in change of circumstances around the start of term from tax credit claimants whose children have either decided to go back to college or not and who have to let us know. Then, as you say, other things happen: if a new initiative is announced, such as marriage allowance or changes to stamp duty, there will be a surge.

We will always try to use our flexible resource to be ready for those, but what we are increasingly finding is that, for general information, web chat, information on our websites and tweeting are ways to let people know things quickly. It is a one-to-many system that we are trying to exploit better as we go forwards.

Q19 Mark Garnier: Is the complexity of the tax system a big hindrance to how you can help consumers?

Lin Homer: I have not found much evidence that anyone has tax systems that are really simple. There is a lot of complexity in the system.

Q20 Mark Garnier: We have an undue amount of complexity.

Lin Homer: I am not so convinced of that. What is right is that people do understandably get very anxious about their tax affairs. You mentioned agents. I would have to say that agents do not wait long. We recognise that agents undertake a really important role for us and we have agent lines that respond quickly. During the periods we have talked about, agents continue to get a very good service on telephony.

Mark Garnier: They do come and see me to complain about that.

Lin Homer: Yes, that is my experience too—but we prioritise their calls. We also have other areas we prioritise: for instance, bereavement. You will often find a couple who have perhaps been together for a long time and one member of the family may have been the person who did the paperwork. Whether they are deceased and their partner is not able to cope or, even if it is the person who normally did it, the loss of a partner can be very destabilising for people. We will also prioritise calls like that. Just before tax credit renewal, we will prioritise tax credit renewals.

We are quite adept at trying to ensure that we target the people who most need our help, but we also want to reassure people we are there to help those people—the vast majority—who do pay their tax to do so well. One of the reasons we had a consultation on our wider penalty approach is to try to signal that we are not trying to impose penalties in circumstances where we can see people who normally comply have run into difficulties or have just run out of time once when they normally do not. We really want to send a strong message that we want to help people who want to be compliant to be so.

When we fail, as we did at the beginning of this year, we would genuinely apologise and accept we need to do better.

Q21 Mark Garnier: If I could make one final point on this, the Public Accounts Committee recently expressed concern—and I quote—that "customer service levels are so bad that they are having an adverse impact on the collection of tax revenues". Do you want to respond to that?

Lin Homer: It is arrant nonsense. If I am honest, the hearing in front of the PAC was reasonable scrutiny. We come along to all these hearings expecting to be challenged—and the hearing was a fair set of challenges. I am afraid some of the things that get written in the press releases are more about grabbing headlines than informing people. There is no evidence to suggest, as I said to you earlier, that even when people were struggling to get through they just tossed their tax return over their shoulder and walked away.

The people of this country genuinely understand that paying their tax is an important part of a strong democracy. When we do not deliver the service we should, they try again. That is our experience and it was our experience through the first part of this year. We had a record year in terms of tax collected and compliance yield. As Edward said before, the detailed work we do on the tax gap shows us to have some of the highest levels of compliance anywhere in the world.

Q22 George Kerevan: Your "once and done" policy for resolving customer issues is very laudable, but, given the complexity of the tax system and therefore the complexity of problems that might arise, is that not rather a hostage to fortune? How can you achieve that seriously?

Lin Homer: "Once and done" is an approach that really did come out of some of the probing and challenging we get from you and other Committees. The challenge to us was, "Are you worrying too much about how long each call takes rather than resolving the issues?" Following a pilot, we are now more seriously saying to our telephony and call handlers, "When someone is on their phone, particularly when they are a vulnerable customer, the most important thing is to get to the root of the problem and resolve it."

We are seeing better customer service as a result of doing that. Perhaps that has also had some impact on the length of time each call takes—and that may have given us some of the challenge in answering calls—but we believe it causes less worry for customers and resolves their issues more quickly.

We do not think it is a hostage to fortune. Both Edward and Jim have been involved in strengthening our tax academy training, and in strengthening the quality of training we give our operational-delivery people as well. If we utilise both the skills of our people and, again, the digital lines and websites, we can help people get their tax right at the earliest opportunity—and we are seeing a lot of evidence that this is a good approach. You could perhaps mention something here, Edward.

Edward Troup: The majority of calls are about things that are relatively straightforward to resolve: "You have my tax code wrong; you have my address wrong; there has been a change of circumstances." The complexity of the tax system is a problem in only a very small minority of cases.

"Once and done" is not about being able to say that everybody can have everything resolved in one call. It is an aspiration to deal with the vast majority, who have relatively straightforward issues. The small minority will be more complex and require more than one call or a call and a letter and correspondence—and that will always be the case.

