HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Management of tax reliefs, HC 379

Wednesday 10 June 2020

Ordered by the House of Commons to be published on 10 June 2020.

Watch the meeting

Members present: Meg Hillier (Chair); Olivia Blake; Sir Geoffrey Clifton-Brown; Peter Grant; Mr Richard Holden; Craig Mackinlay; Mr Gagan Mohindra; Sarah Olney; Nick Smith; James Wild.

Gareth Davies, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, Andy Morrison, NAO Director, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 1 - 64

Witnesses

I: Sir Tom Scholar, Permanent Secretary, HM Treasury; Beth Russell, Director General, Tax and Welfare, HM Treasury; Jim Harra, Permanent Secretary and Chief Executive, HMRC; Ruth Stanier, Director General, Customer Strategy and Tax Design, HMRC.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

The Management of Tax Expenditures (HC 46)

Examination of witnesses

Witnesses: Sir Tom Scholar, Beth Russell, Jim Harra and Ruth Stanier.

Q1 **Chair:** Welcome to the Public Accounts Committee on Wednesday 10 June 2020. We are here today to look at the management of tax reliefs by Government, something that the Public Accounts Committee has been looking at for nearly a decade now. These are tax reliefs that mean people have to pay less tax on all sort of things, from sanitary products to business rates. Tax expenditures are a subset of overall tax reliefs, but we are going to refer to them today as tax reliefs. There are around 350 of these.

One of the concerns we have as a Committee is that they are not always evaluated to see if they are still delivering what the intent was at the beginning, which could be a financial benefit to the user or something that causes a change of behaviour. In the 2018 tax year, just to give an idea of the scale of this, the National Audit Office estimates that the tax reliefs cost the Treasury over £150 billion. Having looked at this in 2015 and 2018 most recently, we want to ask the Treasury and HMRC today about how they are evaluating whether these are value for money and generally what they are delivering. Of course, in the light of Covid-19, every tax relief will have to sweat itself in order to deliver what it was originally set out to do, so these are particularly important times.

I am going to introduce our witnesses. Just to alert our witnesses, obviously we would like to ask you a few questions about the Government response to Covid-19 as well. We have two witnesses from the Treasury. Welcome, Sir Tom Scholar, who is the Permanent Secretary at the Treasury, and Beth Russell, the director general for tax and welfare. From HMRC we have Jim Harra, who is the Permanent Secretary and chief executive, and Ruth Stanier, the director general for customer strategy and tax design. I give a very warm welcome to you.

I wanted to kick off to you, Mr Harra. First of all, can I congratulate HMRC on having, in a very short space of time, delivered a huge change to the tax system, namely furloughing, which we will cover in a moment. I would like to pass the Committee’s thanks on to your staff. Not everything will have gone smoothly, but overall it has been a huge shift and we thank you and your team for delivering that at a time of great need. Obviously, that has taken a lot of resources. Can you tell us what HMRC has had to stop doing or had to shift resources from in order to deal with coronavirus and the response to it?

Jim Harra: Thank you, Chair. It has been a tremendous effort by everyone in HMRC and I will pass on your thanks to them. I am very proud of how the Department and its suppliers have stepped up to deliver these support schemes. You are right. At the peak, about 10% of people in HMRC were diverted on to supporting these schemes. Some of those people are key IT delivery and policy people, so of course it does have an impact on our delivery of other services, quite apart from the fact that, like other organisations, we have had to switch to working at home. Today only about 6% of people in HMRC work in the office day to day.

Alongside delivering the schemes, we have kept all of our key services going, but obviously some of the service levels on those have not been what we would have liked. In particular on pay as you earn and self-assessment phone calls, the average speed of answer in the first couple of months of this year and the last couple of weeks of the last financial year have been behind where they previously were. I have to say that most customers have been very patient and understanding about that. We are taking every step we can to keep that service up and to improve on it all the time.

For example, we have completed the trial that now enables us to send phone calls home, to our staff at home, which will increase the number of people we can put on those lines. There has also obviously been some impact on our delivery of change because, for example, IT change has been focused on delivering these new schemes.

Q2 **Chair:** Have you had to pause any investigations as a result of the work you have to do on Covid?

Jim Harra: It is not necessarily because of the work on Covid. We have taken a common-sense approach. Obviously, we remain committed to tackling in particular promoters of tax avoidance and fraud. In the case of ordinary taxpayers whose affairs we would look into, if they have been able to carry on with those inquiries we have done so. If they have not been able to for any reason related to Covid-19, say because they cannot speak to their agent or they cannot get access to their premises or records, then of course we have shown understanding in that. There has been some reduction in our ordinary day-to-day inquiry work, which we are picking up now.

The main compliance activity that we have largely suspended is enforcement of debt recovery, because our debt management service has really been fully occupied with helping people who are unable to pay their tax debts during this time.

Q3 **Chair:** We have talked to you a lot about preparations for Brexit. At the moment, the timetable is still as was determined at the end of last year How has all of this impacted on your ability to prepare for the end of the transition period at the end of December, as it currently stands?

Jim Harra: Obviously, we remain committed and focused on delivering that and we have tried wherever possible to protect the resources that are deployed on that work so that we can continue making progress. There is no doubt that Covid-19 increases the risks around delivery of the change that we need, both by HMRC and probably more particularly by our customers, who in turn have also had their focus taken away from preparing for that, to keep goods flowing, for example, and keep their businesses going. It will take us some more time to assess that, but today we remain on track to deliver a plan that will give us a functioning border at the end of the transition period. We know that is a big priority.

Q4 **Chair:** Have you had to use resources or have you had access to resources from other Departments? We know that there is a flying team of civil servants who can help in difficult situations. Have you had to draw on that at all?

Jim Harra: Generally speaking, no. HMRC actually runs the surge team on behalf of the civil service, but we have not really called on it ourselves. Obviously, we are a very large operational Department, with about 64,000 colleagues. We have been able to consume our own smoke, and other Departments, in particular, for example, the Department of Health, have used those resources because they have had tremendous pressures on them.

Q5 **Chair:** How sustainable is it for you to manage to deal with furloughing, an extension to furloughing and a lot of issues, which we will touch on, about those who still will need help? This could go on for quite some time. You have Brexit to deliver. You have your existing change programme. Surely, something is giving. You are making a very good fist of it, Mr Harra, and I am sure you are doing your best to do a good job, but surely something is creaking somewhere. Where is your area of worry, because Covid is not going away any time soon?

Jim Harra: Obviously, in common with everyone else, we have had no certainty and no clarity about how long circumstances are going to last.

The main area that we are focusing on in terms of sustainability is our current working patterns. As I say, the vast majority of colleagues are working at home. Many of them have to juggle home-schooling and childcare at the same time. Some colleagues are thriving on that, but some of them are finding it very stressful. In some areas, we know we are getting very good productivity, but in other areas it is quite a struggle. We cannot give people access, for example, to the full equipment that they would normally have in the office. We have a project underway to review how we can sustain that level of home-working, because we know that is going to be with us for the foreseeable future.

In terms of our services, as I said, the main impact has been on the level of service that we can give on the phone lines for self-assessment and pay as you earn. We have first of all encouraged customers to switch to webchat, because very early on we could get webchat out to our colleagues at home. We are now managing to direct phone calls to people at home. Also for any colleagues who are unable to take phone calls because of their home circumstances—say, they do not have a private room where they can talk to customers—we are looking at making sure we have enough people in the offices to ensure that we can keep safe but also deliver the service.

Q6 **Chair:** Obviously, these things will pan out over time. You have big changes. You have a lot of people applying for furloughing. You have mentioned your debt team and your fraud team. How are they being deployed to make sure that people are sticking to these new rules, which have been rolled out so quickly?

Jim Harra: Clearly any scheme that pays out this amount of money is a magnet for fraudsters. Just short of £20 billion has been claimed on it so far. Therefore, we have had to take a number of steps to protect the Exchequer, while at the same time getting help to as many people as possible as fast as possible. The first line of protection is in the design of the scheme itself and in particular its reliance on referential data that we already have and that we can check. The Chancellor and the Treasury helped us by building that in as a first line of defence.

Secondly, in order for people to claim, they have to already have online credentials, to also be known to us, and we do undertake a number of checks in the background before we make payment. Thirdly, we will have a regime of post-payment compliance to check that people have claimed correctly in accordance with the rules. There is draft legislation in the Finance Bill that will give us the powers to enable us to do that effectively.

Of course, the public can and do give us information about where they believe people may be abusing the scheme, and we will always risk-assess that information and use it. Having said that, we believe the vast majority of employers will have used this scheme correctly and responsibly.

