

Public Accounts Committee

Oral evidence: Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks, HC 674

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Members present: Meg Hillier (Chair); Mr Richard Bacon; Deirdre Brock; Chris Evans; Caroline Flint; Mr Stewart Jackson; Nigel Mills; David Mowat; Stephen Phillips; John Pugh; Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, National Audit Office, Adrian Jenner, Director Parliamentary Relations, NAO, Rob Prideaux, Director, National Audit Office, and Richard Brown, Treasury Officer of Accounts, were in attendance.

Witnesses: Dame Lin Homer, Chief Executive and Permanent Secretary, Jennie Granger, Director, General Enforcement and Compliance, and Simon York, Director, Fraud Investigation Service, HMRC, gave evidence.

Q1 Chair: Welcome to the Public Accounts Committee on this 13 January 2016. I welcome our witnesses. Congratulations on your damehood, Dame Lin. We are interested to hear your other news and we will not say goodbye to you just yet because you will be in front of us a fair few times before you depart for other ventures.

Today, we are looking at the National Audit Office Report into tax fraud. Our witnesses are Jennie Granger, director general of enforcement compliance at HMRC; Dame Lin, permanent secretary and chief executive of HMRC; and Simon York, director of fraud investigation. Before touching on those bigger areas, clearly it is vital to deal with fraud because every pound that is not brought into the Exchequer must be found from taxpayers in another way, so we are behind you in your task of achieving that, but we want to question how well you are doing and whether you could be doing better.

If you will indulge me, I want to touch on a couple of issues before going to the main report. Just before Christmas, *The Guardian* did a very good investigation around Sports Direct and its staff having to do other things, such as being searched on the way out, which meant that their salaries or

wages allegedly went below the minimum wage. It was widely reported, Dame Lin, that a direct allegation by an employee would trigger an HMRC investigation. Is that true?

Dame Lin Homer: No, it is not entirely true. We absolutely ensure that any allegation by an employee will be investigated, so if an employee comes to us we will always follow it up but, as in so much of what we do, regardless of where information comes from, if it seems to have any signs that would warrant it, we would investigate. In any case where we pick up information from wider sources that looks credible, we follow it up. That area is also under Jennie's responsibility, so if you would like a bit more information about the number of cases we have done this year, she will be able to give it to you.

Q2 Chair: I think we would because—I know you don't wish to talk about individual companies—any information you can give us will be welcome. We have had evidence from Unison with real concerns about home careworkers and the long-running issue about not being paid for travel time, which means effectively going below the minimum wage. That has been a regular concern for many people. Jennie Granger, perhaps you would explain what HMRC is doing about these pretty wicked workarounds, which hit hard some of the poorest paid workers in this country and mean that the big corporates are getting off paying their dues. Perhaps you would explain what is happening.

Jennie Granger: First of all, as Lin said, we follow up on 100% of employee complaints and we are in contact with an employee on a complaint referred to us on the helpline within five days. We are much quicker off the mark than we have been in the past in relation to that.

So far this year, we have helped 46,000 workers—a hugely big increase—

Q3 Chair: Is that 46,000 individual complaints or a multiple?

Jennie Granger: No, it's how many—

Q4 Chair: So if I complained on behalf of a group of workers, would you count the group in that, or the individual complainants?

Jennie Granger: We count the workers whose arrears we have been able to adjust in that figure.

Q5 Chair: Right, so it is not 46,000 phone calls you have had.

Jennie Granger: No. To give you an idea of that, about 1,000 individual complaints have come through this year so obviously we do a lot more work.

Q6 Chair: So far in this financial year.

Jennie Granger: Yes. So far in this financial year, 46,000 workers have had £8 million recovered. That was by this Christmas. To put that in context, by last Christmas, it was 26,000

workers and £3 million. We have upped the level and we have done that through a mixture of improving our approach to and how quickly we deal with complaints. We have also started to trial some of the strategies that you are more familiar with from our tax work around campaigning in particular sectors—you just touched on one.

Our very first campaign has been in the hairdressing sector, because that has a lot of apprentices. That approach is basically a warning—“Come clean now and approach us.” We also encourage self-correction, and not just through the campaigns. Where we find particular problems, we then ask employers to go back and look at what else they need to improve in their systems across the board. That is why we are finding we are able to get a greater impact in what we are doing.

On medium and large employers, just to put that in context, about 30% of our investigations at the moment are on large and medium employers, but basically, whether it is a big or small company, temporary or full-time employees, if you complain, we will act on it.

Q7 Chair: To be clear, how many investigations have you undertaken because a third party has reported it? As I say, *The Guardian* did a thorough investigation. It seemed there was clear evidence. Surely something like that would warrant an investigation as well. How many of those have you done?

Jennie Granger: I do not have a separate split for how we got the intelligence. I can tell you that we follow up on 100% of employee complaints, which is part of our agreement for prioritisation with BIS. With third-party information, what we would typically then do is be in contact with both the employer and the employees, because obviously that is more indirect information. We welcome information from any source.

Dame Lin Homer: Sometimes it will come from more than one direction, so we may well have a number of individual employees and some third parties. Obviously, that gives us a different and a better spread.

Q8 Chair: One of the characteristics of the case I highlighted was that people were treated very poorly by their employer in a very humiliating fashion. It is quite a risk for an employee who is low paid in an area where there may not be other jobs they could easily get. What support and protection do you provide for someone who is effectively a whistleblower for a big corporate or any employer breaking the law?

Jennie Granger: We do deal with those situations, and we will treat that complaint confidentially and take a broader approach when going in, so that it is not obvious where the complaint came from, where we can.

Q9 Chair: Do you do any monitoring of the impact on employees after an investigation has been what you would call successful, which is when the employer has had to pay up?

Jennie Granger: There is—I don’t have the detail on this—a level of going back and testing the systems later on, but that is not at the individual employee level. Obviously, if there is a further problem with the minimum wage, which is what it is about, they can complain again, and of course we will go back in if that is the case.

I should add that there are some quite stiff penalties for employers, as you will be aware. It is basically 100% of the arrears that we have found, and in fact that is about to be adjusted up to 200%. The only mitigation for that is if you pay up fast, within 14 days. Our experience is that most employers do co-operate and adjust quite quickly. The issue is often working out the facts between both the employees and the employers.

Q10 Chair: Can you give us some examples of typical fines, even if you cannot name the companies concerned, that have been coughed up for 100% of arrears?

Jennie Granger: So far this year, there has been about £1 million in penalties across the piece.

Q11 Chair: That is the total fine?

Jennie Granger: And the reason that that is less than the £8 million in arrears is that we are actually getting a lot of willing self-correction now, which we see as a benefit. We can get employers to pay up with bigger impacts.

Q12 Chair: I have to say that that is not a great deal of money in the grand scheme of the Exchequer. If I were a bad employer, trying to bend or break the rules, is that enough of a disincentive for me to do that?

Jennie Granger: Leaving aside the monetary value, a 100% penalty is a fairly strong penalty. As I said, it is about to go up to 200%.

Q13 Chair: We may well come back to this, because it is a big concern. We, as MPs, get concerns about this. I know that the trade unions do as well. Presumably you would respond to a trade union inquiry if there were a concern from a trade union—just to be really clear—as a third party.

Dame Lin Homer: We have talked with you before and we may well talk again today about the fact that we take information directly from many sources over all of our compliance work. Simon, who is responsible for our fraud investigation, uses a wide range of resources. I write a number of letters to MPs where whatever the source is, we are not always at liberty to come back and give running commentaries on cases to the people who provided information.

Q14 Chair: We will be moving on shortly to the issue around prosecutions and how you deal with this. One of the concerns we have is that where someone voluntarily complies, that is never made public because they have no interest in doing that and you cannot break their confidentiality, but, where there is stiff prosecution, that is in the public domain. We believe, as you know, that that is a big deterrence. We may want to probe further about how often you go back to check that people have not been slipping back into their bad habits.

Jennie Granger: Very happy to provide more information. One more point that I am sure you will be interested in is that as soon as there is more than £100 of arrears, then BIS has the ability to name that employer—

Dame Lin Homer: And they do.

Jennie Granger: They do. So there is quite a low threshold. Also, one of our priority programmes is the care sector, which you have mentioned to us. We have checked about 20% of that. We started with the big players. We are doing a range, but we are looking at that sector quite carefully.

Q15 Chair: We may well come back to that, because that sector certainly is a big concern. It is very difficult to monitor, given the small scale of some of the employers, and in the relationships and domiciliary setting in particular it gets quite tricky. We understand that, but it is vital that the minimum wage is implemented properly, because it has such a huge impact on people's lives.

When we met in March last year, we talked about HSBC and the Swiss prosecution. You will be aware, Dame Lin, that last week the Financial Conduct Authority announced that it was choosing not to take any disciplinary action on this. If you look at today's Report, page 32, paragraph 3.11, the NAO says, "The main reason why prosecuting authorities will not prosecute a case is because the evidence is insufficient." Do you think your evidence was insufficient for the FCA to proceed?

Dame Lin Homer: I think we have had this conversation before. I do not think it is for me to comment on another organisation's decisions, but what we have tried to explain to you—again, Jennie and Simon are very deeply involved in this—is that we will consider the whole range of options.

First of all, as a number of your Committee members know and understand well, the threshold for a prosecution is different for civil: the quality of the information in terms of completeness, timeliness and ability to affirm it—all of those things are taken into account. We go through a very rigorous procedure with the CPS—we are not a prosecuting authority in our own right. We share information with them early and we take their advice. We currently present to them cases we are considering before a final decision to charge and we take their advice on whether we can strengthen that.

At the moment, we probably present a reasonably accurate proportion of cases to the CPS. They do not turn many down, but none the less there are a number where they still tell us, "There is not sufficient evidence to proceed." So it is always about the quality of the evidence in the round.

Q16 Chair: But you provided evidence to the FCA.

Dame Lin Homer: The FCA is a separate organisation. It has different powers. We have been sharing data—

Chair: So you have been sharing data. That is the point I was asking you about.

Dame Lin Homer: But their decisions about prosecutions I am sure will be similar to ours, but they will be made by themselves.

Q17 Chair: Sorry, but you did provide them with information? I just want to get that clear.

Dame Lin Homer: Yes.

Chair: I will hand over to Stephen Phillips on this point.

Q18 Stephen Phillips: I do not want to stop Mr York from giving his evidence but there was a sharing of information between HMRC and the FCA in relation to the latter's investigation—is that right?

Dame Lin Homer: Yes. Just for me to answer before I hand over to Simon about how we work, I think it was on the last occasion we were in front of you that we had had agreement from our French colleagues that we could use the information we had had from them for wider purposes. We have both been working with our French colleagues and with colleagues here.

Q19 Stephen Phillips: Yes, we remember that, Dame Lin. What you said initially was that the French authorities had prevented you from using the information to mount criminal prosecutions and what we then heard from the French authorities, via another source, was that that was not the case at all.

Dame Lin Homer: I would rather not argue about absolute semantics. We did not say that they had prevented. What we are being clear about is that we were given the information for a particular purpose; they then agreed to widen that.