Q23 George Kerevan: If it is in that complex category, does the person on the telephone at HMRC have the necessary range of expertise? What happens if they do not? Do they pass the call on to someone else? How does it work?

Lin Homer: I will let Jim tell you some of the complex work we do with businesses, including things like webinars, to help people with uncertainties.

Jim Harra: Our operators in the telephone centres have the knowledge and access to guidance that enables them to deal with the vast majority of questions they get. There will be people with more complex questions or problems, where it does take a bit of research into their file to find out what has gone on or takes referral to a specialist to make sure we understand a novel point. We have processes to make sure the frontline operators can refer them to a tier two operator, for example.

Q24 George Kerevan: Is this in real time?

Jim Harra: In some cases, yes, in real time. In some cases, we will say, "We are going to call you back," because it does have to be referred to a specialist who is not available there and then. However, the vast majority of them can be dealt with in one contact, possibly with a referral to a tier two operator.

In the past we have sometimes been guilty of designing our processes based on assumptions about how customers will contact us. We have had the problem where a customer will ring our helpline and say, "I wrote in two weeks ago and I need an answer to that letter." Because of how we structure ourselves, the operator previously had to say, "I cannot see your letter because it has gone to an office that deals with correspondence." Part of "once and done" is that we scan those letters and the operator can say, "I can see your letter. I can deal with that now for you." The biggest impacts we can have are often relatively simple changes like that.

Q25 George Kerevan: More often than not, these are the problems that are brought to me by constituents. Like Jacob, I have had brilliant service from your MPs hotline, but it has often been the case with issues that a constituent has had for years, in some cases, they have not managed to resolve it because the initial contact has gone wrong and there has been confused information. They have tried to resolve it and not been able to.

When I call, the problem goes away—but the individual customer has not been able to do that. There is a fault within the system in terms of not the initial telephone call, although maybe something went wrong then, but rather the follow-up, where a lot of the problems I have to resolve occur. That is why I am worried. I want to make sure "once and done" and the processes that spin off from that do work. I was slightly worried, therefore, by one of the things that Lin said. You have hired new staff very recently; you now have this virtual call centre of 20,000 people.

Lin Homer: It is virtual telephony, yes.

George Kerevan: However, we are about to face a whole new raft of potential problems. For instance, customers in Scotland are going to have a whole new range of issues with their income tax if we devolve income tax. Are you training all 20,000 to deal with that? If, 18 months from now, one of my constituents from East Lothian has a problem with a specifically Scottish element of income tax and they phone up and go to someone in a call centre in West

Bromwich, will there be any issues in terms of training of the staff who are answering the phones?

Lin Homer: The general way we try to deal with things is we have different levels of expertise and, if you like, familiarity. We will have some people who might more regularly do tax credits but they will also have a certain amount of taxes training. We will have some people trained up with the extra skills to deal with, for instance, as I mentioned earlier, people who have recently suffered a bereavement. We will have some people with VAT expertise, stamp duty expertise, etc.

The beauty of the current system is that we can route by word to the people most suited to deal with your call and we can back that up with additional resources if we have a surge of activity. Edward is leading on things to do with devolved tax, and we have already done significant work in relation to Scotland. If we reached a point where a big change happened, our planning would have us with a group of experts at the core of that.

If we ended up, however, with a particular surge on a day something was announced or perhaps because of misinformation, we would then be able to lay off additional calls more widely. Those might receive more generic, scripted advice. That might reference people back to websites and so forth, but we can use both deep specialists and the wider resources—and we are getting better at flexing our people.

We have already crossed some bridges on Scottish devolution of taxes, haven't we, Edward?

Edward Troup: Yes. In terms of devolution at the moment, we have got to a Scottish rate of income tax that will come in from April next year, which may not change the actual tax bills, depending on what happens in the Scottish budget early next year. In a sense, it is a change like any other to the tax system. It involves a change that affects a number of taxpayers, just as the married couples allowance does, just as the charge on child benefit or higher rate taxpayers does. We, as Lin has described, will deal with that as a problem for a section of our taxpayer population like any other.

As and when devolution becomes more complex, if that is what happens following the Smith commission, it may then create a deeper and wider layer of issues—and we may need to set up a new cadre of specialised staff who are particularly expert in those aspects, as we do for VAT or other categories. At the moment, it is just an issue within the tax system, ranking with others as something we need to be able to resolve and deal with as and when it arises.

Q26 George Kerevan: You are not taking any steps so far to train extra staff or prepare for that?