Q7 **Chair:** There are a couple more quick ones from me and then I am just alerting Nick Smith MP that I am going to bring him in in a moment. Clearly, there are different tax reliefs that people might be claiming now they are working at home. There is the working from home allowance, for example. Have you done an analysis yet of which tax reliefs had an increase in claims and whether this actually has an impact on whether they are going to be sustainable for the future? Have you done any analysis of that?

Jim Harra: It is quite early to understand how the situation will affect claims. You are right that clearly there has been a big transfer to working from home and there was already an existing tax relief for people working from home. If their employer reimbursed their excess costs, then that was tax-free. Alternatively, if their employer did not reimburse their excess costs they could claim tax relief from us. It was announced in the spring Budget that the rule-of-thumb allowance that we would give for that was increased from £4 to £6. We have definitely seen an increase in the number of those claims. In the period from 1 April to 2 June, we received roughly 60,000 claims for that relief. That compares with what we believe was about 6,000 a year before that. That is one key example. That is claims from the employees themselves. There will undoubtedly be a much larger number who are getting the increase through the reimbursements that their employers are making.

Beyond that, we have had to make some adjustments to the tax system, including some reliefs, for example, from VAT and import customs duty, to enable the flow of critical goods, for example, that are important to the Covid-19 response and also to ease some of our procedures, particularly those that required either paperwork or wet signatures or stamps, or those that required the physical presence of people.

Q8 **Chair:** You are saying that it is still early days. The obvious ones you can tell, but you still will not have a full analysis. When will you know? When we come to talk about the main session, I am sure Sir Tom and colleagues at the Treasury will have views on this. When will you know what the full analysis is of increases in tax relief? Presumably, it will be at the end of the next financial year, when tax returns are coming.

Jim Harra: Some of it will take some time to come through. For example, I cannot today know what level of research and development is being done during lockdown. You would imagine that those projects will have been scaled back, because it is quite difficult to do it, but it will take some time for all of that to come through.

Q9 **Chair:** I will not go into that too much. I just wanted to pick up on an issue that is very big in my constituency and many others, around the different types of freelancers. You said in an earlier comment, "People had to be known to us". I know that not every freelancer or independent worker who has been on a short-term contract or series of short-term contracts, for instance, is getting any help. Is there any comfort for those people, many of whom are getting nothing now, yet they do have a track record and a history with HMRC? Is there anything coming through the pipeline? I may need to come to Sir Tom on this, because I recognise that some of it may be beyond your reach, Mr Harra.

Jim Harra: In terms of the existing schemes, the fact that you earn through a series of short-term contracts hopefully should not prevent you from accessing relief. If you are self-employed, the fact that you may be picking up different clients does not prevent you from getting relief under the self-employed scheme. Similarly, if you are an employee your employer, your umbrella company or agency can furlough you if you are not able to work. We have put out increased guidance around that to make sure that agencies and umbrella companies can make full use of the furlough scheme in relation to that.

Q10 **Chair:** Can I just pick you up on that issue around umbrella companies and furloughing? A number of colleagues have raised this with me, as well as people in my own constituency. Umbrella companies and agencies are liable for furloughed workers' holiday pay and some workers are paid a premium hourly rate in lieu of taking holiday. Furloughing is not cost-neutral to those employers and many have not been furloughed as a result. Have you got any comment on that, because that seems very unjust on those workers who are losing out because of that anomaly, because they work under a different employment structure to other employees?

Jim Harra: That is a detailed part of the scheme and I am afraid I cannot give you an answer on it now.

Chair: Perhaps I could write to you about that and get a response.

Q11 **Nick Smith:** Mr Harra, I just want to take up questions about the job retention scheme. You said it could be a magnet for fraudsters. I understand that HMRC have received over 800 reports of furlough abuse and that you are assessing those. I also understand that employees of Sports Direct, owned by Mike Ashley, have reported being asked to work while the company claims their wages from the furlough scheme. Do you have any estimate of the cost of abuse so far? Have you had to step in if there have been any wayward employers who are behaving badly, please?

Jim Harra: First of all, I would say the rules of the scheme are very clear. At least up until 1 July, it is not possible for a furloughed employee to do any work for their employer and at the same time qualify for this scheme. That is a crystal-clear rule. Between 1 April and 2 June, we received just over 2,000 claims of abuse of the job retention scheme. By 2 June we had reviewed nearly 900 of those. Around a third of them we found did not relate to claims that we had received, but around two-thirds did and we are already taking action to look into those.

In terms of the harder law enforcement actions you would expect us to take, we are not doing that just yet, because it is reliant on legislation going through Parliament, which we do not yet have. In advance of that, we are making contact with employers against whom allegations have been made and inviting them to explain themselves. Obviously, when we get tip-offs to our hotline, we take them very seriously. We risk-assess them and we will always act if there is evidence of wrongdoing. We are also very much aware that people can sometimes get the wrong end of the stick or can be motivated by a whole pile of reasons to make allegations that do not stand up. We treat them with some caution, but we do look into them.

Q12 **Nick Smith:** What happened if you contacted Mr Ashley at Sports Direct about the concerns that were made about his business?

Jim Harra: I cannot disclose what happens in any particular business, because that is confidential between HMRC and them. What I can say is that we are alive to all allegations that are made and we will take steps to monitor and manage compliance with the scheme. We will recover any payments that we discover have been wrongly made under the scheme.

Q13 **Olivia Blake:** I have just two quick questions, if that is okay. Mr Harra, how are you checking that employers are passing the funds on? Are you monitoring P45s, for example, to make sure there is no abuse?

Jim Harra: Obviously, employers are obliged to pass all of this money on to their employees. We get pay-as-you-earn returns from those employers and those payments would be reflected in those pay-as-you-earn returns, so we have data that flows into us that we can check to make sure that at least that reflects what we would expect it to. Down the track, particularly when we have the new inquiry and investigative powers that we need, we will audit and investigate behind those pay-as-you-earn returns as necessary. In the meantime, obviously, any employee, if they feel that their employer has not paid them what they are entitled to, has their own rights to pursue them.

Q14 **Olivia Blake:** Can I ask Beth Russell what is going to happen when this scheme starts to be wound up? What are the wider implications of the scheme ending as well, from August?

Beth Russell: As you know, we are moving quite soon to the next phase of this, which is about trying to, as the economy reopens, put the right incentives in place through the scheme to help and support people back to work, as well as continuing to support those who cannot work or cannot work full hours.

The two things that we are doing there are introducing flexible furloughing, so people can start to return to work part-time, and also progressively introducing the employer contribution. We are trying to do that in a way that gets the balance right between supporting people who are still furloughed but also making sure that the scheme does not create the incentives for people to stay not working when actually they could be going back to work.

We are trying to do that in a pretty cautious way to start with, particularly with the employer contribution, which starts in August with the Government no longer covering the cost of national insurance and pensions. That progressively increases over time. We will be monitoring very closely with DWP. In fact, we have been talking to them constantly through this period to monitor what is then happening in the labour market as we go through the next stage of all this.

Q15 **Olivia Blake:** That is very interesting, thank you. What level will non-working days be covered by in the flexible furlough scheme? Have you done an equality impact assessment on this? I imagine that this will impact on particular groups, such as carers and women, more.

Beth Russell: To your first question, the overall level of support for the period when somebody is not working remains at 80% of their salary. Within that, the balance between the employer and the Government contribution will shift over time, but the individual will still receive 80% of their salary through the whole period to October.

We have done an equalities assessment. I am sorry; I do not have the details of that with me now, but we have done an equalities assessment and, out of that, we have not seen that there is a particular issue with one particular group here. I can send you more on that, if that is helpful.

Q16 **Peter Grant:** Again, this is primarily for Mr Harra, although our witnesses from the Treasury may want to comment as well. One group of employees who do not really benefit at all from any of the Government support during lockdown is seafarers. They have a slightly unusual combination of employment and taxation status, with the full support of the Government and HMRC. Just now, it means that they do not quite qualify as self-employed and they do not quite qualify for the furlough scheme either. Are HMRC aware of this anomaly and has anything been done to support these people, who after all are the people who are keeping our supermarkets stocked and keeping the industry going, because if the ships stop bringing the goods in, then the United Kingdom gets into a difficult position very quickly.

Jim Harra: I might ask Ruth or Beth in a moment if they know details of this. From our point of view, I know that seafarers make a very important contribution to the economy. One of the challenges that we had when we designed this scheme is that there are a very large variety of different employment and business practices out there, which made it quite complex in the time that we had available to design a scheme that caught everyone that we would have liked to help. I appreciate that there are people who do not get help under either the furlough scheme or the self-employment income support scheme, who I would like us to be able to help. That was just an inevitability of both the complexity of life and the fact that we had to move at great speed to design these schemes. I hope that, if anyone has found they could not get help under one of these schemes, they were able to get help on one of the many other support schemes that the Government have set up.