Q20 Stephen Phillips: The FCA was carrying out, as I understand it, a regulatory inquiry, not an inquiry with regard to whether or not there should be any prosecutions. As we learned early this year, that investigation resulted in no action being taken against HSBC, and that decision was communicated to the bank several months ago. It didn't come into the public domain. When did you learn that the FCA were not going to be taking any action in this regard?

Dame Lin Homer: I might refer that one to Jennie.

Jennie Granger: Yes, we have been in contact with the FCA. They say that they have made no formal statement in relation to HSBC, and that they will continue to work to ensure they address any current practices in the culture of the bank that need addressing.

Q21 Stephen Phillips: In other words, in the context of a regulatory inquiry, they decided that no further action should be taken and washed their hands of it. The sources who spoke to the media last week, when it finally emerged into the public domain that the FCA are not going to do anything, basically put the ball back into your court and said it is for HMRC to conduct any investigation that might lead to a criminal prosecution. Are you doing that?

Dame Lin Homer: We have been through this in some detail with you before. We have always—

Q22 Stephen Phillips: It is a very simple question, Dame Lin. Are you conducting a formal investigation that may lead to a criminal prosecution of those responsible within HSBC for the oversight of its Swiss subsidiary? Yes or no.

Dame Lin Homer: We always consider criminal proceedings when there is evidence. We told you on the last occasion that we have not received information that we thought was likely to lead to criminal prosecutions based on the data. We had another look, and we think it unlikely that there will be prosecutions coming out of the Falciani data.

Q23 Stephen Phillips: When did you have that further look?

Dame Lin Homer: We have been doing it continuously, and we will continue to keep an open mind. If you would like Simon to give you a bit more information about the work we have done with the French since we were in front of you last spring, we are happy to do that.

Q24 Stephen Phillips: Let me help you out. I, and I suspect most, if not all, members of this Committee and most Members of Parliament, find it extraordinary that a bank that is domiciled in this jurisdiction, with oversight of its Swiss subsidiary, has had no action whatever taken against it, either by its regulator or by you, who are responsible for investigating it and passing papers to the CPS to conduct criminal prosecutions if appropriate, in relation to the events that we heard about last year when they came into the public domain. HSBC was essentially advising, through its Swiss subsidiaries, investors to evade tax in this country.

Dame Lin Homer: I can make no comment on your opinion. We have to progress on the basis of what we and the CPS think is possible.

Q25 Stephen Phillips: Right. Now, you said that the investigations are ongoing. Is that right, Mr York?

Dame Lin Homer: Our analysis—

Q26 Stephen Phillips: Sorry, Dame Lin, I'm not asking you. I'm asking Mr York, whom you said was responsible.

Simon York: We have been working with that data and all the information we have around the people who featured on the HSBC list and any other entities involved in that for some time. We do not have a current criminal investigation, in relation to any entities connected with the data.

Stephen Phillips: Well, there it is. It looks as though they have got away scot-free.

Q27 Chair: Can I move on to another issue, just before we get into the main Report? Since we last saw you, you announced a major programme of office closure and reconfiguration. I think you announced that in the middle of November.

Dame Lin Homer: The middle of November, yes.

Q28 Chair: I think I am right in saying that you plan to close 137 by 2027 and 50 by 2017. Given all the things you are dealing with, in terms of digital tax, the cutting of staff and the reshaping of the workforce, there is a lot on your plate. I want to ask you a couple of questions about that, bearing in mind that the NAO will be looking at the estate management in HMRC and reporting to us in the autumn. I don't know whether Dame Lin or Jennie Granger should answer this. One of our concerns is about the loss of experienced staff. If you are closing offices in some areas and regrouping into regional centres, not every member of staff will relocate. Isn't there a concern that if the highly experienced staff are lost to HMRC, that will affect the ability to collect taxes?

Dame Lin Homer: That is absolutely one of the considerations we took into account in producing our plans. We have had an ongoing couple of decades of estate and location consolidation. When HMRC was created 10 years ago, there were about 530 offices.

Q29 Chair: Can we talk about the plans before you, because of the time?

Dame Lin Homer: This is not new territory for us. The need to plan the next five to 10 years comes because we are approaching the end of our long-term PFI. A number of the longer-term Committee members have probably sat around and discussed the STEPS contract. We are in a position where, by 2019, we must make decisions about which of those leases, if any, we continue, and, if we don't, where we go, so this is the right point to make decisions about the future. We have proposed a consolidation into 13 regional centres, but we are stepping towards that for exactly the reason you have indicated: we want to ensure that we give staff as much chance to continue working with us as possible.

Q30 Chair: When you say as much chance—

Dame Lin Homer: I was about to explain the numbers. Everyone has a choice to make. One of our challenges is that a significant proportion of our workforce is over 50 and, indeed, over 55, particularly some of Jennie's staff. We are aware that people might choose not to move, but we believe that more than 90% of our workforce are within reasonable daily travel. We have proposed arrangements to give reasonable daily travel assistance to those people, and we will undertake one-to-one discussions with all staff so that they can think about that. We have also indicated that we are very happy to consider arrangements.

One way in which we are most successful in holding on to our slightly older talent is partial retirement. A number of our experienced tax investigators are increasingly choosing, as they reach beyond 60—indeed, some beyond 70 in Jennie's area—to stay working with us, but possibly only two or three days a week, instead of the five days a week that they have worked previously. We are very keen that we do not face a cliff edge because of the demography of our people, or the locations, but we do think that this is one of the things that will allow us to give the quality of office accommodation, technological support and training that will make us a strong organisation.

Q31 Chair: I understand you are proposing to have 8,000 staff based in Stratford, in what we might call central London, but you might call east London. Those of us from east London might call it central. Is that right—yes or no?

Dame Lin Homer: Yes—well, we are open-minded about location to the extent that we don't want to get to the point where only one developer can serve our needs, but we think it makes much more sense for HMRC to have a couple of big bases on the edges of London, not in the most high-priced, very central London locations.

Q32 Chair: You say that, but Stratford is pretty pricey, what with the channel tunnel rail link. As an east London MP, I know that.

Dame Lin Homer: Not compared with many of our existing offices.

Q33 Chair: Okay, but 8,000 people in Stratford compared with Portsmouth—I think Portsmouth was on the list for closure and it is within striking distance of London. I will not read them all out, but I have a list of offices for closure.

Dame Lin Homer: The numbers in London will go down under this arrangement, but not substantially, because London is the big trading centre of the country where a significant amount of business is.

Q34 Chair: My point is: will there be people based in Stratford dealing with, for example, tax issues in Portsmouth?

Dame Lin Homer: I will hand this question over to Jennie. We already deal with enforcement as a national business, so this is a current, not future, challenge.

Jennie Granger: As Lin says, one of the challenges—

Q35 Chair: First, can I repeat the question? Perhaps Portsmouth is not the right example, but will people based in Stratford be dealing with tax issues for businesses and others in other parts of the country outside London?

Jennie Granger: There are already people in London or in any of our offices who deal with national issues. That is the way of the world. Businesses these days are as much on the internet as they are anywhere else.

Q36 Chair: But they always have someone local to speak to—because of the local offices, there is a local connection.

Jennie Granger: No. In fact, we actually get to more places locally through our taskforces than by having very small numbers of people based somewhere. In some places, I have only five people, and they are very much locked into a little local area. Taskforces are being deployed from a number of regional centres around the country, which allows us to be in more places, physically,

than we can be at the moment. As Lin said, one thing we are doing is that, if we did this based only on risk, we would be concentrating people in London and the south-east ahead of everywhere else. Our belief that we can deploy nationally and deal with more things when we need to go out physically from a number of places is what is leading us to say that we will build up in a range of regional centres.

Q37Chair: Where will these field officers be based? Will they have to stay in hotels or something?

Jennie Granger: No. We worked through, extremely carefully, where all the regional centres are to ensure that we can deploy to most places around the UK, according to risk. That is the whole point about agility: being able to follow where we need to and, to be honest, to keep people guessing a little about where we might check next. At the moment, we telegraph very strongly, by how we are locked in geographically, what we are focusing on.

Q38 Chair: Will these new offices—the new regional hubs—open before or after the local offices have closed? You mentioned, Dame Lin, the STEPS programme. There is obviously pressure on parts of the estate right now. We know that much, so will those offices close before the regional hubs have opened?

Jennie Granger: There is a very carefully thought through programme, and a lot of it has been driven by working through how I retain many of the experts that I need to make sure that we can make that switchover. We expect many of them to retire, so we bring on new people or they come with us. Yes, it is timed around when leases end and when they move. As we stand up regional centres, if people want to move sooner, I would personally like to move them in sooner, because I can give them better kit, better tools and better access to experts than they can currently get remotely in tiny groups. But it has been thought through very carefully to try to minimise that.

As Lin said, I have more than 50% of E&Cs over 50; in fact, I think it is closer to 80%. It is getting younger, because we have been recruiting. The bigger challenge for me is the generational change that we are going through, but we have worked through this in such a way as to minimise the property costs, because I want the money to go into the new tools and kit that my teams need.

Q39 Chair: This will come out when we hear the evidence based on the NAO's autumn Report, but there will be issues, I guess, with leases coming to an end in relation to Mapeley Estates. They may have to be renewed before the regional centres are ready. Is that factored in to your planning?

Dame Lin Homer: We know when all our leases end, so that won't surprise us.

Q40 Chair: But will the regional hubs be ready? It is very difficult to get these things to align.

Dame Lin Homer: This is part of our planning and part of the negotiation. We are clear that we are going to move in the majority of cases, but we are also potentially going to renew some leases, and we are confident that we can both save money on property—I would rather spend money on Jennie's staff than on property if I can do that—and provide better technology and better

training. Yes, we think this is a manageable plan. It is a 10-year plan; we are not trying to do this at breakneck speed.

We have signalled to people not only the final regional centres but the transitional centres. Some of our folk who might only be working for us for another two, three, four or five years might choose to work out of a transitional centre rather than move all the way to a new centre. In the north-east, there is a very interesting dynamic. We will keep for quite a long time Waterview Park, which is south of the river and which will, we hope, form a base for a significant number of the people from some of the smaller sites in the north-east that will close. So we have sought to be very thoughtful, and as I say, once we have one-to-one discussions with staff, we will adjust as well as we can, in terms of what we can do for them, to try to make sure we keep our valuable staff as long as they want us to.

Chair: We will be watching this—

Dame Lin Homer: So will Jennie.

Chair: One thing we may share, even though it may not seem so from your side of the table, is that we want compliance to work, and to work well. Good, experienced staff, in the right places, doing the right thing is what it's all about.

I am going to ask Deidre Brock to come in, and then Chris Evans briefly, and then we will move on to the main hearing.

Q41 Deidre Brock: Dame Lin, there is a lot of concern in Scotland about these proposals. You will be aware of that, I am sure. It is rather ironic that before the independence referendum, we were told that HMRC jobs would be under threat if Scotland became independent, and now of course we are being told that most of the offices in Scotland will be closing, and 2,000 jobs, I think, are potentially under threat.