Lin Homer: We are not looking at having a wholly separated range of staff for the Scottish issues. No, that would not serve them well, because by its nature it would be significantly smaller. As part of the bigger whole, as I described before, we have that flexible resource. I would say we have big staff bases in Scotland. We will not struggle to be able to ensure we have an adequate understanding—and, indeed, as a business HMRC is ensuring that people do understand the complexity of taxes we have talked about. In the future, we will increasingly include the complexity brought about by devolution.

Q27 George Kerevan: I appreciate that. I was not trying to trap you in any way. Given that you have been running to catch up in terms of dealing with customer access and that there is a new level of issues that might occur, I am just flagging up to the Committee and to you that is clearly something you should worry about.

Lin Homer: Yes. You talked about complexity. We published just under 40 consultations over the summer as a result of the summer budget. At any one time, there are a significant number of new issues. Some will affect a small number of people and we may just take some calls. Some, as I was saying earlier, might effect a whole new regime for a type of customer—say, a small-business customer. Jim might tackle that by running some webinars where a tax expert, in real time, will give a seminar. People will be able to send in questions that can be answered in real time, but then thousands of other businesses can watch that on a kind of YouTube setting at any time they want to.

We are getting more adept at giving people what they need, but one of the things we have to accept is the transitional change when we make big changes to our processes. We have to make sure that does not create an unintentional dip in performance, as we saw earlier in the year.

Q28 George Kerevan: Without leading here, you feel that any changes to the tax regime north of the border and your response to customer issues and queries can be contained within your current plan?

Lin Homer: Yes.

Edward Troup: There is a memorandum of understanding and an agreement with the Scottish Government that deals with the service and the implementation of the Scottish rate of income tax. All these things are covered. The Scottish Government is paying for the additional cost of administering the Scottish rate, but it is fully resourced; it will be fully resourced and there is a lot of transparent information both about what we are doing and what it will cost. However, we are recruiting specifically to resource it. We are meeting that out of existing resource.

Q29 George Kerevan: I understand. That said, however, the Department is not ring-fenced, is it, in terms of the Spending Review?

Lin Homer: No.

Q30 George Kerevan: You are not entirely sure what your budget is going to be in future.

Lin Homer: We are in the Spending Review with everyone else; we will know fairly soon. We are doing lots of work on that with Treasury colleagues at the moment. We are in a unique position, in that, in my time in the Department, it almost feels as though we have a mini-Spending Review every six months. I believe every fiscal event is an opportunity for HMRC. We generally get some more work, but, if we have good ideas, on those occasions we often get more investment as well. We are looking to have a sustainable plan for delivering really good tax, in as good a way as we can at the least cost we can for the country, because after all there are other things to spend taxpayers' money on.

In putting forward our business plan, which is the basis of our negotiation for the Spending Review, we are looking for things we believe are sustainable. Broadly, over the last SR, that is what we did. By the end of the SR, we were making run-rate savings of £900 million a year; we were getting more tax in. Customer service over that period had gone up—not as much as we would like, but it had gone up. Compliance yield had gone up, and that was also at record levels.

I do believe it is possible to reduce the cost of public services whilst maintaining or improving the levels of service. I do not mind being engaged in that negotiation. We have seen Government Ministers prepared to say, "If you can come up with a good idea, we will invest in it." We have also been the beneficiaries of an investment programme, and I hope that will continue into the future as well.

Q31 George Kerevan: Again, that said, would you at some point welcome some period of stability rather than continual year-by-year accounts?

Lin Homer: I have worked in the public sector for 38 years. I yearn for the period of stability I have never had.

Q32 Chair: What a diplomatic answer to a tricky question. I want to ask you briefly about the relationship between your staff morale and this dip in performance that you are apologising for. I am sure you understand how stressful it is to members of the public that many of them, including some of my constituents, had terrible trouble—and you have apologised for it. The Committee has heard that and the public has heard that. However, the fact is that part of the origin of this may lie in poor staff morale, might it not? Is it concerning to you that only a quarter of your staff think HMRC is well managed?

Lin Homer: It is concerning to me generally that HMRC's results in the Civil Service staff survey have traditionally been at the bottom ever since the staff survey was begun. Employee engagement has risen over the last five years from a low of 34% to 43% last year. This year we have just completed it; we do not know what the results will be yet. I am pleased that this year we have seen a 12% increase in the response rate, because for a number of years we were seeing very low response rates as well. There is definitely something in the HMRC psyche that means staff are not as engaged with public service, in terms of the broad answer to that question, as other Government Departments.