Q17 **Peter Grant:** Thank you, Mr Harra, for that answer. My difficulty is that the only other Government support that a lot of seafarers are able to receive is universal credit, which is generally not enough for anyone to live on, even if they do not have significant financial commitments. There is an implication in your previous answer that it is something that is still being looked at. If a way can be found to develop a scheme that includes more of the people that, in your own words, you want to help, is the intention to backdate it to the same time that other employees were able to be supported, or are the 20,000 or so seafarers just going to have to write off the money they have not been able to earn for the last three months?

Jim Harra: I cannot give any assurances about what would be done in relation to that. Could you write to me, setting out what the issue is, because it is not something that I am aware of?

I would say, on universal credit, that the Government have made both universal credit and the working tax credit element of tax credits more generous during the Covid-19 period by about £1,040 a year, as well as changing the rules of universal credit to make it more accessible for self-employed people. I take the point that the job retention scheme and the self-employment income support scheme can give more generous support.

Q18 **Chair:** We all have many constituents who do not fall within any of the schemes. Can I just turn to Sir Tom Scholar? Sir Tom, there are people who are self-employed in different employment models and people on short-term contracts, who do not quite fit the mould, whom HMRC perhaps have information about but for whatever reason they fall foul of the rules. A number of us have pressed your Department Ministers repeatedly for any comfort for those individuals. Is there anything further that is likely to be announced in the coming weeks or months to support those people? Even with the restrictions of lockdown lifting, those people will still not be able to work for some time.

Sir Tom Scholar: Of course, these schemes were introduced at great speed. Over the last few months we have been doing a lot of work to look at areas where they could be refined, improved or in some cases the coverage extended. We have heard a lot of representations on that and given advice to our Ministers on it. Ultimately, it is a ministerial decision as to what the extent and the scope of the various schemes are. I am not able to say anything beyond what our Ministers have already said, other than to say that of course, where things are brought to our attention, we look at them very carefully, often in consultation with HMRC, and we then provide advice to our Ministers on that.

Q19 **Chair:** We will continue to keep writing in. I just want to turn to Beth Russell. Ms Russell, as director general for tax and welfare, are you or any of your team doing analysis of the impact of the loss of income for some of these people who will then have to draw on the system in other ways and potentially cost the taxpayer more if they are unable to be supported over this challenging time when they are unable to work? For instance, a lot of them in my constituency are in the creative industries, which are not going to be up and running for a while yet. Do you have any comments on that, Ms Russell?

Beth Russell: Yes, there are two areas where we normally would, and that we are very much looking at in this period. One is obviously looking at what is happening in the labour market and the different sectors of the economy and different groups of people who are affected and how they are being affected. Then, going to your point, we do a lot of distributional analysis. We have a team in my part of the Treasury who look at the effect on incomes of people. It is still quite early stages, but at the moment they are gathering as much information as they can. They speak to a lot of people outside, such as academics, and there are a lot of surveys and other information coming through. We are looking at that.

As Jim has said, what we have been trying to do through this period is get as much support as possible to as wide a group of people as quickly as possible. We totally recognise that there are some rough edges in some of that, but it has been as a consequence of getting support out of the door in absolute record time.

Q20 **Chair:** I once again repeat the Committee's congratulations about that record time. I have been saying to my constituents that HMRC and the Treasury are interested in hearing people's personal situations, because some of them are very specific, and that that is helping to shape your policy. Could you just confirm that is the case?

Beth Russell: Absolutely, yes, and there are quite a lot of examples of where we have tweaked the policy design in response to feedback, for example in terms of changing the cut-off date for the furlough scheme from the beginning of March to 19 March. We are trying to respond to feedback where we get it and work where we can within the constraints of what we are trying to deliver.

Q21 **Craig Mackinlay:** I will just put on record I am both a member of the ICAEW and I am a member of the Chartered Institute of Taxation. You have done a very good job in designing this scheme from HMRC generally being a recipient of money to pouring money out the other way. I really do commend the online system, which, let us be very honest, Government do not always do terribly well. The experience is that this has worked well.

On the fraud point, which we will not know for some time, there does not seem to be a connect. I know we have monthly RTI and all the rest of it. The employee might have been working normally but would have no knowledge as to whether the employer is claiming furlough. That seems to be the one risk area, because the employee does not know. I am sure that many of the reports you are receiving are perhaps from employees who do know that their employer is doing perhaps the wrong thing.

Putting that aside, I have a question to Beth Russell; this is very relevant to the latter part of this session. In terms of the change of date, that was trying to make sure that new starters had a chance of being furloughed. We had this dead zone in the middle of people who had perhaps left a job, their previous employer was not willing to re-furlough or backtrack, which was perfectly allowed, and did not want to get involved with that. For people between jobs, their new employer could not furlough them. We had this new key date of 19 March, which was meant to solve everything. There was an advertised number that this consisted of: 300,000 people. I frankly do not believe that figure. Have you got any more evidence as to what that change of date did help? There is no employer, unless you are on a weekly payroll, that would be doing the appropriate full payment summary that would have caught those. It was a good flower, if you like, but I do not think that 300,000 was actually true in any way, shape or form.

Beth Russell: I do not have a different number from the number we have previously used on this. I would just reiterate that the reason for the 19 March date was because after that point we could not guarantee that there were not people setting up fake employer PAYE accounts in order to claim under the scheme.

Q22 **Chair:** I just want to raise an issue with Mr Harra about IAG, which carries cargo on British Airways planes. I just wondered whether you have any comments about how this is accounted for. Rather than this being counted as revenue for British Airways, and so taxable by HMRC, it is counted under an IAG cargo company based in Spain, so taxed in Spain, although the cargo is carried exclusively on BA planes with the cost of insurance, labour, depreciation and so on set off against HMRC. Is this something you are aware of, Mr Harra, or is it something I should perhaps write to you about?

Jim Harra: Are you referring to payments received under the job retention scheme?

Chair: No, this is about cargo, revenue and the taxable revenue. It is beyond the Covid thing. Perhaps I will write to you about this.

Q23 **Sir Geoffrey Clifton-Brown:** This is a question for Sir Tom Scholar. Good afternoon, Sir Tom. I would like to ask you a question about British Airways. I have a significant number of pilots and long-serving cabin crew in my constituency who are part of the group of 12,000 who British Airways are disgracefully going to make redundant and then rehire on lesser contracts. This, as far as your Department is concerned, must be contrary to at least the spirit of the furlough. This company must have received a great deal of money under the furlough scheme, which was designed to keep companies going and hence their employees in jobs. Is there anything your Department can do about this?

Sir Tom Scholar: The operation of the furlough scheme is something for HRMC. We set the rules of the scheme and then HMRC's job is to make sure that people comply with them. There are many examples where people have raised concerns about how the scheme is operating and where people have said, "Could it be designed in a different way?" Now, normally a scheme on this scale and intervention on this scale is something that would have been put together over many months. That was not the time that we had available and not the time that HMRC has available, so it was a scheme designed quickly and implemented very quickly.

As Beth Russell said earlier, there are therefore some rough edges around it. If people are complying with the rules of the scheme, then they are complying with the rules of the scheme. At that point, HMRC will implement it in the way it has been set out. I cannot say anything more than that.

Q24 **Sir Geoffrey Clifton-Brown:** Perhaps Mr Harra might like to comment. Will you be looking at the terms of compliance very carefully in the case of British Airways?

Jim Harra: As you would expect, I cannot comment specifically about British Airways. I am aware that, across a number of employers, there has been public controversy about their use of the job retention scheme and about whether they should. As an authority that administers it, we cannot look at whether it was morally or ethically right for people to have used the scheme. We look at whether they have complied with the rules of the scheme.

There is nothing in the rules of the scheme that prevents an employer from making furloughed employees redundant, although of course the whole purpose of the scheme is to try to prevent that from happening. It has kept nearly 9 million people in jobs that might otherwise have lost them, but ultimately what we do is administer compliance with the rules. There is nothing in the rules that prevents an employer from claiming furlough in relation to employees who they then subsequently make redundant.

Q25 **Nick Smith:** I have a question, first, for Sir Tom Scholar. As the crisis has developed, the Government have brought in a raft of new economic measures in short order. As we look to the future and this talk about 9% unemployment in some places going forward, can you tell us when the next spending review or emergency Budget will be? Are we likely to see something, Mr Scholar, before the summer or in the autumn, would you say?