A big concern has been raised about the closure of the Inverness and Aberdeen offices. What are your arrangements for people in Shetland, in Orkney and in the far north if they are looking for face-to-face help? Unlike a lot of the UK, we do not have superfast broadband, so the ability to access things online is reduced. Can you tell me what those arrangements will be?

Dame Lin Homer: Our position on Scotland is that we see it as continuing to be one of the regions we have our biggest presence in, so although the numbers will reduce—I am sorry, I do not have the absolute numbers for every region in my head today—Scotland will still have a bigger proportion of our staff than the relative population proportion. So we see Scotland as a significant base for HMRC for the long-term future. Our plan there is the same as elsewhere: we do intend to consolidate and concentrate in Glasgow and Edinburgh. It will mean the closure of a number of smaller offices in Inverness, Aberdeen and Dundee. Those are timed, we think, to be manageable.

Scotland, like other areas that Jennie described, will be subject to forms of support, and the support that we call compliance, as is appropriate. For instance, we do not wholly manage the oil and gas industry in Scotland with people based literally in and around the oil and gas industry now. More and more of our support is by telephone and online—and will be. I do not think we currently have offices in Shetland as it stands, so we are proving that model already with Scotland. So it is about a commitment to Scotland, both to investing in highly skilled staff and investing in the right

support for customers, and an absolute assurance to you all that evaders and criminals in Scotland will get just as much of Jennie's attention as anyone else.

Q42 Deidre Brock: There used to be a tax office in Wick, but I believe you closed that some years ago.

Dame Lin Homer: We tried a number of innovative things in Wick. That was one of the examples Jennie just gave. I think we had six people in Wick by the time we closed it. It is very hard both to support them and to give them meaningful career opportunities at that kind of scale.

Q43 Chris Evans: One of the biggest issues that I have relating to the tax office in south Wales in my constituency is businesses telling me that the tax office simply does not pick up the phone. There is a proposal to close the tax office in Llanishen. I have lost count of the amount of times that people have fallen foul of HMRC rules simply because when HMRC does answer the phone, the case disappears into the abyss, and the next thing the business hears from it is some sort of summons through the post. It is then corrected through a byzantine system of me writing various letters to all sorts of people. With the closure of Llanishen, will Welsh taxpayers have the same level of high service—I say that with all sarcasm—that they have been having from HMRC recently?

Dame Lin Homer: We do not answer the phone from the local office, so the closure of our smaller offices does not impact on our call handling directly. I am sure your question might be one of a number I get on customer service. When I came before you in July, I told you then that we had had a bad first quarter. I had already apologised to the public for that. What I would say is that we were quick and effective in recognising that we had created poorer customer service than was acceptable. We took early, and I think very effective, action. In the second quarter we remedied the position, and over the quarter our performance was broadly equal with our performance last year. We have just completed the third quarter, and we have been answering 81% of our calls with six-minute waits.

I believe that we are in a very good shape for SA, which we are just a few weeks away from now. Indeed, if I could make a quick advertorial, we are going to be doing a House of Commons digital teach-in next Wednesday to assist MPs if they would like to access their digital account. I think that last year, we moved you online for the first time.

I do apologise again for that bad first quarter, but I have to say that the changes we are making are enabling us to serve customers better and better, and I think we are heading into the kind of territory that you as a Committee have wanted us to be in.

Q44 Stephen Phillips: It's not really better and better, is it— 81% of calls answered within six minutes?

Dame Lin Homer: Yes, I think it is. When you have plans—

Q45 Chair: Dame Lin, if I can just interrupt for a minute, Which? did a survey last September, and just at the point when we were hearing that things had been getting better, it showed a very

poor service, so it seems to us that it goes very much up and down. You come and tell us it has got better, but then we hear “Another bad quarter”. The lack of consistency is one of the issues.

Dame Lin Homer: I think consistency is absolutely one of the things that we are keen to drive at.

Q46 Chair: But you would acknowledge that it is not a consistent or good service at that—

Dame Lin Homer: I will acknowledge that it is not a consistent service. I think that a lot of the time it is extremely good and some of the time it is not. We have tried to be very honest about that. One of the ways we think we can make it better in the future is with the more routine questions—it is incredibly frustrating to wait even for six minutes on the line just to tell us you think your tax code is wrong. So one of the reasons for our plan to offer online services is really to allow customers greater choice about what they do, but while we are moving to give that choice, it is important that we improve services as much as possible. We have had a number of Reports from the NAO into customer service particularly, and when you deal with 45 million customers there will always be some that you fail—there are times of day and times of week that are not as good as others—but I do think that we are improving our service.

Q47 Chris Evans: It is all very well you stating statistics at us about how you are improving, but I have had a mountain of cases that I could present where people have spoken to the tax office on the phone thinking that action is going to be taken in their case, but they have disappeared into the abyss. The next thing they have had is a letter on their mat that is either a summons to appear in court or a massive tax bill. They then try phoning again and can’t get through. They are coming to me almost in tears, saying, “I don’t know what is happening to me.” We are here to ask you for an answer. What do you say to those people?

Dame Lin Homer: I probably write to more taxpayers than—

Q48 Chris Evans: What I am actually asking is: how is it measured that, when you finally get through to HMRC, those cases are being seen to? If I, as a Member of Parliament, don’t follow through on a case, I expect people to come down on me like a ton of bricks.

Dame Lin Homer: Of course. We do follow up. We have a number of measures. We measure the satisfaction with the service when you get through. It is actually very high. A lot of people complain that they wish they got through quicker, but we have satisfaction levels in the 80% and 90% ranges in terms of the service that we give when you get through. Again, I will say that our belief is that, across the range of services, we are improving access. The Chair’s point about consistency is a fair one, and it is one we are working on, but we don’t believe that we will be able to get consistent access until we are able to give people more choice about services. If you have something relatively routine to tell us or to ask, using online services, webchat and our online assistant may well be better. We have a lot of evidence that customer satisfaction with those new approaches is much higher than the traditional phone call.

Q49 Chair: We are in danger of getting into discussing customer service. I would just add that this Committee has more letters about HMRC customer service than any other single issue, and we do quite a lot of work on this Committee.

Dame Lin Homer: We are the biggest customer service business in the country.

Chair: Right. The key thing that we pick up as constituency MPs, if I can speak for colleagues, is that if people don't trust the system, they want to ring up to hear for sure—they are worried about sending out something online, or filling out a form, and getting it wrong, because it is a big issue and a big fine hits them if they get it wrong. I am sure you understand that.

Dame Lin Homer: I do understand that.

Chair: If you give a word of assurance to the public that you are on to this, we can move on to Mr Mills.

Dame Lin Homer: I would like to assure them both that we are on to this and that we have been clear. I will say it again: we don't use our penalty system to punish people who make an honest mistake. We were clear on that last year. We are slightly damned if we do and damned if we don't, because I think we were accused of an amnesty when we assured people that if they made an honest mistake and had a reasonable excuse we would not penalise them. What we want to do is to help people get their tax right first time and feel confident. Some of our new online approaches, for instance, give a confirmation number so that people know that they have submitted and that they have a number that they can follow up. That is absolutely where we want to be, alongside you.

Chair: We will pause on this for now. Even if it is not you, Dame Lin, your successor will be here in front of us again on customer service. The Committee would quite like it if we didn't have to come and have a long hearing on customer service at HMRC. We look forward to that day.

In the meantime, I am going to hand over to Nigel Mills, who is going to start our questioning on the Report in front of us on tax fraud. Of course, we should just remind anyone who is interested that tax fraud involves significant losses—around £16 billion a year is your estimate and the NAO's estimate. Almost half the tax gap is through fraud.

Q50 Nigel Mills: How would you assess how HMRC has been doing in tackling tax fraud?

Dame Lin Homer: Actually, I think I would use the NAO's words, if I may. I thought they captured it rather fairly. In paragraph 2 of the summary, the NAO said: "Tax fraud is a longstanding and intractable problem, not only for HMRC but for tax administrations across the world. Reducing the amount of tax that is lost because of people and businesses acting illegally is a high priority for HMRC." I think they got that spot on. Our record in this case is good, and indeed the two people either side of me deserve the credit for that.

Truthfully, as all tax administrations know, there will always be people who want to evade tax. This is one of those areas where you have to remain vigilant. One of the challenges for us is that some of our effort simply stops this tax gap increasing, and I looked quite closely at the figures here. We have made some progress in reducing the proportion of the tax gap due to criminal attack. At the same time, we have seen the proportion relative to the hidden economy go up slightly, so it feels like one of those fairground games, I am afraid, where you thump one nail on the head and another one jumps up. But we are determined to progress. My two colleagues are experts at not only

bringing in new rules that help us, but also using data and investigative techniques to be, I think, one of the leading tax administrations in this field.

Q51 Nigel Mills: We know that roughly half of the tax gap is tax fraud. Do you know roughly how much of your tax compliance activity is on fraud rather than avoidance or error?

Dame Lin Homer: I will ask Jennie to answer that, if I may.

Jennie Granger: We can tell you some of the statistics that directly relate to some fraud, for example around the hidden economy. The reason we cannot very finely split out the £26 billion-plus that we collect is because when we tackle issues with the taxpayer, it is usually more than one issue, so we do not split up the yield result so that there is this much due to evasion, this much due to error and this much due to whatever. To put in context why that is difficult—in fact, one of the things on my board agenda for this period is a better case management system that allows me to give finer detail—it is because we do more than a million interventions right across the system. So when you ask us to split up those amounts within a taxpayer action right across all of that, it would fragment things in a way that is not possible for our systems and would lead to a really complicated overlapping of results. In fact, I think you would start to worry about the risk of double-counting things.

On the key risks such as the hidden economy, we can tell you what we directly did there, but a lot of our work involves more than that.

Chair: Sorry, there is a problem with the acoustics.

Jennie Granger: I have got a quiet voice; I will try to lift it up a bit.

Dame Lin Homer: I have tried to teach her to bellow, but I have not succeeded so far.

Jennie Granger: I think it is wise in my role, perhaps, to have a quieter voice.

Q52 Nigel Mills: In paragraph 13 of the Report, the NAO estimates that about 30% to 40% of the compliance yield comes in relation to tax fraud, which looks a bit out of kilter with 50% of the tax gap being there. Do you think tackling fraud gets the right level of priority?

Jennie Granger: I think we have been putting increasing resource into tackling—

Nigel Mills: That wasn't quite the question.

Jennie Granger: I know. I am not trying to dodge it; I am trying to think how to help with the answer. First of all, I am going to say something a little bit different. I think that what is very important is a spread of activity right across the system. The reason the UK has been able to sustainably bring down the tax gap and increase the revenues over a period of time is that it does not put all its eggs in one basket. In fact, it is really risky to do that. That is very important.

We have given evidence before on what we do around large businesses and what we do in the hidden economy. As I said earlier, a little bit is to keep it moving. This is a system you constantly calibrate. Having said that, we look at the tax gap every single year, and at what the analysis is telling

us to help us think about where we need to up the ante and where we might be able to move back a little bit from what we are doing.