However, I would have to say there is no evidence they are less productive or less committed to the job they do. Indeed, when I appeared in front of you in the middle of 2014, Jesse Norman asked me a similar question. It is extraordinary how staff absolutely do have higher dissatisfaction with public sector pay than any other Department and a higher level of dissatisfaction with change and senior management. However, when you ask them about their work and their confidence about being able to do it well and their commitment to do it well, they are up at the same levels as any other Department.

Q33 Chair: Are you saying that HMRC is staffed by large cohorts of Eeyores who get on with their job quite well even while complaining about it bitterly?

Lin Homer: If they are, they do a really good job for the country. Exactly—I will put up with them complaining for the levels of performance they deliver. I would like to feel, and this is what we have been working really hard at over the last two or three years, that they genuinely feel we want to engage them more in the choices we are making about the future. They were doing their jobs; they were not feeling involved and, therefore, they were feeling detached from this business.

Q34 Chair: This staff survey is pretty bad in that respect, too, isn't it?

Lin Homer: That is the basic measure of engagement.

Q35 Chair: This is from a Treasury Committee report in 2011. We have been at this topic for some years. The Department "is run on the principles of close control and management scrutiny, with little opportunity for individuals to develop autonomy and exercise their skills". Once again, this was borne out in the 2014 survey, which found that only 30% of HMRC staff felt safe to challenge the way things are done. That is not very good, is it?

Lin Homer: No. We have been working really hard. For about two years now, we have been engaging in face-to-face discussion with all our staff. We have around 58,000, so it is quite a challenge. We have face-to-face discussions twice a year. We are encouraging them to get more involved not only with the particular line of business they are concerned with but the wider business we are engaged in.

I could visit an office and talk to enforcement and compliance people on floor four who would be suspicious of their business-tax colleagues on floor five, and they would wait for me to visit to raise that. I would say to them, "Have you ever thought about walking up the stairs and talking to the business-tax colleagues?" There is a lot for us to do to really get them to understand that we want them to have views—we want them to care about the whole business—and to try to ensure that, when they make suggestions and comments, we put them into effect.

As an example, I would give you a lot of frontline staff believing we did not do enough compliance into some of the cheating they believed was going on around the claiming of business expenses. Between some of Jim's people and some of Jennie's people and some of the PT people, we have done a lot more enforcement and compliance around that area. We need to prove to them that their voices are being heard.

Q36 Chair: If we could improve morale, we could improve staff engagement. If staff engaged with one another more, would it be too big a leap to say they might be able to close part of that tax gap?

Lin Homer: I think they are closing that tax gap whilst being sceptical about change and senior management. I do not think there is any evidence to suggest that the level of engagement by HMRC staff affects their productivity. That is the oddity about our Department. Pretty much as you describe, they feel unable to challenge and say they are detached but feel totally committed, nonetheless, to putting their shoulders to the wheel.

Q37 Chair: You are asking this Committee and Parliament to take on trust something that is quite counterintuitive.

Lin Homer: Yes.

Q38 Chair: In any other organisation or Government Department, for that matter, you would expect people with low morale to do less well at their job. One of the axioms of any management strategy is to make people feel they want to come to work and enjoy the job and interact with colleagues, have a high level of engagement, and feel their managers and superiors have taken some notice of what they are doing.

Lin Homer: We continue to think that it is important to do that. Certainly, our staff deserve to feel valued—and more valued than they have felt. However, yes, I do believe we are unique. I gave you the overarching figures. We have taken a significant amount of money out of our budget on efficiency during that period. We have delivered significantly more for less. We continue to narrow the tax gap from 8.5% to 6.4%. We have halved fraud and error in tax credits from 8.8% to 4.4%. Yes, they are productive, whilst being challenging and unengaged.

Q39 Chair: I will just labour this point once more in a slightly different way. You have said that if only people walked up one flight of stairs and met people from another part of the tax-collection system, they would be engaging more—but that would be to make them feel happier about their work, not because they would be getting more tax in as a consequence. You are saying that it has nothing to do with the yield.

Lin Homer: Yes. I think self-worth is important.

Q40 Chair: However, it is not important for increasing productivity. It is only important because you like staff to feel happy.

Lin Homer: No, not because I like them; they deserve to feel valued. They do an incredibly important job really well. If I am honest, I think it is a bit sad that they do not feel that that is recognised, either by senior management or, in a way, by proxy by the public. It is quite different, in my experience, from other forms of public work, where that sense of being valued sometimes sits alongside the sense of commitment our people have in droves.

Jim is a longer standing expert than I am; I have only worked here four years.