Sir Tom Scholar: That is something that has not been decided yet. That will be a decision for Ministers. The Chancellor wrote to the Committee in March to say that the spending review that had previously been planned for the summer would instead be delayed until later in the year. We will certainly need to have a spending round later this year, because we will need to set budgets at least for 2021 and 2022. There is then a further decision for the Chancellor as to whether, in addition to that, he would like to have a Budget. As I say, I do not know the answer to that yet. It has not been decided, but it is obviously one of the things that we will be ready to do if that is what the Chancellor wants to do.

Q26 **Nick Smith:** I would certainly press for the Chancellor to come up with a new range of ideas sooner rather than later. I have been disappointed at the reheating of what I think of as old ideas, particularly relaxing the Sunday opening hours, which seems to be doing the rounds again. We need more innovation and ideas that are really going to make a difference in our constituencies across the country.

To avoid a rabbit being pulled out of the hat for short-term gain, what risk assessment or value-for-money tests will you in the Treasury do to make sure that the ideas presently being considered, because I am sure they are, will avoid long-term negative consequences?

Sir Tom Scholar: We will do what we always do when supporting Ministers, supporting the Chancellor and preparing fiscal events, whether those are Budgets or spending reviews. I am sure we will cover this later on in the session when we are talking about tax reliefs, but we prepare our best advice on the proposals and the ideas that get put to us. We prepare our best advice on cost-effectiveness, likely consequences, different ways of achieving the same objective and, in some cases, unintended consequences.

We do the best job we can in analysing and advising on proposals, and also trying to weigh up the merits of many competing priorities. It is a difficult job for any Chancellor. We will do our best job in providing advice on all of that in the way that we always do. Of course, ultimately it is a decision for the Chancellor, but we will do the best we can to give him good advice.

Q27 **Olivia Blake:** Sir Tom, if it is going to be later in the year and it is only a single-year Budget, which I think is what you are suggesting, how are we going to make sure that there are multi-year projects going forward that can be adequately funded through this? Are there any plans to make this multi-year rather than single year?

Sir Tom Scholar: If I gave that impression, it was not correct. It was not the impression I meant to give, so let me correct myself there. The timing and the scope of the spending round later in the year has not been decided. That is something the Chancellor will decide and announce. All I meant to say was that, at an absolute minimum, we have to set the spending budgets for the next financial year, because we do not have any budgets for next year beyond some of the capital budgets. As an absolute minimum, we have to cover spending next year.

It may very well be that we have a full multi-year spending review. In fact, even last year when we did a one-year spending round, as you know, we did in a number of areas some multi-year planning, especially on capital infrastructure. As an absolute minimum, we will do one year and it may very well be a full spending review, but that has not been decided yet.

Chair: I will just remind witnesses of the time and that we are expecting a vote at around 4.30 pm. I know that Mr Mackinlay is going to set the tone by asking quick questions. Could we have answers that do not repeat each other, though we may want to go to different witnesses?

Q28 **Craig Mackinlay:** Let us very quickly lay the framework of this. The conundrum I am trying to solve for myself is that, when we are faced with a Finance Bill, we are often given estimates of what certain measures are going to cost. That then seems to be the end of it. We do not then know, years in the future, whether we were somewhat misled through poor information or whether those measures, as advertised, have actually done what they were meant to do.

I find it quite remarkable that, with all of these tax measures, both the structural and non-structural, we do not know what they really cost or what the outcome is. Can you give me some assurance that there is more work being done to do the post-mortem years hence after a Finance Bill, to see what actually happened? This first question is probably best for Sir Tom Scholar.

Sir Tom Scholar: Let me start, and then Jim or Ruth might want to add, because a lot of the work in this area falls to HMRC. As you say, when a relief is introduced, we publish a tax information notice with information on the expected cost. Over time, obviously, costs change. There can be several reasons for that. It could be the case that the cost was just poorly estimated in the first instance. It is often the case that the determinants change and those drive the cost. For example, some reliefs or allowances are driven by economic determinants, for example capital allowances and the corporation tax system. The cost of capital allowances will rise and fall depending on the volume of investment.

There are then other reliefs that can drive changes in behaviour by individuals, businesses and economic agents. That can also lead to a change in the cost. There can be lots of reasons. We absolutely keep the cost of tax reliefs under review. That is something that we routinely look at in the Treasury every year as we are preparing the Budget. It is something that HMRC routinely monitor and evaluate. Indeed, they publish quite a lot of information on that and have increased their publication recently with plans to go further. Perhaps I could hand over to my HMRC colleagues.

Ruth Stanier: I am happy to come in on that, to very much confirm that we are committed to increasing the transparency of the information that we make available publicly in this area. The NAO has recognised that we have already made significant improvements to our statistical publication. We have extended its scope. We make sure now that we provide a full list of the 362 non-structural reliefs with clear explanations. We have put in place now some very clear, very accessible graphs, which show how the costs have moved in actual terms over the last six years. We also set that out as a percentage of GDP. We will also, as we bring forward our further statistical bulletin this autumn, be including some further explanations, exactly to that point, about how the costs now compare to those original forecasts.

Q29 **Craig Mackinlay:** Ms Stanier, when these figures are put to Parliament as part of the Finance Bill and all of those measures, how has the Department actually come up with that figure? My concern is whether, when we consider these figures, Treasury and HMRC are just playing a game of chess with one move: "We put the rate up to X or down to X. This will therefore raise or lose so much". Are there any thoughts on the corollary outcomes in the economy?

Let us just pluck one out of the air. Let us take EISs. These schemes are your classic nudge schemes to try to get seed capital into businesses. It costs X in terms of the tax rebate that the investor gets. Is there then a consideration that, in laying that seed capital down, we then hope to get more employments, VAT receipts, PAYE receipts and corporation tax receipts? Is that part of that figure or, honestly, is it realistically just that one move of the pawn on the chessboard and it goes no further?

Ruth Stanier: We do very careful modelling with all of the best evidence that we have available. We share our modelling with the independent Office for Budget Responsibility. Since 2010, it has always looked at our forecasts and verified them. It will confirm that we have produced a central estimate, i.e. an estimate that is just as likely to be too low as too high. Since those arrangements are in place, it is quite clear, and has indeed been recognised by the NAO, that our forecasting has become more accurate. Indeed, since 2013, for the majority of the larger reliefs, our forecasts have, in fact, proved very accurate.

For example, on employment allowance, we see that has an actual cost of £7 billion, which is just 3% beneath our original forecast. A lot of this modelling is proving very strong.

Q30 **Craig Mackinlay:** I will give you an easy one, because none of you were there when it was introduced. Let us go back to the late 1990s or early 2000s, to Gordon Brown's very famous £10,000—the corporation-tax-free first £10,000 of profits, implemented in full by 2002. Lo and behold, not unexpectedly, every sole trader in the land then incorporated their business. There was some anti-avoidance legislation put in in 2004 so that if you actually remitted yourself that dividend you would have to pay the effective corporation tax that was not being collected.

That was obviously a howler that went wrong, because within three years of it starting it was taken out of the equation. There must have been similar modelling put through at the time when this great idea was advanced. It was put to Parliament as, "It is going to cost this", and it obviously cost a lot more, because it was withdrawn very quickly. What happened with that one? Do you have any ideas? I have got a few more to put at you and hopefully they will be within current people's memory.

Jim Harra: I have unfortunately been around long enough to have been involved in that, although I am pleased to say I was not. One of the inherent risks with non-structural tax reliefs is that you are trying to create an incentive for people to behave in a way in which they would not otherwise behave. Therefore, there is an inherent uncertainty in how people are going to respond to that relief. They may behave in ways that you did not intend or they may just pick up the incentive and not behave in the way that you intended.

Probably since 2002, with behavioural science, we have got better at predicting how people are going to behave, but you are right. To some extent it is always, particularly with a completely new relief, inherently difficult to predict what take-up will be and whether people will behave and respond in the way that you wish, particularly where what you are trying to do is nudge people into making economic decisions that they would otherwise not have made.

Q31 **Craig Mackinlay:** Let me give you another one, which hopefully will be in the memory of one of our witnesses. George Osborne's £5,000 free dividends tax only lasted two years and fell out of favour by 5 April 2018. It had two years of life and we are now down to £2,000. I find it very annoying, not just as a parliamentarian but as a taxpayer, that we end up with a moving carpet of tax rules that last just two years. That must have had some grand plan by the Minister. It goes to the Treasury and it goes through the behavioural and clever modelling and it came out that it will cost X. Obviously, it did not cost X after a year or so in operation; it cost a lot more because doubtless creative taxpayers created alphabet shares and all of the rest of it, and it was costing far more. Despite, only a few years ago, us having that much better behavioural analysis, it all went horribly wrong within a year or so. Does anybody in the room remember that one?