In terms of activity, we have built our tackling forward activity not just in terms of criminal and civil investigation, which Simon is leading, but also in terms of how we can knock it off at the front. If there is one mantra for the next five years—digital service is part of it—it is, how do we make it easy to comply and tough not to? That is where we are going with our strategies. In an ideal system, you would not need a really big capability in Simon's area, but I am not moving away from building that. In fact, I am building it up some more over the next five years from where it is now.

Q53 Nigel Mills: Do you worry that the survey evidence cited in the Report suggests that individuals at least do not think enough is being done to tackle evasion, and they do not believe it is likely that there will be any prosecutions for evaders? Does it feel a bit hard to go after people who are deliberately breaking the law? Is not quite enough being done?

Jennie Granger: The answer is yes. I would like a further shift in those percentages. One in three individuals and nearly three quarters of businesses believe there is a risk that if they report the system, they will be caught and prosecuted. Those are pretty good perception rates. I think we need to do more work, and we have been doing it, on publicising the consequences and what prosecution means. We do a lot of media on the outcomes of prosecutions—

Q54 Nigel Mills: I thought you were issuing fewer press releases on it now.

Jennie Granger: No. In fact, we are the very big part of HMRC and in recent years we have done more and been more explicit in terms of naming. Also, on our website now we have a crime map as well.

Dame Lin Homer: To be honest, we don't get very much attention for our prosecution successes at national media level, but if you look at your local media you will regularly see lots and lots of cases led by Simon's people that are being brought to justice in local areas. In some ways, that is where you mass up the deterrence effect, because people think, "It's a fast food outlet I know, I've used and been to", or, "It's an architect or lawyer I've used". So the local impact of regional news is very important for us on the deterrence basis.

Q55 Nigel Mills: Do you assess the deterrence effect or how you are increasing that?

Jennie Granger: The very big deterrent impact, of course, is how the tax gap is trending. If you have had a look at the publication, you will see that it gives a number of views: how it's going by tax product; how it's going by behaviour, such as evasion; and how it's going by different market segments. That's the biggest and, if you like, the most strategic outcome.

I have already mentioned surveys; people's perception of the risk of being caught is part of that. On individual projects, we will have a look at how far people are likely to comply as part of that; so, we look at that. We have a monitoring programme for everyone who is levied a deliberate penalty and we do not release that. You can be in that monitoring programme for up to five years and we do not release people from it until we see a change in behaviour, and about half of those eligible for release are released early, because we do see changes.

There are perspectives on individual programmes, but why I say that the tax gap overall is the most important way to look at this is because it's not like for like. There is growth in populations; there is about a 15% growth in microbusinesses over the last five years; and about 40% of new businesses don't survive the first three years.

A very important thing around the hidden economy in particular is that we need to be continually understanding that we have new populations and changing populations. So it's not just, "I impact on you and therefore that's the end of it." And of course your own circumstances change as well.

Dame Lin Homer: I will just give you an "eg" on the evaluation. I am afraid I can't remember if it was a taskforce or campaign, but after we did our taskforce or campaign on plumbers, the following year 2,000 more plumbers filed their SA forms. That suggests to me that there was a deterrent effect, not only on those people who we dealt with in that campaign but on the sector more generally.

Jennie Granger: I thought you were going to mention our doctors campaign.

Dame Lin Homer: I was not going to mention doctors; I think they are enough in the news at the moment as it is.

Simon York: We got similar results from a number of campaigns. We think we have got strong evidence that there is a deterrent impact. And of course, it is an underpinning principle of criminal justice systems and tax systems across the world that criminalising behaviour, investigating that and prosecuting it does deter people, so we are not on our own here. This is a widely accepted view of the way this works.

Nigel Mills: The NAO's findings in the Report were that you did not really understand which actions you took worked, which ones worked best and which ones you ought to prioritise going forward. Is that something you would like to know more about, or do you think that is just not possible?

Dame Lin Homer: I am going to say one thing here—this was a bit of the Report we did not wholly agree with. We've been through the lot of it.

Q56 Chair: It's an agreed Report.

Dame Lin Homer: We agreed the Report; we did not agree all the opinions in the Report. I think our enforcement and compliance business has been getting more and more strategic; I did not recognise the description of us as being tactical and incremental. But of course we accept that there are more things we can do going forward.

My own view is that this business has been getting cleverer and cleverer for some time. There are aspects of the way we tackle evasion, the hidden economy and criminal attacks that I think are leading edge. We are absolutely sure that our introduction of strategic prioritisation of risk, which Simon is leading, will allow us to go further, but we think that this has been based on targeted, prioritised work for a number of years.

Simon York: We deploy a really quite strategic mix of a number of different interventions. Over the past five years or so, we have developed the campaigns that we have talked about, which use a number of features. We have our criminal prosecutions. We use publicity. We educate people.

We track people. We publish names of defaulters, and we track people's behaviour after that. That is quite a sophisticated mix in what we do.

In my area particularly, even with criminal attacks, which can be some of the most difficult to deal with, we are looking for the most impactful mix of interventions that we can use. Let me give you an example. When attacks against our repayment systems first started emerging as a significant risk, a lot of what we began to do was to criminally investigate those groups. They are quite sophisticated groups, often based overseas and attacking us using cyber means, so it is really quite difficult stuff to deal with. Once we got to understand what they were doing and how they were operating, we moved into a different mode. It was about the best way to protect our systems—“Let's prevent those people from getting repayments in the first place, rather than trying to investigate our way out of it.”

The way we deploy our resources changes quite significantly over time, and we have been really successful at that. We are having to do far fewer criminal investigations in that area, because we are not losing as much money. We now have sophisticated risking based on what we learn from the criminal investigation. It constantly moves.

Sir Amyas Morse: There is a slight sense of déjà vu about this conversation. What we say in our Report is that you do not understand the impact of some of these activities, which is evidenced by the fact that you carried out research to try to understand it better that has not been successful so far. You are aiming to take a more strategic, selective view, which we also say in our Report.

Dame Lin Homer: You do, and I agree with it.

Sir Amyas Morse: I do not really know what point you are making, to be quite frank. It is really odd. We think you need to understand more. You think you need to understand more. You are doing things to understand more. We are not telling you that you shouldn't; we are encouraging you to carry on down that road and to not change your mind about it. It is not some subtle criticism. We are just saying that we all seem to agree you need to understand more. I am sure there is some subtle point I am missing.

Dame Lin Homer: I think there is: paragraph 20. I tried to be clear, Chair, that there is a lot in the Report we recognise and a lot we agree on. I do not believe we recognise ourselves as having an approach that is “incremental and tactical”. We have an approach that is strategic. I completely agree with the Comptroller and Auditor General: it can, and I think will, be better still. It is not necessarily a big difference, but I was asked directly and I do not wholly recognise the organisation described in paragraph 20. It is not a big difference.

Q57 Chair: Before I bring Nigel Mills back in, we have just heard a lot about the tax gap from Jennie Granger. Overall, the tax gap may have gone down a bit—obviously, it is difficult to agree a figure, but that is the figure we are working on. The tax fraud gap, however, has not gone down a great deal. Overall, the tax gap has fallen 0.9 percentage points from 7.3% to 6.4%. Figure 5, which we touched on, shows that the tax gap for tax fraud has fallen 0.2 percentage points from 3.2% to 3%, so it has been fairly static. Why has the gap for tax fraud reduced less quickly than the overall tax gap? Is that not a sign of failure by HMRC?

Dame Lin Homer: The tax gap has gone down overall. Tax fraud is a description that NAO is using for three areas. We tend to use the labels “hidden economy”, “evasion” and “criminal attack”. Overall, the tax gap has gone down, and as a proportion of that smaller amount, those three

elements have slightly varied. I said this at the beginning: criminal attacks have gone down as a proportion of the tax gap, and hidden evasion has gone up. It is broadly flat; it is 0.2 percentage points smaller, which is smaller, and it is a smaller tax gap overall.

Q58 Chair: We can quibble about it being 0.2 percentage points, but it is basically flat. Do you agree that it has not gone down a lot? It has gone down less than the overall tax gap. That is a statement of fact.

Dame Lin Homer: I am not overclaiming, but I think I said earlier this is an area that is most at risk of going up if we do not keep our eye on it. I think the fact we have been able, particularly in criminal attacks, to reduce it, is evidence of success, but I would accept this is partial.

Q59 Chair: Okay. We would recognise—I think anyone would recognise—obviously people trying to evade tax who are actually seeking not to tell you stuff: it is hard. We know that; but I do not think you can really claim—okay, it's gone down 0.2%. In any other sphere it is keeping it static: you may count that as a measure of success. We would like to see that go down. I know you would too.

Dame Lin Homer: I would accept we have been more successful in—

Chair: I just think we need to inject a note of reality into the conversation. If we are having a discussion about the tax gap dropping, the bit that we are talking about today, fraud, has not actually really done down. It is at 0.2%.

Q60 Nigel Mills: I suppose what I was asking at the start was how much focus you put on tax fraud rather than tax avoidance, but is it not arguable that as we move to being a more cashless society, the hidden economy and that kind of issue should start to get a bit less, and a bit easier to prosecute? Wouldn't you expect this to be going down a bit, and not up?

Dame Lin Homer: Jennie?

Jennie Granger: I am really glad you asked me that question. Thank you. Partially the answer to the question the Chair raised is that the nature of evasion that we are dealing with is changing; and I would expect that. I would always expect that there will be changes in what we need to deal with as the way people live and work changes. One of our great strengths as a community and also a challenge for us is what digital means.

The answer, quite simply, is yes, there are some fantastic advantages for us in the digital age and going cashless, one of which is that we have data associated with that; and we have given testimony before to this Committee about the successes we are getting with merchant acquirer data, which are picking up offshore transactions as well as onshore, because offshore is a big challenge for us.

At the same time, I am also seeing digital second sets of books, where you might be using your card to pay for your meal and your transactions go into an offshore account, and the next transactions go into an onshore. You won't see any difference, but we have to learn to pick that up, which is why we think about data and other things. It does give us some insights. It also gives us

some new challenges, and one of them is speed, because the records can be in the cloud and money can move very quickly when we come in to try and deal with people who are trying to avoid us.

It is one of the reasons why I am so keen on national approaches and national kit, because we have got to be agile.

Chair: Sorry, can you speak up?

Jennie Granger: Sorry, we have got to be on the net as well as on the street. It is why we have put such huge investment, over the last few years, into developing Connect, and developing our ability to do analytics. It is why I am very keen on the changes we are doing to our systems that will allow us to do more of what Simon has mentioned, about in-transaction risking, to know when our system is being either rorted by criminal attack or when people are being tempted to have a go and claim repayments they shouldn't, or under-declare. So that is the future. It does give us advantages, but it also gives us new challenges.

Q61 Nigel Mills: Right; I think I got an answer to that question. It was a bit of a long one. I suppose people out there would be, rightly, very angry that there are a lot of people who deliberately choose not to pay the tax that they legally owe. We are talking about actual law-breaking here; we are not talking about interpreting the law or trying to be clever. This is just flatly deciding not to pay tax that you owe.