Chair: With your agreement I will move the discussion on—unless there is something you particularly want to add.

Lin Homer: No. We are unique; that is where I will rest. We are uniquely productive and, at the moment, uniquely disengaged compared with others. I would like to change the latter.

Chair: It is something we will be examining and scrutinising carefully over the course of this Parliament.

Lin Homer: We should know before Christmas.

Q41 Mr Baker: Good afternoon. It is 10 years since the anniversary of the tax credit system needing to be shut down because fraud was detected. An awful lot has changed both in terms of the services you are offering and in terms of the overall cybercrime and fraud landscape. What assessment have you made of how things have changed?

Lin Homer: The tax credit system remains a very complex one. I have to be honest: if Universal Credit were not riding over the hill to move us on, it would be at the top of my list for policy change. It is very difficult for claimants and very difficult for us to reduce all the error and fraud in the system. Nonetheless, over those 10 years we have progressively improved the way we run it. As I have just said to the Chairman, fraud and error is at half the level it was. 4.4% is still a lot, but it is half 8.8% and, put into figures, it now means we are losing about £1.2 billion a year to fraud and error, compared with about £2.1 billion previously.

We have found that it is really important to encourage people to keep their affairs in regular good order. We have massively increased our interventions. A few years back, we would have made 120,000 interventions a year; now, we make over 2 million. We are almost constantly nudging people. "Have you told us about your circumstances? Is your child still at school? Is your childcare still as expensive?" If we do that, we can keep their payments more accurate. Because it is a retrospective system—we start paying at the beginning of the year and we check at the end—if we do that, we avoid overpayments by error, which account for over half of that element, £700 million of that £1.2 billion, and people do not end up in debt, which is very difficult for them.

It is good for us, as the people running the system, and the country—but also good for the tax claimant.

Q42 Mr Baker: I would like to explore two threads that are in what you have just said. One is to elaborate a bit more about what Universal Credit means, because some of the operational things you have just set out I believe will be taken care of by real-time information.

Lin Homer: They will, yes.

Q43 Mr Baker: That is great. Is there anything more you would like to say about that aspect?

Lin Homer: Real time information is a system that HMRC put in over the last few years. What that allows us to do, even now in the tax credit system, is to nudge people and say, "Your income has changed; you are earning more. That presumably means you were going to tell us that, and then you will get fewer tax credits."

In Universal Credit, that will happen much more automatically and the amount paid will go up and down. It works both ways. Under the current system, on either welfare benefits or tax credits, you could end up in a conundrum. If you tried to earn more money and then you lost your job, you could end up very badly off for a while. The system will more automatically adjust based on constant updating of information between our system and DWP.

Q44 Mr Baker: You sound quite confident that Universal Credit will be substantially better for HMRC and for the taxpayer.

Lin Homer: It will be a much better way of paying benefits than this system of, "Guess your income and guess your charges at the beginning of the year." I sign lots of letters; a number of you have mentioned them. The ones I have to send to tax credit claimants I cringe about, because it is such a complex system. Even trying to explain it in plain English usually takes two and a half pages. It will be easier for claimants to understand and it will be easier to run.

Q45 Mr Baker: Could you say a little bit more about the specific cybercrime aspects of it? Do you consider cybercrime separately—and should you, if you are not?

Lin Homer: In our system, particularly as I explained to Mr Garnier earlier, we try to put more services online. We are very thoughtful about cybersecurity. HMRC is one of the most attacked systems in the world. Some people just want to show they can bring a big Government site down; some people are organised criminals and they want to get our very rich data. It is something we spend a lot of time thinking about. We believe it is one of the reasons it will be important for us to move towards having digital accounts.

These will be very much like your bank account: there will be a high level of identity assurance to set up the account and then there will be some of the more standardised two pieces of information checks when you go back in. However, there will then be a safe place where you can do business with HMRC. That is the best way to keep people safe.

There are a couple of things I would say. There is some basic advice we need to keep giving both tax agents and individual taxpayers about keeping their own systems safe, because some of the cyber-risk we see happens not within our system but within peoples' own systems.

Secondly, we need all to be vigilant about the people who try to masquerade as us. We all have phishing texts and emails. We have hundreds of them all the time. We will try to put up notices very quickly, saying to people, "This is what the current fraud looks like. Ignore it." Until we get those digital accounts, it is really important that people remember that we would never ask them to send us bank details in an email or a text and, always, to look at our site and check for the right way.