Beth Russell: We can confirm this but my understanding on that allowance is that the further changes were not driven by a particular issue about the underlying cost being different after a certain period from the time of introduction. Ministers at every Budget look at the tax policy landscape and think about that from all sorts of perspectives, including simplification as well as in terms of fairness, revenue-raising, and what is happening in the economy, and make decisions on what changes they want to make as a result of it. I do not think that particular example was related to the original cost being different from what was expected.

Q32 **Craig Mackinlay:** I will put that one aside. One of the very big tax costs, if you want to call it a cost, is pensions. The pension tax relief has been the subject of big debate over many years, and, with the Finance Bill, everyone is waiting with bated breath as to whether there will be some major change. Should it be £40,000 relief a year or less, and whatever rate of tax relief? As part of that cost—this is very much your department, Beth—with people encouraged to save for their own personal pensions, it hopefully means there is a deferral down the road and less of a reliance on benefits in their older age. Does that form part of the formulaic as well? It is very easy to say, "It costs us £28 billion a year in tax reliefs", but is it a deferral of benefits saved in the future? Does that come into play as well?

Beth Russell: It absolutely does. The purpose of that relief is absolutely to encourage people to save for the longer term and, as you say, that has fiscal and other benefits for us over the longer term. Obviously, measuring some of that is quite difficult but, yes, as you know, back in 2015-16, there was a very big consultation around pensions tax relief. It was a very open and evidence-based consultation, and the Government decided at the end of that not to change the relief from the current structure.

Q33 **Craig Mackinlay:** Sticking with Ms Russell, at that time we had the new LISAs. That was the grand plan that came out of that Budget. I served on the Work and Pensions Select Committee at the time and I could just see that this was not going to be a massive flyer despite being told that it would be a great new liberalising policy, encouraging people to save either for pensions or for house-saving. We had trouble at the start and it did not know quite what it was, but the numbers taking this up have been pitifully low. What went wrong with that analysis of outcomes? Do you have any ideas?

Beth Russell: I do not have the latest figures to hand but the take-up has grown over time and, actually, there is some evidence that amongst some people it is quite a popular product. As you say, that came out of a whole series of discussions with the then Chancellor about the savings and pensions landscape, and ultimately it was the Minister's decision to introduce the new LISA, which was partly about giving people more flexibility about how to save for the longer term and young people, in particular, not feeling that there was a choice between saving for a house and saving for their pension.

Q34 **Craig Mackinlay:** I will come to the end of my session on the tax regime for research and development. There have been more claims than were anticipated. One can understand the driving force behind it where companies were liberated, if they had cash in the bank, into creating a high-tech Britain and all of those good things. That was great but it has obviously been a lot more than was anticipated, Mr Harra. That could be for one of two reasons: either it was so good, so liberating and the companies of Britain were so keen to get on with this type of technology, which is good, or there has been not fraud but some tinkering around the edges. It is one of these industries, and we saw this with integral features in properties, where you see a huge proliferation of boutique specialists emerge, writing to every company and, not surprisingly, the number of claims goes through the roof. I am still nominally in practice and it is not uncommon for my practice to have picked up from a previous agent. You see all sorts of howlers by unprofessional people who got involved in this marketplace at the cost of taxpayers. It is very frustrating.

Jim Harra: I have a couple of points on R&D around forecasting its costs and its actual costs. First, it is a relief that has been reformed and altered on a number of occasions year after year, which makes it a challenge to forecast what the impact of accreting change in the scheme might be. Where you have that frequency of change, it is not unexpected that costs might vary from forecasts.

You are right that this is a relief that we have to police quite carefully. It has been quite a challenge to the Department because, on the one hand, you want to get the relief to people who are legitimately claiming it as quickly as you possibly can, but, on the other hand, the claims do bear scrutiny.

There are two issues for us in terms of that. First, there is a testing of the boundaries of what the relief covers. It is real expenditure by businesses and they will argue that that expenditure comes within the relief, particularly as it has become more generous. We have to examine that and test it.

The other thing is that we have seen some agents move in to help produce these claims where the quality is not what we want it to be. I am confident, in terms of how we administer it, that we put a lot of resource and attention into making sure that we get those claims right but also that Treasury and Treasury Ministers listen when we say we have concerns about how the scheme is being used, which we cannot manage through operational activity. You have recently seen the Government, for example, announcing an intention to reintroduce a pay-as-you-earn cap to this scheme as a means of controlling the abuse at a design level as opposed to at an operational level.

You are right that it is a relief that requires careful administration. I believe that we do that but there is always a balance to be struck between having an open relief that incentivises as many people as possible to undertake the economic activity you want and having rules that prevent abuse. In fact, we have now seen the Government respond to representations around the pay-as-you-earn cap's impact on genuine R&D claims and that has caused us to go back around to the design of that and make sure we get it right.

Q35 **Craig Mackinlay:** You have identified, Mr Harra, the complexity of the tax system, which does not help in many circumstances. I want to conclude with this. HMRC spend very small amounts of money in investigating behavioural aspects and the more academic side of tax policy, and yet we have such departments in virtually every university in the country. You have the resource of the professional institutes, the Chartered Institute of Taxation and the Tax Faculty of the ICAEW, but I cannot help but think that you are not tapping into those almost free resources at times to get some of these behavioural aspects, the real cost of things and what is likely to happen. I recommend that you use them. I wonder if you could give me a commitment to widen your base to take evidence for free more greatly from these types of institutions so that we can get things better in the future.

Jim Harra: I am always very happy to take free services. I suspect some of your colleagues in the industry do complain sometimes about the burden that we actually place upon them to help us with the design of tax changes, because our consultations rely very heavily on them giving their time to us, and we are very grateful that they do so.

You are right that we have a modest budget that we use for external research. In the last five years, we have published about 15 evaluations on tax reliefs where we have externally commissioned, but we do also rely informally on lots of input from both the tax profession and the industry itself on how tax reliefs are performing. Within HMRC, we have a team of about 450 statisticians, economists and researchers, plus the largest behavioural science team in Whitehall, which we use informally to back all of that up.

Q36 **Olivia Blake:** I am just going to refer to a couple of the graphs that are in the NAO's report. I really just want to get a picture and understand how you feel about the use of your statistical confidence in your estimations. It is quite clear from figure 11, and there are some good examples in figure 10, on pages 31 and 30, that your estimations are wrong to the tune of 100%, really. There is actually a doubling in the graph of your actual costs against your estimations. I just want to get your view on that. Do you think this is out of control?

Ruth Stanier: We absolutely recognise the findings that are clearly set out in this report that, in some cases, the actual costs vary significantly from the forecast. As I set out earlier, we are committed to, in future, setting out more transparently in our statistical publications each year the reasons for those changes.

In each of the case studies, there is a different backstory but fundamentally, at the point where we make our forecasts, we cannot always anticipate everything. There can be shifts in science and technology that we may not anticipate. There can be currency movements that have a significant impact; for example, in the creative reliefs in terms of overseas companies who decide to come here and undertake their work here. All of these things can shift and, in some cases, it does result in these significant variances. When we have these variances, it is absolutely the case within HMRC that we have a named individual who is specifically responsible for monitoring those changes and taking action as necessary and alerting our Treasury policy partners where that is appropriate.

As I also set out in my earlier evidence, it is certainly not the case that our forecasts are consistently wrong to this extent. There are many cases where, in fact, our forecasts have proved to be very accurate.

Q37 **Olivia Blake:** Paragraph 2.26 on page 36 highlights the main issues and concerns for this Committee, where it specifies that, of six specific tax reliefs, three had high risk. The R&D one seems to have increased the most. Do you feel that the Department has confidence in answering the critical question here which is: is this tool delivering the ambitions of the underlying policy, or is it just being abused?

Jim Harra: This goes back to what I said before. The Department creates what we call a strategic picture of risk. We identify what the key risks are to tax compliance and driving the tax gap. As you say, some of those relate to tax reliefs. The R&D tax relief is a very large tax relief and there is significant risk attached to it. I explained that we are aware that there is both testing of the boundaries of the relief and an industry producing poor quality reliefs. That strategic picture of risk informs the deployment of our operational resources. For each of the risks there, we work up a risk treatment plan that identifies whether we are going to tackle the risk that we see through operational activity or through policy design. In the case of R&D, it is both of those. We deploy quite a lot of resources to checking claims, but we have also gone back to Ministers and identified some policy changes that could help us with that. As I say, our experience is that Treasury officials and Treasury Ministers of successive

Governments are very keen that reliefs are used for the purpose for which they are intended and are not misused, and they will listen to us when we suggest changes.