I just sense you seem to be doing a lot of clever and complicated things on avoidance, but if I look at the breakdown of prosecutions, the value of risks on income tax, national insurance, capital gains tax and inheritance tax is 42%. Yet prosecutions are about half of that—as a proportion of prosecutions. Is it just too hard to go for these people—is that what we are saying: that it is easier to go for indirect taxes where you catch someone with a truckload of cigarettes, where they have not paid the duty, and that is a kind of easier prosecution? Actually finding people who are cleaning windows or plumbing or all that kind of stuff and just not declaring it is too hard.

Jennie Granger: I think it absolutely is important, as you have said, to do a range across the board. In this last period, we have been building up prosecutions that reinforce and taskforces that look at plumbers and professionals and go right across this. Prosecuting is not the only activity that we do. As I've said, we do a million interventions and our taskforces and campaigns brought in £1 billion in revenue last year, which is not small beer. However, we do need to do more. We had an investment in the summer Budget and we will be expanding the complex and wealthy investigations in Simon's area, which we think is one of the areas where we need to build up more. I want to be clear that we do a range of things, but we use prosecutions to reinforce broader action, because prosecution is not the answer every single time. We need to use it to have a broader effect.

Q62 Nigel Mills: Okay, so if we look ahead to the next five years—I guess that it's not such a problem for you, Dame Lin.

Dame Lin Homer: I don't know. You could call me back over that length of time.

Nigel Mills: When we get this report in five years' time, what do you think the level of tax fraud is going to be? We can break it down by the three categories, but do you think it will be lower in cash terms or lower as a share of the economy or do you think it will, if you're lucky, stand still? What's the aim here?

Jennie Granger: Our knowledge, analysis and intelligence experts, who have been analysing this, are predicting that we will make some more incremental inroads into the tax gap. I am not brave enough to say exactly what the composition will be, because we need to respond to the conditions that will come through over the next five years. I know that you would like to see huge inroads into the tax gap, but HMRC already has one of the lowest internationally published tax gaps in the world. We are the only country that publishes every single year with this kind of analysis.

I expect it to be incremental. Every now and then, we will find something that will help us with a big breakthrough. I believe that digital will help us there. I believe that some of the changes that we're making—

Q63 Nigel Mills: You said that you aren't brave enough to make predictions, but I assume that when you, as a Department, bid for money and ask for extra resources so you can make more interventions, somebody must be brave enough to say, "If you give us this money, we can raise this amount of money."

Dame Lin Homer: Yes, we put forward a case on each project. Over the last spending review, we scrutinise it ourselves, the Treasury scrutinises it, and the OBR scrutinises. The Chancellor then funds it. We have just had an investment package of £2.1 billion into HMRC for the next spending review. That is based on both specific business cases in the enforcement and compliance area and proposals around general transformation.

Q64 Nigel Mills: I assume that you have targets.

Dame Lin Homer: But your question was specifically about the proportions. I think that both Jennie and I would be disappointed if we can't maintain the broad trend slowly downwards over a number of years. What I think you are asking us is whether we can forecast the proportions by behaviour, but that is a harder thing to guess.

One of the things that Jennie has not said, but which she deserves credit for, is that if we didn't do as much as we did, we know from our analysis that the tax gap would go the other way. So the question about how much of our effort simply prevents tax gaps from growing is one of the things that we don't discuss. This is not a question of achieving it one year and then starting the next year with that banked; Simon and Jennie effectively start again every single year. It is a bit like painting the Forth bridge.

Q65 Nigel Mills: I get that, but Figure 11 in the Report lists a load of measures announced in the Budget and the estimated Exchequer impact. These are obviously measures to tackle illicit tobacco, illicit alcohol, the hidden economy and wealthy individuals and they end up in that figure of £7.2 billion. I suppose that we might naively think that we could bring an extra £7 billion in and therefore the tax gap could down by something equivalent to however much a year that is. What you are saying is that is not what we will see. We will see more money being spent and you claiming that more money is being raised, but somehow that would not appear in the tax gap calculation.

Dame Lin Homer: No, the tax gap is going down, but you can't absolutely—

Q66 Nigel Mills: We are not totally sure that it is, for tax fraud. That is where we started from a few minutes ago.

Dame Lin Homer: Well, the tax gap overall is going down. Tax fraud is slightly, I will say again—

Nigel Mills: And this £7 billion is all tax fraud.

Dame Lin Homer: —it is now 3% of 6.4, when it used to be 3.2% of 7.3. The position we are in is that we do think we can ensure more money stays in the Exchequer's coffers, but some of what would happen if Jennie and her team were not on the ball is more money would be lost. The tax gap is not a static thing; it could go up as well as down. Some of our effort prevents it going back up, and some of it reduces it further. OBR actually now try to separate out those two things.

Q67 Nigel Mills: In the past period, you had a target of £26 billion—

Dame Lin Homer: Which we exceeded.

Nigel Mills: And you claim you achieved £26.6 billion. It is just not immediately apparent—we do not see that appearing in the tax gap. It looks like you are spending a lot of money and a lot of effort almost to stand still.

Dame Lin Homer: You are spending some effort to stand still, yes. That is what compliance is like, I'm afraid. You are spending some effort to prevent the new criminals from thinking they can get away with it, even if you have locked up the old criminals. You have chief constables in front of you, and it is a bit like saying, "Since you sorted out crime last year, you don't need any policemen this year." That is not true. We think that the work we are doing is decreasing the risks in our system, and we are trying to be honest with you and say that in the areas of hidden economy, criminal attack and evasion, we don't want to guess what proportion of the tax gap that will be, but we will continue to work on those areas.

Our annual report, which is, as Jennie says, one of the most detailed that is produced anywhere, is partly what Jennie and Simon use to work out where to put their resources in the next year. We are moving resource into hidden economy, because we can see a growth in microbusinesses and we can see a growth in online trading, and we want to ensure that that does not become an area that grows in the tax gap. That is quite a good example.

Q68 Nigel Mills: I suppose what we might like to see in a couple of years' time is some of this appearing in factual form. When I ask you how much of your resource you spend on tax fraud, you kind of don't know. When we look at how much of your compliance activity is raised from tax fraud, we don't know, but we think it is 30% to 40%. Then you start saying, "We will now move some more resource in," but that will not be visible because we do not know how much resource you are starting with or how much resource you will end up with, so we will not even be able to track that. Then when we talk about all these £7 billion-worth of impacts you can make, that will not appear in the tax gap analysis. Don't you think you need to have some more data and a bit more precise target, so that we can work out whether these successes that you claim, and your claim that you are ahead of targets, are real and not just an adding up of things that perhaps are not quite linked to this?

Dame Lin Homer: I think it is a fair challenge that NAO have given us and you have given us that we continue to try to present what is a lot of data—I do not think that we are short of data—in a way that is really easy for everybody to understand. I accept that as a challenge. I think we do know what benefits we are getting from our resources. What we are not able to do is, if you like, track that in a very granular fashion to every one of Jennie’s 1 million interventions and label that.

Q69 Nigel Mills: We are not asking you for that, are we?

Dame Lin Homer: Yes, you are, actually, and that is what we are saying is difficult. As we build better MI, we will be able to cut it different ways. But we currently cut the tax gap by types of tax, types of behaviour and types of customer. Nobody else in the world even publishes any report annually, let alone dissected three ways, so I do slightly resist the challenge that we are not trying to show this well. I accept the challenge that we could go on trying to show it better.

Q70 Nigel Mills: One last question from me, Ms Homer. Do you accept that it is a bit hard to balance the fact that one minute you say the risks are increasing despite all the activity, and the next minute you say that you are having a successful deterrent impact? It kind of suggests that if the risks are increasing, people are becoming more evasive, not less.

Dame Lin Homer: No, no, they’re not. The tax gap is going down. Let me say that again. Jennie has said it, and I have said it.

Q71 Nigel Mills: But the tax fraud gap and the hidden economy are not going down. Can we try to stick to this topic?

Dame Lin Homer: Well, what is this topic? On the three things which the NAO is calling tax fraud, we are marginally better now than we were four or five years ago, so that does not sound like failure. On hidden economy, it is marginally more challenging than it was three or four years ago, but on criminal activity, we are actually in a better place than we were. All of that is very clear from the tax gap.

Q72 Nigel Mills: Okay, but my question was that you are trying to claim success as being a deterrent to people doing this and then you are trying to claim that the risks are increasing. Presumably, the logic of that is that if more people are becoming evasive, they are not feeling deterred.

Dame Lin Homer: No, I am simply saying that there will always be criminals. I am prepared to forecast that.

Q73 Nigel Mills: But I think you are suggesting that there will always be more of them. We seem to be raising more and yet chasing more.

Dame Lin Homer: No, I don’t think we will ever have a point where Jennie’s bit of the business will not be needed.

Nigel Mills: No one is suggesting that.

Dame Lin Homer: However, I do believe that we have a largely compliant population in this country—we have the smallest tax gap that we can see reported anywhere—and that when we turn our attention on areas of activity, we are successful. Most law enforcers find that you have to, as Jennie has suggested, be prepared to be adaptable and flexible. Sometimes you have to return to an area on which you called success a few years before, because people get blasé again and you go back into it. That is the kind of strategic assessment that looks at the facts and figures but uses professional judgment to work out what the response is.

Q74 Chair: I have been on this Committee for about five years. Mr Bacon has been on it for 15, or is it 16 now?

Dame Lin Homer: Longer than me.

Q75 Chair: Our Vice Chair is a long-serving member. Other Members have been on the Committee for a period of time as well. We keep hearing that it is going to get better.

Dame Lin Homer: It is better.

Q76 Chair: Well, by 0.2%.

Dame Lin Homer: No, by 2%.

Q77 Chair: Well, we are talking about fraud today, aren't we? Paragraph 10 on page 8 of the summary of the Report highlights that you are looking at small and micro businesses. Jennie Granger has touched on that a bit. It is clear to us why organised criminals are a tax fraud risk, but why do smaller businesses pose more of a tax fraud risk than other groups, especially given that many of those small businesses are working in a digital world? The era of cash businesses is not yet dead but there is an easy way of tracking people's transactions, so why are they a higher area of fraud?

Dame Lin Homer: Let me get Jennie.

Jennie Granger: Small and micro businesses is one of our biggest segments and it turns over constantly. Whoever we have been measuring in the tax gap the year before is not the same group each time. One of the inherent challenges, particularly for microbusinesses where the owner is often self-employed, is that they are cash-poor. They live on the cash flow so the temptation is to put off paying the tax.

There are two biggest risks in that sector. One is evasion—simply not registering in the system. Often that is motivated by the fact that they do not understand their responsibilities well or they are cash-poor. The second is payment compliance, which is one of the biggest factors in our debt recovery. Both of those things are important. It is not the same group each year, which is part of the challenge. We need to do that continually.

You are absolutely right that digital helps with some of this. It helps us to detect. I am interested in moving that upstream so that businesses get it right first time and we do not have to

chase them. One of my measures of success is that earlier intervention makes a difference and we are not having to prosecute as many as we do. That is the challenge. Whether it is digital or on the street, this is inherently a cash-poor group that is often new to its responsibilities. We need to educate and tackle.

Q78 Chair: So, a lot of MPs hear from small businesses feeling that they are under the cosh. Based on what evidence do you conclude that large businesses are not such a great risk for evasion or fraud?