Some of that is absolute fraud and some of it is aggressive marketing. As the SA timeline emerges, you will see sites that look as if they are us. People will enter them; they will enter all their own information—so they will be doing all the inputting; and then at the last moment they will realise they have signed up for a chargeable service when they could have entered the information with us. It is very important that people stay vigilant, but it is very important we do as well—and we are very determined to do so.

Q46 Mr Baker: I hope you do not mind me saying that that is one of the best answers we have been given about cybersecurity, particularly in the sense that you have picked up phishing and explained your proactive approach to dealing with it. If I may say so, very well done. Typically, answers are rather weaker than that. Can I ask you to say something about the Audit and Risk Committee of the board and their role in considering these risks both in terms of fraud through electronic systems and technical attacks?

Lin Homer: Yes. We have an Audit and Risk Committee. Four of our non-execs are on that committee, as am I and our chief financial officer. They and our main board look at our risk system and challenge us through both challenging our process and requiring us to do deep dives. Cybersecurity is one thing that features in a number of those discussions.

It will take continued vigilance, but one of the things we have tried to do through our non-execs is get the right level of expertise around the board. We have a number of tax experts, as you would expect, but two of our non-execs in particular have very strong experience in technology and data—and, therefore, in cybersecurity.

Q47 Mr Baker: It is almost like you read my mind, because I was about to ask you whether you felt the people had the technical capacity and skills. If the board have sufficient background at a very senior level, is their work supported by adequate working-level technical skills?

Lin Homer: Yes, we are strengthening. Our chief digital and information officer is very experienced. He and our director who leads on security both meet and work with their colleagues across Government. Because of the nature of what we do, we get strong advice from the experts at the centre of Government on this. We will regularly try to ensure we benefit from their advice and, indeed, we have an exchange of staff. We have recently recruited a very bright and able member of staff from one of the agencies into our cyber-centre.

Q48 Mr Baker: I was just looking at the roles and responsibilities of the board subcommittee, and it does not have cyber in the list of responsibilities. Clearly, it is something they do; I wonder whether you might consider adding it to the roles and responsibilities.

Lin Homer: That is a good point. We have certainly made a point of trying to align our non-execs to specific areas. Simon Ricketts, who is one of our non-execs and was himself a very experienced CDIO, absolutely buddies our CDIO to make sure there is strong insight there.

Q49 Mr Baker: The Chairman is trying to move me on, but I must ask you one question. In the event that things do go wrong, what thought have you given to how taxpayers might be compensated?

Lin Homer: This is not a system of, "Everything is perfect until something goes wrong." We will see attempts to make ingress to our system every day of the year. We run systems where we seek to mitigate and close those down very quickly. You have my assurance that we will always seek to ensure that, if we were to make a mistake, we follow that through very quickly.

We have also altered the speed at which we signal to an individual or a business client that we can see something going on in their site that might be at risk as well. Traditionally, we rather thought about doing what we had to do well. We get insights that can allow us to see ingress coming from individuals or businesses' own systems—so we have also stepped up how much we are going back to people and saying, "We think you need to do something."

Not just for cybercrime but for errors generally we pay compensation when we have got things wrong.

Q50 Helen Goodman: I would like to begin with a follow-up question to Jacob Rees-Mogg's questions. Last week I wrote to the Exchequer Secretary because somebody had given me some evidence that Coutts had been marketing tax avoidance schemes. That was of double concern: partly because of the tax issues but partly because Coutts is a subsidiary of RBS, which is obviously majority owned by the Government. I wanted to ask you whether you have been in touch with UKFI, who hold all the bank shares for the Government, and whether you had had any dialogue with them about RBS and Lloyds in terms of the behaviour of their overseas subsidiaries.

Lin Homer: We will not talk about individual taxpayers, whatever their size or shape, in public.

Helen Goodman: I am not talking about individual taxpayers; I am talking about schemes being marketed.

Lin Homer: I would ask Jim whether he might just mention what we do about marketed schemes. I can assure you that, whenever, and wherever, we get information that suggests wrongdoing, we have a dedicated team who look at those and allocate them to the business. Whether that comes into a Minister or my inbox or directly to our fraud and investigations service, we follow through and pursue information we get. We are very alert to that. As to marketed avoidance, we utilise a system for registering those.

Jim Harra: First, formally, in the law, if a bank or other institution is marketing avoidance schemes, those will almost certainly have to be disclosed to us and registered with us under the disclosure of tax avoidance schemes. They have to provide us with information about the schemes and about the people who have purchased the schemes from them so that we can track that through and challenge them.