Where costs vary from forecast, clearly one of the things we look at is whether that is an indicator that this is being misused and that there is a problem in the tax gap. If so, it informs the strategic picture of risk. Of course, it is by no means inevitable that a variance of cost from forecast means that there is non-compliance.

Q38 **Olivia Blake:** Do you feel that you have confidence that, for all 300 of these, you have good oversight of the trends that this R&D example shows and that your Department is responding quickly enough to put in place safeguards to prevent fraud?

Jim Harra: I believe we are very responsive. While there are a large number of reliefs, actually a small number of them account for a lot of the cost and there are a large number of relatively small ones. Some of them we administer just as part of the overall tax system, so, for anybody using them, we will look into a range of compliance risks that they might pose for us, including but not simply their use of the tax reliefs.

For others, particularly the larger ones, we will design our organisation around the relief and actually put in a team to manage the relief because of the risks that it poses. I am sure we can always get better at that but, particularly in some of those big reliefs like R&D, we are very well informed about what is going on and we do not hesitate to go to Ministers if we think that we need legislative action to address that. We are fortunate, compared to many Departments, that we have an annual fiscal event and annual legislation that enables us to do that.

Q39 **Sir Geoffrey Clifton-Brown:** Sir Tom, figures 11 and 12 show a significant variation between estimate and actual cost, caused, as the sub-notes make clear, by a significant change in capital gains tax. Is there not a case, when the rate of a major headline tax is changed significantly, that the tax expenditures also ought to be altered at the same time?

Sir Tom Scholar: What you have correctly identified there is that the cost of many reliefs is intimately connected to the rate of tax that they are a relief from or to other bits of the tax system that are also relevant to the same economic activities. You are quite right that you need to think about the tax system as a whole and, actually, in some cases, not just the tax system but also the interaction of tax with spending in the relevant area. That is absolutely the way we think about it and the way we look at it in our advice. Whenever there is a proposal or a change is being considered to one of the major rates of tax or to one bit of the tax system, we will look, very much with HMRC, at what the impact elsewhere would be and we would then include and incorporate all of that into our advice. It certainly does not make any sense to think of any one particular relief in isolation from everything else elsewhere in the system.

Q40 **James Wild:** This is a question to Mr Harra. Why do you spend so little on evaluation compared to the value of the taxes that you could evaluate?

Jim Harra: First, I want to make clear that the expenditure on evaluation that we refer to and that the NAO refers to in the Report is expenditure on external research. We also obviously do internal evaluation, as does the Treasury. I mentioned that we have a very large team of analysts, statisticians and economists who work on that.

We want to have a more systematic way of doing that and I would ideally like to spend a lot more money on it but, of course, that competes with everything else that I have to do as well. In part, we look at what it is that politicians might be interested in reforming. What is the reform agenda? There is no point in me spending money on evaluation on something when, in fact, there is no appetite to do reform in that area.

Q41 **James Wild:** You mentioned that that is just external spend. Are you able to put an estimate on the internal equivalent cost? The report says that the HMRC does not record that. You are telling the Committee that there is a lot of internal work but all we can see is a £2 million external budget. What would your sense be of the staff time that is done internally? Perhaps you could come back to us with a note, if it is not something that you have a sense of at the moment.

Jim Harra: Yes, it is very difficult for us to estimate.

Chair: Could you write us a note on that? That would be great. Thank you.

Q42 **James Wild:** Paragraph 3.5, as well as talking about the limited research budget, says that HMRC considers taxes difficult to evaluate because they have "multiple or unclear objectives". Can you give us an example of some taxes with unclear objectives? Perhaps Sir Tom could also comment on why we have taxes coming in with unclear objectives.

Jim Harra: Some tax reliefs are intended to just apply to a certain group and they reflect a political choice about the incidence of tax and what politicians want. An example from my point of view would be the marriage allowance, which recognises marriage in the tax system. I can demonstrate the extent to which people who are entitled to that relief are or are not getting it, but what is the objective that I would evaluate in relation to that? Is it whether more people are getting married or whether marriages are lasting longer? To what extent would that, alongside other factors, contribute to any of this? Some tax reliefs have very specific objectives where, ideally, we would be able to evaluate; others simply reflect political choices about who Ministers and Parliament do and do not want to tax.

Q43 **James Wild:** Sir Tom, do you think the Treasury is guilty of not giving sufficient clarity to Parliament and HMRC of what the purposes of tax reliefs are?

Sir Tom Scholar: I entirely agree with what Jim has said. In some cases, it is clear that a tax relief is intended to have a particular objective but in other cases it is a decision not to levy tax on something. For example, we have a zero rate of VAT on most food and that is not expressed in terms of an objective on prices or supply or the industry or anything else; it is simply a decision by Parliament, supported by successive Governments, that VAT should not be charged on food. Where you have a decision simply not to tax a particular activity or a particular group of people, the objective is simply that. The very fact of not raising the tax means that the objective has been achieved. That, of course, is not the way that an auditor or an analyst would necessarily come at the problem.

Q44 **Nick Smith:** I am going to come off the impact of tax expenditures. My first question is to Ruth Stanier. Well done—this is on page 37 of the Report—for identifying abuse of R&D relief by companies with a minimal UK presence. I am pleased to see that HMRC estimates that £45 million a year will be saved with the newly proposed cap. However, what is the HMRC estimate of how much has been lost to abuse before the new arrangements kick in?

Ruth Stanier: That measure, the PAYE cap, is now planned to be introduced from next April, following further consultation to make sure we do not have any unintended consequences from the design of it. I do not have that estimate to hand now. I am happy to write to the Committee with further information if we have that available at this time.

Q45 **Nick Smith:** Very quickly on that, I understand that you will be saving £45 million a year. It has been a problem for at least three years, so it sounds as if it is a ballpark figure of £150 million. Is it that, or is it more?

Ruth Stanier: As I say, we can write to the Committee with further information. I should be clear, though—and I think Jim was talking about this earlier—that that policy change is by no means the only action that we have taken within the Department to tackle the problem as was identified. We have significantly tightened our approach to claims-processing. We do more risk assessment and we have put more compliance resource on to it. There is a range of other things that we have been doing in addition to the planned policy measure.

Q46 **Nick Smith:** If we could have a specific response on that query, I would be grateful. Mr Harra, why have you not evaluated any of the 10 most costly of these items?

Jim Harra: Cost of tax relief is one factor but some of the most costly tax reliefs are the ones, going back to what we discussed previously, that are very challenging to evaluate. For example, one of the biggest tax reliefs in terms of cost is the principal private residence relief from capital gains where, since the onset of capital gains tax in 1965, gains on private residences have been exempted. That is a relief that would be inherently difficult for us to evaluate because successive Parliaments and

Governments have not wanted to tax gains on private residences. If I evaluated it, I would demonstrate that it has been working very successful against that objective, but I am not sure what that would achieve.

Cost is only one factor. Some of the biggest reliefs—another one is the zero rate on food that Tom mentioned—are, in a sense, structural as well as being non-structural and are inherently difficult to evaluate, whereas those that are designed to achieve a particular behavioural economic change are easier to evaluate and are more marginal, perhaps, in terms of their likelihood to achieve their effects, and therefore we want to look at it. Cost is certainly one thing that we do take into account. For example, we have evaluated R&D tax reliefs in past years and published that.

Q47 **Nick Smith:** Could I just pick one of the big 10? We know that you have a really difficult job and that it is very complex. I absolutely accept that and we know that you have to put finite resources towards these issues, but can I just home in on pensions? There is a lot of public interest on the £38 billion that is spent on pensions tax relief in the round. Organisations such as The People's Pension working in this sector have told me that this relief is not encouraging saving in real terms. Are you sure that this huge cost does what you intend it to do?

Jim Harra: I will maybe ask Beth to come in in a moment. She spoke earlier about pensions. You are right; it is one of the most costly tax reliefs. However, while we have not commissioned external research into that, there is no doubt that it has had a lot of evaluative attention in recent years, including, a few years ago, a very open and major consultation about its entire structure and what it was intended to achieve and whether there are better ways of doing that. It would not be correct to say that there has been no evaluation; it is simply that we have not commissioned an external researcher to look into it. Beth can perhaps describe in more detail the kind of process that we went through to look very thoroughly at that a few years ago.