Jennie Granger: Both Jim Harra's large business service and our tax gap analysis is showing us—from our own activities and from that analysis—that the main risks that large business poses to us is around legal interpretation and avoidance, including offshore transactions. Those are the two biggest compliance risks around large businesses. It is not saying that there cannot be some evasion at the edges around that, but typically these businesses that are well informed on their legal obligations understand them. If anything, they play the grey around the law, not deliberately break it, which is what evasion is.

Q79 Chair: Which is something that we have covered.

Dame Lin Homer: And it is one of the reasons why a lot of the enforcement activity still goes into avoidance, not just what you classify as tax fraud.

Q80 Chair: To go back to small and big businesses, VAT evasion is an interesting issue. We all see examples on the high street and elsewhere of companies that set up and then liquidate after a certain period of time. Given the timetable on VAT payments and the fact that, as you said, people defer payments for all sorts of reasons, can you be confident that you are capturing VAT evasion by companies that close and then open again the next day under a different name? That is one example of VAT fraud that we all know about.

Jennie Granger: Phoenixism is an absolute scourge. It is absolutely a challenge for us. Deliberately shutting down quickly and moving on makes it difficult for us to catch up with people. We have specialist insolvency expert teams in Simon's area; it is their job to detect this and tackle it. We are getting better at tracing through directors. The challenge there, of course, is that they often use straw people. I am not going to say that we get every single one of them, but we absolutely treat it as a priority, and we have expert teams that are there to build up knowledge of that quickly and tackle it where we can.

Q81 Chair: If you are given direct evidence, how easy is it? If, for instance, I were to give you the name of a company now—

Jennie Granger: Please do.

Q82 Chair: I would be very happy to give you that evidence, but because some of the people as well as the companies are fly-by-night, how hard are they to track down? There is certainly clear evidence out there that people are dodging the system for a number of years, if they ever get

caught. You have given me a general answer, Jennie Granger, but I am not confident from what you have just said that you have really got a grip on this. Perhaps you could give me more to convince me, and those watching who do pay their VAT on time, that you are catching these VAT fraudsters.

Dame Lin Homer: Yes, please do give us information. The second thing to say is that we are working much better across all Government bodies so that information held in one part of the system can be put together with information held in another. Both Simon's team and our RIS team—the research and intelligence team—are using a lot more third-party data. As Jennie says, again, it is one of those risks that will never wholly go away, but it is one that we would like to crack down on. It is our belief that our approach to making tax digital, which I know brings its own challenges of communication—

Q83 Chair: But that would not necessarily resolve VAT.

Dame Lin Homer: No, because making tax digital will allow us to see all of small businesses' tax affairs in one place—

Q84 Chair: But that is what they are declaring.

Dame Lin Homer: So what you find is that very few businesses are complete ghosts. They may not tell us that they exist, but they might tell the licensing organisation. They might, as Jennie said, have some money going through one set of accounts and some through another. What we are getting better at is watching whether the shadow is the same size as the body, if I can put it like that. We are able now to investigate a lot more cases where we can start to show—to go back to our discussion about how much evidence you need for a prosecution—matching evidence or un-matching evidence that allows us to start investigating. We are getting better.

Q85 Chair: I am going to hand over to David Mowat in a moment. The real concern on this particular issue is that if you have a legitimate business trading alongside a business trying to dodge its VAT, by the time you have caught up with them and taken action, damage can be done to a good, legitimate business trying to pay its staff well, pay its taxes on time and do the right thing.

Dame Lin Homer: I think the FST would say that one of the reasons why he is keen that we progress making tax digital is that it creates a better, more level playing field.

Q86 Chair: We keep hearing that that is going to be the great solution, so we will—

Dame Lin Homer: We think it is.

Q87 David Mowat: On VAT evasion, there is a debate here in the House of Commons tomorrow—you will be aware of it, I guess—

Dame Lin Homer: Yes.

Q88 David Mowat —on what appears to be the latest mechanism used, which is overseas suppliers using eBay and Amazon effectively to evade VAT. I have seen estimates of £10 billion in lost revenue, plus of course the collateral damage to the high street, which cannot compete. I am interested to understand where you are on that and how big an issue you think it is.

Dame Lin Homer: I think Jim Harra's team think this is a big issue. The UK has embraced online shopping even faster than most of our European colleagues. We are seeing the development of entirely new marketplaces. You used that word, but because they are marketplaces in the ether, the question whether the purchaser knows or even thinks about where they are buying from, and whether they ask or understand the right questions about import duties—both VAT and excise duties—is a very big issue.

Q89 David Mowat: There is no chance of the purchaser having that responsibility. It seems to me that the only possibility of progress is if you are able to hold eBay and Amazon accountable as facilitating that trade.

Dame Lin Homer: Well, they are not accountable for the tax, but I think expecting any provider—

Q90 Mr Bacon: I'm sorry, can you just say that again? You mean that Amazon aren't accountable?

Dame Lin Homer: They are not accountable for VAT, for instance, that purchasers using their marketplace avoid.

Q91 David Mowat: I understand the difficulty in it, although it seems to me that to make progress on this, whether there is a conspiracy angle or the fact that they are facilitating with their platform the people you can't get to—

Dame Lin Homer: What I can tell you is that from spring last year, Jim had a team looking at this, along with Jennie and her team. We feel, just as we do with beer and alcohol, that the people who manage the supply chain should ensure that their supply chain has enough diligence built into it. So we do think marketplace providers and supply chain providers have responsibilities. We will always work in any of these sectors with the people with those supply chain responsibilities.

Q92 David Mowat: Sorry, does that mean that you are in a position, even with the law as it stands, potentially to act against marketplace providers such as eBay and Amazon, or do you require a law change before you are able to do that?

Dame Lin Homer: It means that we are looking both at behaviour changes within the supply chain and at any policy changes we might need to make to improve it, just as we do whenever we see a new market develop.

Q93 Mr Bacon: How long has that looking at it been going on?

Dame Lin Homer: As I say, we started having a deeper investigation in spring last year. We are talking with colleagues in Europe, and that has already revealed to us that this country's online shopping habits are changing faster than anyone else's. France and Germany are already prepared to look at this with us. Some of this may well need international change as well.

Q94 David Mowat: Finally—and then Richard can come in—the figure of £10 billion was mentioned in this area, but is it ballpark? Do you recognise that figure? Because if it is anything like that, it is just enormous.

Dame Lin Homer: I am not going to try to guess at that. I am very happy to get Jim to drop you a note about what we have been doing and what it covers.

Chair: Yes, please.

Dame Lin Homer: But what we are certain of is that it is growing.

Q95 David Mowat: You must have some idea of the exposure, even if you don't think it is £10 billion or you don't want to say what it is. Are you taking action on it? It must be a priority if it is of that size. The damage is huge.

Dame Lin Homer: I am happy to write a note. We are absolutely sure it is a growing risk in the system, just as carousel fraud was four or five years ago. I think we are really good at being probably the first people to spot it. That doesn't mean it will go away, but it does mean that we have got a head start in thinking about what changes in behaviour and, if necessary, policy and law might be needed to bear down on it.

Q96 Chair: Dame Lin, in answer to David Mowat, you didn't actually answer the question about whether you could prosecute under current legislation. You talk about future law changes, but could you do something today, now, under the law to tackle this?

Dame Lin Homer: The question of whom we can take action against is the thing we are having to consider.

Q97 Chair: So you do need a change in the law?

Dame Lin Homer: We don't think providing a marketplace makes the marketplace provider responsible for criminal activities that happen within it.

Jennie Granger: But we can—

Chair: Richard Bacon, then Stephen Phillips.

Dame Lin Homer: I think Mr Bacon is interested in that.

Q98 Mr Bacon: This is not a new problem. In the previous Parliament—I'm not sure whether this was with your predecessor or with you—Ian Swales, who was the MP for Redcar, raised in this

Committee when we were looking at Amazon the issue of having bought from amazon.co.uk an iPad, which ended up being delivered from some warehouse in Luxembourg. He asked for a VAT receipt and couldn't get one. Amazon said, "We are not in a position to give you a VAT receipt." That is what he was told.

Dame Lin Homer: That is not the issue. In this case, we are talking about non-EU imports that are evading European VAT. I don't completely remember Mr Swales's point. I think it was a hearing when Jim was with me. The question of whether, under the current European legislation, you can sometimes choose to pay another European member state's VAT, rather than ours, is different from whether it is an import paying no VAT to Europe at all.

Q99 Mr Bacon: It might not have been your issue, but it was my issue. I was talking about within the EU. His issue was that he could not get a VAT receipt from anybody for an EU jurisdiction. You are talking about this now, quite a long time later, and there is the non-EU issue as well—

Dame Lin Homer: They are two different issues.

Q100 Mr Bacon: I understand that.

Dame Lin Homer: So we have a situation where we are within the marketplace of Europe and where people are allowed to bring goods across European boundaries if VAT is paid. I do not recall Mr Swales' specific point about VAT receipts and the right to them, but the point that is being debated tomorrow is about the avoidance entirely of paying anyone in Europe VAT.

Q101 Mr Bacon: Yes, and this was my question too about what Mr Swales raised within the EU—within an EU country—where he could not get an EU receipt to pay any VAT to anybody. He could not get a VAT receipt, so it looked like no VAT was being collected in any EU jurisdiction. We said at the time that that must be plainly unlawful.

Dame Lin Homer: I am happy to ask our VAT experts to write you a note on when you are entitled to a receipt.

Q102 Mr Bacon: This is not a new problem. It may be a growing problem, because of the propensity of British people to buy online, so it is obviously growing.

Dame Lin Homer: It is.

Q103 Mr Bacon: But it was always there as a problem. It is now a problem that is growing quite rapidly. And you are still talking about considering what action may need to be taken or considering what policy changes may be needed. How long is it going to take you before you get to the point where you can say, "This is what we need to do"?

Dame Lin Homer: It is a different problem. We are a member of Europe—

Q104 Mr Bacon: In relation to both problems.

Dame Lin Homer: In relation to European VAT, we have talked to you about the frustration, but on the legality of carrying VAT-paid goods across borders, the question you have asked is about the production of a receipt.

Q105 Mr Bacon: No, I did not ask a question about that. With respect, Dame Lin, I did not ask a question about goods with VAT that has been paid and carried across borders. I asked a question about an iPad upon which it appeared that no VAT had been charged by any EU jurisdiction at all, and we made the point that that must plainly be unlawful.

Dame Lin Homer: I would rather not guess at the question Mr Swales asked several years ago. I will ask our VAT experts—

Q106 Mr Bacon: My point is that several years ago the issue was raised, and several years later you still appear to be struggling with it.

Chair: Dame Lin is saying that she has not got the answer at her fingertips.

Dame Lin Homer: My recollection is not that we conceded or accepted that that was non-VAT-paid, so that is my concern.

Q107 Mr Bacon: Can I just get an answer to my question? If it is in two parts because there is a non-EU part and an EU part, then give the answer in two parts. I want to know, since you have obviously been considering this—or certainly should have done—for quite a long time, when are you going to be in a position, rather than simply considering it, to decide and to state what action you are going to take in relation to both EU and non-EU streams?