In the case of banks specifically, the vast majority of banks in the UK have signed up to a code of conduct that has been in place since 2009, which is now on a statutory footing. That enables us to intervene if we believe a bank is acting contrary to that code, because under that code they are not permitted to promote avoidance schemes. In practice, what that means is that I or my director of large business would insist on having a board-level meeting with the bank to challenge them on what is happening. We also have legislative power now to publish details of banks that have breached that code of practice.

Whilst I cannot pick up that specific case, that is our general approach. We apply the same approach equally to all banks, whether they are in public ownership or not. However, we expect very high standards from them. We take the kind of thing you mention very seriously and we would tackle that.

Q51 Helen Goodman: Let me ask you about tax credits, where, as you say, you have brought down the fraud and error rate very significantly. Could you bring it down to 3%, which is the average level of error and fraud in the DWP?

Lin Homer: Robert Devereux and I did a joint hearing in front of the PAC not long ago. Both of us were clear that it is of course reasonable to expect us to keep reducing it. One of the challenges for me, however, is that we are beginning to run out of time to see a return on the investment before we transfer this business over to DWP in respect of some of the things we could do to reduce it further.

I have mentioned that policy change would be top of my agenda, but I am not going to ask for or get a big legislative change in tax credits only a matter of a few months/years before it changes. I am beginning to get to a point where what I can do in the last period will be limited by that. However, we are determined to keep pushing ahead. One of the things we do believe is that potentially continuing to digitise tax credit systems and requiring and encouraging people to register changes of circumstances more regularly would be one of the ways we could reduce it further.

There are significant areas where there are risks, and undeclared partners makes up about a third of the £1.2 billion that is lost to error and fraud every year. We will also look at particular initiatives in those areas. However, I am not sure whether I can get it to that overall level. Obviously, one of differences between the systems is that a large chunk of benefits is paid out around pensions that are very low in terms of fraud and error.

Q52 Helen Goodman: Child benefit is very difficult to make a mistake with, of course.

Lin Homer: Yes, that is right. We want to keep it heading downwards, but in the last six to 18 months there will be limits on what we can do. We are clearly not going to do something that is really costly or really difficult for claimants.

Q53 Helen Goodman: I can see that. We are talking about error and fraud on claims made, but it has been suggested that the level of tax credits that have not been claimed is running at maybe about £13 billion. Do you believe it is as high as that?

Lin Homer: That is not a figure I recognise. I am very happy to send a note to the Committee on that. I am not sure I have it at the top of my head. We would recognise that there is a small amount of underpayment each year, but it is very small.

Helen Goodman: Your number is £120 million, yes.

Lin Homer: When we see that, even if it goes back a number of years we will always seek to go back and say to people, if it is our error, "We underpaid you." However, I do not believe there is any evidence. If you go back just a few years, nine out of 10 families were getting tax credits. It would not suggest to me that there is as significant a lump of money as that missing, if I am honest. However, I am very happy to send a note and give you my DG's advice on our best view of what might be being under-claimed.

Q54 Helen Goodman: That would be very helpful. Finally, I want to ask you a couple of questions about the national minimum wage, because you are very much involved with the administration of this. David Norgrove thinks the number of people who will be covered when the national minimum wage is increased will rise from about 1.5 million to 3 million. Will the extra resources you have be adequate for ensuring that people are being paid the national minimum wage or national living wage, depending on which name you want to use?

Lin Homer: This is an area of work we have been involved with through the minimum wage, and we obviously work in close collaboration with BIS and the Home Office around this work. We have recently begun talking to BIS about enforcing the national living wage, and we have not yet concluded those arrangements. However, in the last year of the minimum wage, they increased our resources in a way that allowed us to up enforcement by 16%. From memory, it was from about 22,000 cases to 26,000 cases.

I am confident we have the experience to be able to give some good advice on what we think the right level of enforcement will be, and that is clearly an area where we will come to an agreement about what can be done. BIS Ministers have been very keen for enforcement to be increased. It is not yet a finished negotiation, but on the back of what we have done we will be able to give good advice about what we need to do and what resources we will need to have to get there.

Q55 Helen Goodman: You are targeting particular sectors where this is an issue. Are you also targeting particular areas of the country where it is an issue? The geography of this is quite varied, isn't it? It is a big problem in Northern Ireland and not such a problem in London.

Lin Homer: We do take a campaign approach in this area, as we do in our more general compliance. We have been doing some work in the last 18 months, with much more joined-up work between us, police and local authorities, so that we might, as we have done, target a particular sector. It might be fast food; it might be fashion. However, we have also done some work in blitzing an area, and joining forces with other enforcers and turning up somewhere so we can really make an impact.