Q48 **Nick Smith:** Can I just very quickly come in before that, Beth? I understand that an estimated 1.75 million people are not receiving tax relief on their pension savings as a result of the employer automatic enrolment schemes. 75% of those are estimated to be women. What is HMRC doing about that issue specifically too?

Beth Russell: Just to start on the consultation in 2015-16, as Jim said, we had a very open consultation involving a lot of external stakeholders. There was also focus group research and other types of research around the system. It was not a formal evaluation but we collected a lot of information that was published in a consultation response. As I say, the Government at the time decided not to change the system but there was a lot of engagement with a lot of different opinions on what we might change or whether to keep the system the same, and there was basically no consensus around that, which is why we did not make any changes at the time.

On your auto-enrolment question, yes, absolutely; this net pay issue is something that the Government are looking at.

Q49 **Nick Smith:** When will we see action on that issue that the Government are looking at?

Beth Russell: I am sorry; I will have to write to you on that because I am not quite sure of the latest position but I know it is something that we are actively exploring.

Q50 **Chair:** Can I just chip in there, Ms Russell? You talked about there being no consensus on that study and consultation. In a way, will there ever be consensus on pensions? There will be winners but there will be a lot of potential losers. Are you saying that it is in the "too difficult to deal with" box, or does the Treasury have the appetite to work with HMRC and Ministers to make sure that we really get to grips with a pension system that still leaves far too many people outside of a pension scheme?

Beth Russell: Obviously, it is ultimately for Ministers to decide what to do about this. It is something that we, as I say, internally in the Treasury and with HMRC have done a lot of work on through that consultation since then. As you say, it is one of the biggest reliefs so it is something that we would regularly talk to Ministers about as to whether there is interest and appetite for reform. Ultimately, it is Ministers who decide. It is our job to make sure we give them the best possible information and advice, and all the work that we have done, particularly in 2015 and 2016, very much feeds into the advice that we still give today.

Q51 **Nick Smith:** I want to press colleagues in HMRC about this. It would be helpful to understand the breakdown of relief between the DC and DB pensions, including the tax relief that is paid on contributions made by employers to make up deficits on funded DB pension plans. It would be interesting to know exactly what reliefs are shared between the private and public sector pensions and to understand the impact of relief on basic, higher and additional-rate income tax.

Pensions are a big national issue now. £40 billion is expended here. It would be worthwhile having a proper external evaluation and getting all of this information out so that the public appetite for this important debate on pensions can be taken forward. The Treasury and HMRC are obliged to take this forward.

Jim Harra: From HMRC's point of view, our aim is to be fully transparent with all the information that we hold. As Ruth said at the outset, we have increased, year on year, the transparency around this. An evaluation involves kicking off some work beyond what we currently hold and that really depends on ministerial appetite.

In the case of pensions contributions, because of the work that was undertaken on strengthening the incentive to save in 2015, there was virtually no stone left unturned in relation to this. Ultimately, the Government of the day decided that there was not something better that they wanted to move to.

Q52 **Nick Smith:** I just want to express my dissatisfaction that none of the top 10 big-ticket items of relief expenditure have been properly externally reviewed by the Department. This absolutely needs taking forward. I would appreciate, when we come back to it as a Committee, this being taken up in the future.

My last question on this section is to Beth Russell. Ms Russell, what have you learned from other countries in terms of assessing the impact of tax expenditures? In figure 4 on page 18 of the Report, the cost of tax expenditure as a percentage of GDP is just over 6% for the UK. This is six times the German rate and about three times the French rate. Why is that?

Beth Russell: There is no doubt that the UK has more tax reliefs than a lot of other countries, although it is quite difficult to compare because obviously every country has different tax systems. Some have much more devolved tax systems than we do and some of these international comparisons do not include some of the non-federal and non-central tax reliefs. As we have discussed, there are a whole range of tax reliefs that do different things. Some are structurally part of the tax system and some are there for reasons around progressivity. Some are there to try to make the administration of the tax system simpler. There is no right answer to what the right number of reliefs are and, ultimately, it is the Ministers who make the decisions about whether to introduce a new relief or not.

On your question on other aspects of international work, it is something that we have been looking at quite closely as part of developing our framework and internal tools for better analysing and better giving advice to Ministers on tax reliefs, particularly looking, for example, at what Ireland and the Netherlands have done around the guidance and the structure for providing coherent and robust advice to Ministers on reliefs.

Jim Harra: I would just add that obviously, as the tax authority responsible for publishing data around this, we very much engage with our international partners, for example through the OECD. In recent years, the IMF has carried out a review of the level of transparency of 27 countries around fiscal recording and tax expenditure, and only 40% of those countries were rated "good" or above and that included the UK. We very much are interested in international benchmarking and international best practice.

Q53 **Nick Smith:** I have one final question for Mr Harra and Sir Tom Scholar. The Committee queried the value for money of entrepreneurs' relief in 2015. Why has it taken you so long to conclude on its value for money? It has been five years.

Jim Harra: This is possibly more a question for the Treasury. From HMRC's point of view, we do our utmost to publish information, and the information that we published around the cost of entrepreneurs' relief and our transparency informed that public debate. Ultimately, it is a matter for Ministers to decide what they are interested in changing. All major tax reliefs are kept under review. We have an annual fiscal cycle where, as you would expect, as officials, we test what it is that the Ministers want to focus on as their themes for that year, and entrepreneurs' relief's turn came this year.

Beth Russell: I just want to add that it is not that nothing happened between then and the most recent announcements, because we also had the Patient Capital Review in 2017, where we looked at the relief and we extended the holding period. That was another example of where we responded to the evaluation on the road to the most recent reforms.

Sir Tom Scholar: I would like to add that withdrawing a relief or restricting relief is often a very difficult thing to do because, from the point of view of the taxpayer who is benefiting from the relief, the withdrawal or the restriction of that relief feels like, and in fact is, an increase in taxation, and people generally do not like increases in taxation.

It is certainly true that the evaluation of entrepreneurs' relief went on for a number of years before decisions were taken. Part of the art of any Budget, and one of the things that the Chancellor of the day always has to do, is to work out how to raise revenue, in a world where Chancellors are looking to do so, and that sometimes requires preparation, planning, and making sure that the debate is properly understood. All of that takes time. As Beth was saying, it certainly was not the case that we were just sitting around not thinking about that. There are examples in the past of where Governments have tried to restrict or remove reliefs and have not been able to make that stick because people have not welcomed it and complained and then the Government have had to withdraw that proposal. If you want to make a change to a relief stick, it sometimes requires a bit of careful preparation in advance.

Q54 **Peter Grant:** Mr Harra, I want to look more closely at one of the big forms of tax relief, the zero rate of VAT on construction and sale of new-build residential properties. According to the NAO Report, in the last full financial year that was effectively a taxpayer subsidy of just under £15 billion. What assessment has HMRC done to determine who the actual beneficiaries of that taxpayer subsidy are?

Jim Harra: That is a longstanding zero rate. It has been there since the UK joined the European Economic Community in 1972. It is intended to incentivise the construction of new dwellings and encourage housebuilding, and therefore that is the test of that. It is fundamental to the wider economy. It would be challenging to consider, for example, removing it, and the impact of removing it is not known. From our point of view, it is a perfect example of a relief that has been around a long time. It is intended to benefit a particular activity and is clearly targeted at that activity. It is not really a question of who it benefits; it is a question of whether it is reaching the intended target part of the economy, and it does. Clearly, it has an effect on both the cost of new housing and the supply of it, both of which successive Governments and successive Parliaments have been keenly interested in.

Q55 **Peter Grant:** Just to be clear, the way that the tax relief is set up means that it does not distinguish the benefit of somebody spending £20 million to build one house from somebody spending £20 million to build a hundred houses for low-paid families. There is no distinction within the tax relief system between those two projects. The reason I am asking is because this afternoon I saw an advert for a single new-build apartment in Mayfair in London on sale for £13.5 million. I have also looked at an ongoing development in my own constituency, in the Tanshall area of Glenrothes, where they are building 78 affordable rented houses for needy families. I doubt you would get £13.5 million in total for those 78 houses. Just to be clear, what you are telling the Committee is that the way this tax relief has been set up means that it does not distinguish between the benefit of subsidising a £13.5 million penthouse flat in Mayfair that was probably built by one of Vladimir Putin's pals and using the same taxpayer subsidy to provide 78 affordable houses for needy families in my constituency, or indeed in any constituency in the United Kingdom. Are you telling us that that assessment has never been done?

Jim Harra: You are right that there are no rules for the construction of new dwellings that specify, for example, the cost of a dwelling.

Q56 **Peter Grant:** If the Government were minded to change that relief so that it did target support much more directly towards the provision of housing for needy families, for example, would there be any technical difficulties for HMRC in making that work?