Dame Lin Homer: We take considerable action day in and day out on VAT fraud. Every day. VAT fraud is a big chunk of the tax gap and we do prosecutions and investigations probably every single day. So we are taking action on VAT fraud.

Q108 Mr Bacon: Sorry, are you taking action every day on VAT fraud in a cross-border example, or are you just talking about—

Dame Lin Homer: Much of it is, yes. Most of the alcohol is, and lots of the tobacco is.

Jennie Granger: I know we are short of time, but I would be happy to add to that note with what we have done operationally, including, as much as we can, details about a £500,000 seizure of goods that we did last month.

Q109 Mr Bacon: With respect, we were talking about online. I am not talking about alcohol where booze is brought across from France and excise duty or VAT or whatever that should be paid is not paid. I was talking about a specific example of online purchasing.

Jennie Granger: I am not talking more generally, either. I will add to that note some of the activity we are doing on—

Dame Lin Homer: Recent online seizures relating to online goods brought into the country just before Christmas—no doubt expected to be Christmas presents—mean that Jennie will have spoilt some Christmases. We had £500,000 worth of goods seized because they were not correctly imported.

Mr Bacon: Right.

Simon York: We have dedicated teams on that.

Q110 Mr Bacon: So in relation to the other bit that you are considering, when are you going to be in a position to take action?

Dame Lin Homer: So what we are looking at is whether, because more and more individuals are buying online, we have to make some changes in the system to alter the risk that individuals unknowingly are becoming the importers of goods. In a sense, they are the person responsible for excise and VAT, but they think they are just the purchaser of goods. That is the new challenge that we are looking at. It is particularly related to non-EU and we have been investigating this for a number of months. We are already doing some things, and we think there are more things we can do, but that is the sort of emergent risk as people get more confident about becoming personal importers.

Chair: Okay. I will hand over to Stephen Phillips. We will be coming back to this issue of VAT, I have no doubt.

Q111 Stephen Phillips: To return to today's topic, Dame Lin, the title of the Report that we are considering is "Tackling tax fraud: how HMRC responds to tax evasion, the hidden economy and criminal attacks". I suspect that it will come as no surprise to you, or to Ms Granger, that I want to concentrate my questioning on the manner in which you tackle tax evasion and, in particular, on the way in which prosecutions are approached. That is in essence Part Three of this Report. Before I do so, I want to see if we can agree some common ground with a number of relatively straightforward points that I want to put to you and that I think you can agree with. Let us see if we can start out with some common ground at the beginning.

First, tax evasion—that is, deliberately not paying the taxes that you should be paying—is wrong and is a crime. Yes?

Dame Lin Homer: Yes.

Q112 Stephen Phillips: Secondly, Parliament has established through a variety of statutes that individuals who evade their taxes may be brought before the criminal courts and prosecuted.

Dame Lin Homer: Yes.

Q113 Stephen Phillips: Parliament intends, when establishing criminal offences, that where the elements of the offence are made out, prosecution should take place in appropriate cases.

Dame Lin Homer: Yes.

Q114 Stephen Phillips: One of the reasons that Parliament establishes criminal offences is so that prosecutions may take place, so that others are deterred from engaging in the same illegal behaviour. Yes?

Dame Lin Homer: Yes.

Q115 Stephen Phillips: Prosecutions have a deterrent effect. When properly publicised, they deter people from deliberately not paying their taxes. Agreed?

Dame Lin Homer: Yes.

Q116 Stephen Phillips: HMRC is the authority responsible for investigating tax evasion and for presenting papers to the Crown Prosecution Service so that prosecutions may take place?

Dame Lin Homer: Yes.

Q117 Stephen Phillips: In general terms, Parliament therefore expects HMRC to discharge its functions by properly investigating tax evasion and mounting prosecutions of those who have evaded their taxes, unless there are good reasons why that should not take place. Agreed?

Dame Lin Homer: Yes.

Q118 Stephen Phillips: That is very helpful. Just before we come on to the position as it now is and, indeed, might be in the future, can we have a look at the woeful state of prosecutions in the past? Can we look at paragraph 3.14 of the Report? In 2010, as I read the Report, other than in relation to organised crime, there were only 165 prosecutions that were brought to court by the CPS on behalf of HMRC for what you call “volume crime”, which is basically tax evasion.

Dame Lin Homer: Yes.

Q119 Stephen Phillips: The Report tells us that the coalition Government then increased funding for those prosecutions and you set yourself a target of 1,000 prosecutions annually by 2014-15 and that that target has now been marginally exceeded. Is that right?

Dame Lin Homer: Yes.

Q120 Stephen Phillips: Just looking at this figure of 1,000 prosecutions, where did it come from? It seems to have been plucked out of the air completely.

Dame Lin Homer: I was not here when it was set, so I do not want to try to determine where completely. From the discussions that I have had, in the SR spending round the enforcement and compliance team at HMRC made a case to the new Government that the level of prosecutions that we were undertaking was a risk to the taxpayer. So we needed to undertake more in order to ensure, first and foremost, that there was not a perceived red line below which we would not go—therefore, an overly significant sense of confidence—and, secondly, so that we were able to assure ourselves that we were achieving a deterrent effect. It was broadly described as a fivefold increase in prosecutions and, indeed, in one of my early hearings—

Q121 Stephen Phillips: That was an exaggeration, wasn't it?

Dame Lin Homer: No.

Q122 Stephen Phillips: So five 165s are 1,000, are they?

Dame Lin Homer: No, slightly less, so we have more than achieved that.

I think in one of my earlier hearings I was asked whether I was confident about that. We said that we were, so I am pleased that we delivered it. As to whether it is the right figure, one of the things that we had to do and set ourselves the task to do was to increase the experience and expertise of bringing good cases to the CPS, which it would accept, and of achieving convictions. Over the time that we have increased the numbers, we have achieved an 80% success rate.

Q123 Stephen Phillips: Dame Lin, you are straying from the question I asked.

Dame Lin Homer: I am trying not to.

Q124 Stephen Phillips: I know it is not your figure; you have made that clear. Where does the number of 1,000 come from?

Dame Lin Homer: What I was trying to explain is that I believe that we recognised that we needed to build up to that. I don't think we necessarily see that as the end. What we do believe is that you have got to take good cases that are successful, if you are to get that deterrent effect you referred to.

Q125 Stephen Phillips: The difficulty with having a target of 1,000 is that you have absolutely no idea in terms of deterrence—deterring other people from engaging in tax evasion—whether it is any better than mounting 201 prosecutions, 999, 1,001 or 10,000.

Dame Lin Homer: Absolutely, but we have a judgment about that and our judgment is that we do not believe prosecutions are our only deterrent effect. This is a conversation I have had with a number of you before. What we have been doing while we have been building up prosecution numbers is also building up other forms of penalty, which we believe also have a deterrent effect.

Q126 Stephen Phillips: So it is building numbers. How many prosecutions in relation to volume crime—that is essentially tax evasion in some parts of the hidden economy—will this Committee see taking place in five years' time?

Dame Lin Homer: We are in the process of setting ourselves measurements for the future. I do not think this is an area where we necessarily think we need to increase it fivefold again, but it is an area where we would want Simon to be able to come back to us and argue the case for more resources, if he thought that was beneficial.

Q127 Stephen Phillips: But again, the problem is that you don't know, do you? As part of this project to expand prosecutions, you intended to assess their deterrent effect, and you have not been able to do that, have you?

Dame Lin Homer: We have described some of the evidence that we have for deterrence, both of prosecutions and our wide range of civil penalties, and we will continue trying to research that.

Q128 Stephen Phillips: You have not been able to verify the value for the purposes of deterrence of increasing the number of volume crime prosecutions, have you?

Dame Lin Homer: What do you mean by value? Do you mean in terms of yield? Or do you mean in terms of impact on individuals?

Q129 Stephen Phillips: You have not been able to evaluate what the increase in the number of prosecutions in relation to volume crime has meant, in terms of deterring other people from engaging in the same offences.

Dame Lin Homer: Yes, we have to a certain extent. Our survey—

Q130 Stephen Phillips: Would you look at paragraph 3.19 of the Report, which is agreed?

Dame Lin Homer: As we have already discussed, our survey shows an increase in the number of people who believe that they are at risk of being prosecuted, so we have some evidence.

Q131 Stephen Phillips: Now look at paragraph 3.19 of the Report, which is agreed. The last sentence: "Its [HMRC's] evaluation was unable to verify the value of the deterrence effect from the Volume Crime project." That is the point that I have just put to you. Are you now saying that you do not agree with that sentence?

Dame Lin Homer: No. I think I stand by what I said that we accept we need to do more evaluation. The point I wanted to get over to the Committee is that we have evidence that prosecutions deter. I accept—and I have already said that—that we do not have absolute evidence for a specific figure. Our belief is that we will need to use the overall tax gap as one piece of evidence, our survey is more. We will need to continue to try to finesse the right amount.

Q132 Stephen Phillips: Dame Lin, you have not the faintest idea.

Dame Lin Homer: Yes, we do. Actually, that is wrong.

Q133 Stephen Phillips: Do you want to listen to the question?

Dame Lin Homer: Sorry, I will listen to the question.

Q134 Stephen Phillips: You have not the faintest idea, which is what the last paragraph—

Dame Lin Homer: Sentence.

Q135 Stephen Phillips:—the last sentence of paragraph 3.19 says, as to whether a 1,000 prosecutions is more effective than 165, or whether 10,000 would be more effective than 1,000, as to what the right number is in order to achieve an appropriate deterrent effect. That is what the agreed last sentence—

Dame Lin Homer: No, it doesn't. The words "faintest idea" are not in the last sentence and I disagree with them strongly.

Q136 Stephen Phillips: What work have you done in order to try to assess the deterrent effect of the number of prosecutions that you mount in relation to volume crime?

Dame Lin Homer: I will ask Simon to explain some of the work that we do.

Simon York: I will start by saying that we absolutely see this as part of a wider package, and we are looking to deter taxpayers from tax evasion by a combination of a whole load of different things. What is difficult, and what that sentence is referring to, is specifically isolating the deterrent effect of one particular thing. We find that difficult; the police find that difficult; academics find that difficult; and tax authorities across the world find that difficult. What we are doing is now undertaking a series of other sorts of evaluation—surveys and working with others—to see if we can get a better understanding on that. But it is really difficult stuff to isolate the impact of one intervention when you are undertaking a range.

Q137 Stephen Phillips: Mr York, I am going to stop you. I accept that it is difficult to work out, in terms of the performance of all taxpayers, what mounting prosecutions does. But at the moment the Committee, and indeed it would seem HMRC, is in this difficulty: in terms of deterring people from evading taxes, you do not know what the effect is of prosecuting a target of 1,000 people a year as opposed to the 165 people who were prosecuted in 2009-10.

Simon York: What we do know is that we have a significant deterrent impact from our programme of work, which includes prosecutions. I accept that it is really difficult to isolate the specific deterrent impact of one specific type of activity when you are doing a whole range of them.

Q138 Stephen Phillips: You have referred to some further work that will be conducted in this area. Have you asked outside consultants, experts or academics whether they can make a proper, justifiable estimate of the value in terms of deterrence of prosecuting more people for evading their taxes?