We would see this as we do general compliance: as an area in which we need to not have a single mode of operation. We need people not to see us coming. We need to surprise people occasionally.

Q56 Helen Goodman: How significant are the increased penalties you are able to use? How much effect will that have?

Lin Homer: Increased enforcement has been really important.

Q57 Helen Goodman: Did you ask for them?

Lin Homer: It was a discussion. There was a general view that we needed some increased resources and we needed to do more. One of the things that is really important is that we recovered £3 million in underpaid wages for a number of those workers last year. Penalties on employers, getting back wages for people and the general deterrent effect are all important.

Chair: Thank you very much for giving evidence to us this morning and, now, this afternoon. I am very sorry. Mark had a couple of very quick questions he wanted to chip in with—but he has to be brief, because we have a statement on the Floor of the House.

Q58 Mark Garnier: I just have a couple of quick questions. The first is on offshore tax evasion. This is again to do with the Public Accounts Committee, I am afraid. They criticised HMRC, saying the number of criminal prosecutions for offshore tax evasion is still woefully inadequate. Is that criticism fair?

Edward Troup: By definition, offshore tax evasion is harder to get than onshore. We have had a campaign or a strategy developing over the last five, six or seven years of gradually toughening up the penalties and a series of disclosure facilities that do not let people off tax but give them some assurance as to the level of penalties if they come forward. That has collected something like £2.5 billion, or a bit north of that, over the last seven or eight years.

During that time, where we have established evasion and culpability we have pursued criminal prosecutions; we have had 11 convictions for offshore tax evasion over the last Spending Review period. The penalties continue to get tougher. We are moving into a world where, from 2016-17, there will be automatic exchange of information under the common reporting standard between 94[5] countries, which means we are going to get more information. That may enable more convictions, but our driver is always to get the tax in.

Q59 Mark Garnier: This is the key to this debate, which seems to cause a great deal of confusion in the public and certainly among the different committees around this house. Is it your job to prosecute people, get a criminal conviction and therefore try to prevent other people in the future from doing this, or is your job to collect taxes and generate the best revenue for the Exchequer? Are those two things compatible or do you end up spending too much time on criminal convictions when you could be raising taxes through other means?

Edward Troup: It is all of the above.

Lin Homer: Our job is clearly to do both. Yes, all of the above, as Edward puts it. We see this as a spectrum. Prosecutions are at one end, nudge letters at the other. All those both deter and bring in the tax. We have been increasing the level of prosecutions, both in offshore and more generally. A level of prosecution is necessary as a deterrent, but to suggest that that is the only way we can both change behaviour and discourage people from cheating is wrong.

Q60 Mark Garnier: Do you have the balance right at the moment? There have been 11 prosecutions.

Lin Homer: We already have a significant number of investigations under way in offshore. As better information is available, Jennie Granger's plan is to triple the number of prosecutions so that we arrive at about 100.

Q61 Mark Garnier: That is only to 33. Very specifically, people are worried about this HSBC thing where—I cannot remember what it was—there were 11,000 people or 5,500 people and there was just a very small handful of prosecutions. I do not have a side on this argument at all. I find it very difficult to know whether you should be changing behaviour by these nudge letters and by doing deals and all this kind of stuff or whether we should be trying to put people off doing it by having these prosecutions. I can see both sides of the argument. Both sides have a very strong argument. You obviously spend a lot more time

[5] The actual figure is 97

looking at this than perhaps I do. I am wondering whether you think you have the balance right.

Lin Homer: In the early days of tackling offshore evasion, there simply was no formal route to get information[6]. In a sense, disclosures were the start of what has been quite a long-term and significant change. By 2017[7], we will have over 90 countries exchanging information on offshore bank accounts and transactions[8]. By that time, we will not need to rely on disclosures.

If people continue to utilise those approaches, it will be much easier for us both to see criminal behaviour and then to pursue it. However, we would not have got to the common reporting standards we achieved, in which I think the UK was a leading force, had we not started asking for and getting voluntary disclosures 10 years ago. We had to start where we were. We got significant monies in; we are getting progressively tougher on people who try to hide their money offshore, including prosecutions and penalties—and we will continue to do so.

Chair: Thank you very much. I will say again what I said a moment ago, which is thank you very much for giving evidence to us this afternoon. I do not think any other colleagues want to chip in and halt the ending of this hearing. Thank you very much indeed for coming to see us.

[6] From many jurisdictions
[7] The actual year is 2018
[8] The process of exchange under CRS will start from 2016-17. 96 countries have committed to exchange by 2018