Jim Harra: My experience is that we always make work whatever our Ministers ask us to. In the case of zero rates on VAT, most of them are very longstanding and have not been reformed in many years, mainly because they were frozen in the tax code when the UK joined the EU in 1972. Certainly, if it was the case that there was interest in changing the definition of what qualifies for that zero rate, we would stand ready to advise on how you could do that and we would certainly look to find a way, as we would with any policy.

Q57 **Chair:** I just want to reflect on what we have heard so far. There are a lot of tax reliefs where it is sometimes very difficult to tell the value for money. We recognise that that is harder for some of those than for others, but we are constantly hearing from you all as witnesses that it falls to Ministers to decide. The sense is that you are suggesting that Ministers—I do not mean these particular Ministers but politicians in general—do not have the appetite to take on the removal of a tax relief that will upset some people, and are perhaps not that interested in grappling with what is quite a knotty and long-term issue if one is withdrawn. Tom, it is a bit harsh to put you on the spot but you are the head of the Treasury. Can you give a couple of examples of tax reliefs that have been boldly changed by politicians in the last decade?

Sir Tom Scholar: Certainly, yes. If that was the impression we gave, we gave the wrong impression. We are not suggesting that at all but it certainly is the case—and all of you as parliamentarians probably know this better than we do—that, when there are proposals in Budgets to increase tax or reduce, restrict or abolish reliefs, people complain about it. You hear about it from your constituents.

Q58 **Chair:** That rather drives home my point that people do not like that hassle. The pasty tax is the most recent one but there have been plenty of others.

Sir Tom Scholar: I can certainly give some examples of recent decisions in recent Budgets to restrict reliefs and then we can talk more about them. We have already mentioned entrepreneurs' relief and the restrictions there. Following the Patient Capital Review, we made changes to VCTs and the EIS. We introduced a restriction on R&D tax relief. In the Budget this year, there is a restriction on the employment allowance. These are all significant changes that took a lot of careful thought and, in most cases, consultation.

Q59 **Chair:** Fair enough; they are significant changes, but, as Mr Smith rightly pointed out, the big top 10 are not evaluated a great deal, are they, because one could say that they are now part of the structure? Is it fair to say that the very big ones that are reducing the revenue for the Exchequer to the highest level are in the box of, "We do not want to touch those because they are now so embedded"?

Sir Tom Scholar: There is an extent to which it is true that they have become, in effect, structural. Look at the zero rate of VAT on food, for example, which has always been there. You mentioned the 2012 Budget.

Q60 **Chair:** Except it is not 0% on all food, is it? Is there not a team in your Department that is working out how to raise taxes outside of income tax? I remember when VAT went up to 20% because I stopped buying orange juice. Orange juice is VATable even though it is a food, because it is processed, but oranges are not. There is quite a lot of sophistry in tax in order to try to make it more palatable. In terms of the evaluation that you do, are you really getting it right? Are you just putting some in a box as being too difficult to deal with?

Sir Tom Scholar: I was using VAT on food as just a shorthand, as the report does, but obviously the actual figure is much more complicated than that and there have been some celebrated court cases on the precise scope. I would not say it is in the "too difficult" box but, as Jim said earlier, in the Treasury and HMRC, when we are providing advice to Ministers and as we are working on Budgets, you quite quickly get an idea of where the possible is and then we focus our efforts in those areas.

One of the things that we have seen in recent years, partly from this Committee but partly from other places too, is much greater attention given to the scale of tax relief. This Committee has looked at this a number of times in recent years. The OBR identified last summer, in their *Fiscal risks report*, tax reliefs as one of the principal fiscal risks that we ought to look at, and we will be responding to its report soon. That is all very healthy because, although tax relief is different from spending and it is tax forgone, it all has to be part of the overall fiscal judgment, and a better-informed debate is a healthy thing.

Q61 **Nick Smith:** I just have a cri de coeur for more transparency from HMRC about evaluation. Ms Russell and Mr Harra gave the impression that there were lots of internal evaluations being done on these tricky, difficult issues. I have just asked NAO colleagues about access to your internal evaluations and I have been told that you did not have a list of the internal evaluations of reliefs at the time the report was completed. Is there now a list of the internal evaluations that the HMRC has done on tax reliefs, please?

Jim Harra: The nature of our internal evaluation is a lot more informal than the external ones; we have a code of practice where we publish those that we commission externally. Internally, we have a framework whereby every person who works in the reliefs area of the Department who is responsible for a tax relief keeps it under review and uses a template and a framework to follow with that. They will then pick up with their policy partners in Treasury on those reliefs where we think there is something more that we want to look into or some choices that we want to consider, as well as engaging with Ministers on what it is that they would like to receive advice on.

Q62 **Chair:** It is perhaps helpful if I bring in the director from the National Audit Office, Andy Morrison, just to explain. The National Audit Office has pretty clear access to this sort of information. You talk about it being very informal, Mr Harra. Mr Morrison, can you, just for the record, explain what the NAO wanted and what you could and could not get from HMRC?

Andy Morrison: We were keen to understand the scale of evaluation that was undertaken so we did ask for a list of internal evaluations to see if there were any that we could look at but we were told that there was no central record of internal evaluations. It is fair to say that there is a variation in the depth of internal evaluation that is carried out, but obviously that can cover a broad church of things. We were not able to see any substantial internal evaluations apart from R&D.

Q63 **Nick Smith:** That is not good enough. HMRC needs to track its internal evaluations; they should be available for the NAO, and we really have to crack this nut, difficult as it is.

Ruth Stanier: We agree that we have more to do on evaluation in terms of ensuring, as Andy set out, that we have clear access to all of the internal work that is done in a systemised list. In reality, there are lots of individual pieces of analysis that are done that are then deployed in different pieces of policy advice and different consultation documents. I agree that bringing that together more clearly and ensuring that we publish whatever we can is an important thing for us to focus on.

On the point of external evaluation, as Jim set out earlier in his evidence, we are keen to move towards an increasingly systematic approach that looks to prioritise the largest reliefs by value that seek to incentivise behaviours so that we can review their effectiveness. However, as we do that, we will always need to apply our criteria that any research or evaluation in itself needs to offer value for money, so we need to think about the strategic fit, the priority, the urgency, and the likely impact of the research once it is done.

Q64 **Chair:** You are sensing the disappointment that we have that, without this information, politicians will never make the best choices. We have pushed for a long while to get a list of reliefs and a proper analysis of what is actually working and what is not. We recognise that what is working is partly a definition of what politicians want to deliver and which groups or behaviours they want to incentivise or support.

I just want to go to Tom about how you really assess the value for money of tax reliefs. I recognise they are not all about value for money but, where they were set up with that as a main criterion, how do you assess that value for money at the Treasury?

Sir Tom Scholar: You can distinguish, as we mentioned earlier, between tax reliefs that are very explicitly designed by reference to the targeted taxpaying population—the people that the proposal is to relieve from tax—and those that are designed to achieve a particular objective. There is a bit of a difference there.

In either case, in looking at a proposal for a tax relief, we would, first, try to establish what the ultimate objective would be. We would consider a proposed change to the tax system alongside alternative ways of achieving the same objective, which could be some public spending or a regulatory change; the Government have a range of levers. Then, looking at the proposed tax relief, we would look at a whole range of things. We would look at the cost, the likely impact, the potential for dead weight loss there, the potential for fraud and abuse, and the potential for behavioural change, which might interact with other bits of the tax system, and then we would try to bring all of that together into an overall assessment of what the likely consequences would be of introducing such a relief.

Chair: We have a bell that is going now for the vote, so I will have to wrap it up. What we would like to say to you, and we will no doubt reflect this in our Report, is that we need help to hold the whole of Government and every bit of the system to account on the value for money. What you have described is a sensible approach but we know that there are often decisions made that are not sensible, and they embed into the system tax reliefs that are no longer value for money but no one wants to take them away once they are there. It would be helpful if we could encourage both HMRC and the Treasury to make sure that there is a public list of the tax reliefs that are available, and that we can begin to see a register of when you are analysing those for value for money and effectiveness.

I will pause there because I am afraid we have to go to vote. At this point in the hearing, there is no point coming back because voting under our new system takes a very long time. It is certainly not efficient. Can I thank our witnesses—Sir Tom Scholar, Jim Harra, Ruth Stanier and Beth Russell—very much for their time? I want to again reiterate our thanks to your teams for the hard work they put in. We will continue to write to you about those who are falling through the gaps in the system and we will continue to badger you about that, but we do recognise the hard work you put in.