Chair: Before that answer, I want to bring in the NAO to clarify another point.

Rob Prideaux: I wanted to make the point that when we talk about wanting HMRC to have better evidence of the impact of its activities, this is a good example. As you have said, in spending review settlements and budgets you set targets for what you will achieve through different interventions and from new interventions, and this was an example where £295 million was the amount that HMRC said it would get through raising the number of prosecutions through the volume crime initiative, as I understand it. Recognising that it is very challenging to do this, we feel that you should have tried harder to test whether that figure turned out to be right or wrong. As you say, it is really difficult to isolate it, but you have claimed it as part of your compliance yield and in order to know what to do in future—what is the best use of your resources, whether it is more prosecutions, fewer or the same number—we think that is a really important thing to know.

Chair: Can you cover that and then answer Mr Phillips's question?

Simon York: We are absolutely doing that now. In terms of why 1,000, this was very much part of a wider programme. It was our professional judgment. It was based on experience elsewhere: other tax authorities do this sort of stuff and we talked in particular to the Americans about this. And there was also an assessment of what was achievable not just for HMRC, but in the wider criminal justice system: could the CPS cope with this? Could the courts cope with this fivefold increase in prosecutions?

So a whole host of practical issues came in there as well, but we strongly believe that this sort of figure, as part of a wider approach, is deterring people and, as we said before, the tax gap and the views of small and medium-sized businesses and individuals across the country and the evidence from our sector-targeted campaigns absolutely back that up.

Jennie Granger: On Mr Phillip's question about would we be open to either academics or others, the answer—

Stephen Phillips: Consultants.

Jennie Granger: Well, on consultants I will reserve my judgment—it will depend on their pitch and whether we think it adds value, but yes, of course we are open to that. In fact, as is often the case with the NAO, they often ask us—they are in this area—to lift our bar above what we know are the methods used internationally now. But yes, we are open it, but on a value for money basis for consultants.

Q139 Stephen Phillips: I am interested to hear that you are open to it, Ms Granger. Just to go back to the last sentence of paragraph 3.19, you have been “unable to verify the value of the deterrence effect from the Volume Crime project”—in other words, you do not know how effective the increase in the number of prosecutions has been in deterring others from evading taxes. You have not been able to do that work, so wouldn't it be sensible to see whether someone else has got

some bright ideas, because this is important in terms of deciding how many cases you are going to prosecute and how many you are going to deal with through another route?

Jennie Granger: I will not rehearse again that we do not think it has had an impact; you have heard what we have said about what we know. I am saying that we are open to others—in fact, we have been engaging on that. We have not found better methodologies yet, but we will be encouraging people to suggest that. I am very hesitant, though, about putting all the eggs in one basket and saying we should set a perfect number of prosecutions. I am actually counselling that we be agile and flexible across our system, doing more or less what—

Q140 Stephen Phillips: The trouble, is you have got at the moment an artificial target of 1,000 prosecutions; you just do not know whether it is the right number or not.

Jennie Granger: I know you would like us to say that, Mr Phillips, but I don't agree with you on that.

Stephen Phillips: Unfortunately, that is what the Report says.

Jennie Granger: I believe it has had an impact. If it had not had an impact, the revenues would not be going up in the tax cut ground. All of it contributes to that. Measuring more directly is a challenge, but the court of public opinion is one of the very important things, which is why we are tracking survey results across a range of things to see whether people think it is risky to try to evade the system. That is one of the things that we are trying to increase.

Q141 Stephen Phillips: Mr York, you referred to having spoken to the American authorities. Is that right?

Simon York: Yes. They were some of the people that we spoke to when we were—

Q142 Stephen Phillips: Did you speak to the German authorities, which investigate all cases of tax evasion with a view to being able to prosecute them, and if not, why not?

Simon York: I was not around in this job five years ago when we started off on this programme. I am not aware that we spoke with the Germans, but different tax authorities and different legal systems have different approaches. I do not believe the Germans have a dramatically different proportion of cases to us that they end up criminally prosecuting in court. Our system is very similar, and I think there is a very helpful chart in the back of the Report. Our approach here is very similar to almost all developed tax authorities across the world.

Dame Lin Homer: Germany's civil and criminal proceedings run together. They open all as criminal and close many as civil.

Q143 Stephen Phillips: I am not an expert, and I do not know whether you are, Dame Lin, but all I was suggesting was that if you spoke to the Americans, perhaps you would like to speak to another jurisdiction.

Dame Lin Homer: We have very strong relationships with Germany and we do a lot of comparing and contrasting. Both Edward Troup and I regularly meet with our counterparts in Germany.

Chair: Just for anyone hoping to follow this, it is figure 19 on page 40 in appendix two that shows the international comparisons.

Dame Lin Homer: It is. As it says, they are obliged to open, but they are not obliged to close it.

Chair: Rather than go through that in detail, anyone who has an interest can look at figure 19.

Sir Amyas Morse: It is not a criticism that you do not know the right level; it is just a fact that it would be useful to agree, instead of arguing the toss about it. In other words, if we find that it is not feasible to know in detail and it is impossible to establish, we will have to live with that. It is not any more than pointing out that you do not know it precisely. What happened was that you took a number that seemed sensible, probably responding to public criticism about not doing enough prosecutions, and taken overall, it seems to be working. You would love to understand better exactly how it works, and you are trying to, but so far you are not there. Is that really difficult?

Dame Lin Homer: No, not at all.

Sir Amyas Morse: Well, we are in agreement then.

Dame Lin Homer: Yes. I was bristling at the “not the faintest idea” comment. I agreed the Report. I described—

Q144 Stephen Phillips: Dame Lin, if you are unable to verify something, you have not got the faintest idea.

Dame Lin Homer: I disagree. We will choose to disagree on that. If you read paragraphs 3.20 and 3.21, which immediately follow the sentence that you have referred to, they talk about HMRC having expanded its understanding “of the deterrence effect of its work.” I took the Report as a whole. I agree with what it says. I dislike shortened versions of what I have agreed being put as words into my mouth.

Q145 Stephen Phillips: There we go. Bad luck.

Let’s move on. Let’s look at the extra money you were given in the summer Budget to tackle tax evasion. Paragraph 3.15 of the Report says—let’s use the words of the Report—that you would “focus particularly on wealthy individuals and corporates, with the aim of increasing prosecutions in this area to 100 a year by 2020.” Are we agreed on that?

Dame Lin Homer: That is what the Report says and that is what we agreed.

Q146 Stephen Phillips: In other words, that is the focus of what the extra money is going to be used for that is referred to in that paragraph.

Jennie Granger: Increasing criminal investigations is the commitment. It is not a technical point, but it is an important point—I know that you know this, Mr Phillips—that the CPS decides whether to charge. Simon will have the detail, but we were doing roughly 35 a year, and we think for the scale of the market that we need to do more. We have built our capability up in individual prosecutions. That is the 1,000 we have been talking about, and we think we can expand and add to that.

Q147 Stephen Phillips: In one sense, Ms Granger, you have anticipated my question. You are going to increase the number of prosecutions, or investigations that hopefully lead to prosecutions, to 100 for wealthy individuals and corporates from a figure that is currently around 35. Is that right?

Jennie Granger: I think “wealthy and complex” is what we said—

Simon York: First, this is one strand of the summer Budget investment to do with tax fraud.

Q148 Stephen Phillips: And I am just looking at that, Mr York. I’m clear about that.

Simon York: I have about 600 extra people coming to my area to do this sort of work. This is one strand of that.

This is to help us to increase our more serious and complex investigations, which typically feature more wealthy individuals, companies and perhaps offshore evasions. It is that type of area where we are looking to build our capability to do so. That is absolutely right.

Q149 Stephen Phillips: So I think you would agree that one thing that flows from the agreement we have in relation to that sentence is that the number of wealthy individuals and corporates currently prosecuted annually for evading tax is fewer than 100.

Jennie Granger: I think it is about 35 investigations a year.

Q150 Stephen Phillips: Right. The second thing that seems to follow from that—correct me if I am wrong—is that as a result, wealthy individuals and corporates have hitherto been getting away with tax evasion without being prosecuted.

Simon York: I don’t think that is right at all. Actually, if we just look—

Q151 Stephen Phillips: Forgive me, Mr York, it must be right. Are there 65 people who are suddenly about to engage in tax evasion?

Simon York: We deal with quite a lot of cases of wealthy individuals, and I can give you a stream of examples if you like. One that was in the press very recently just before Christmas—

Q152 Stephen Phillips: I don’t want an example. You can agree or disagree with me, but it is absolutely obvious to everyone sitting around this table.

Simon York: I disagree with you, and I was going to illustrate that by showing the sort of cases we are working on.

Q153 Stephen Phillips: Listen very carefully to the point I am putting to you. It is 35 at the moment. You want to get it up to 100 by 2020. It follows from that that wealthy individuals and corporates have been getting away with tax evasion in the past without being prosecuted.

Simon York: I don't think that follows. I don't agree.

Q154 Stephen Phillips: Well, explain to me why.

Chair: I suppose what we are asking is where the figure of 65 miraculously came from.

Jennie Granger: Going back to the earlier points I was making in relation to the tax cap on corporates in particular, the risks that we see there are not evasion. The evasion risk is, if anything, very small. They tend to pay the grade. That is on the record and we publish it year in, year out. That is not saying there might not be some. It will be true right across the system that we have not prosecuted everyone who has committed evasion. That is why there is a gap. We do think there is some more work to do here, so that is obviously why we—

Q155 Stephen Phillips: That is very helpful, Ms Granger. What you have essentially just done is to shut out corporates, because you say large and wealthy corporates do not engage in tax evasion.

Dame Lin Homer: As we said before, avoidance and legal interpretation is their pitch. On your point, could I refer to figure 16—

Q156 Stephen Phillips: Before you do, Dame Lin, earlier you said twice in two different ways that there will always be people who want to evade tax—that is a verbatim quote—and that there will always be criminals. We have now excluded corporates from the figure that you are going to try to get up to 100, because they don't really evade their tax, so you are going to get 100 prosecutions, principally of wealthy individuals, by 2020. It must follow from that that quite a number of wealthy individuals have hitherto been getting away with tax evasion without being prosecuted.

Dame Lin Homer: The reason I was going to ask the Committee to look at figure 16 is that these are our volume crime figures, a proportion that the NAO looked at. They are part of the 1,000—getting on for half of the 1,000. Across all individuals, putting all corporates to one side, it will always be the case that we will not prosecute a proportion of the people who evade. We may well use other forms of penalty. If you look at that table, the percentage of people who earn more than £150,000 form 1% of the people who pay tax—

Stephen Phillips: Sorry, you will have to explain.

Chair: Dame Lin, can you just say which line you are in?

Dame Lin Homer: If you look at figure 16, from about halfway down the table, it is part way into the category of £100,000 to £499,000. That represents 1% of taxpayers. If you add up the

proportion of the prosecutions, it is 32%. That suggests on the NAO's evidence that we disproportionately prosecute the rich—

Q157 Stephen Phillips: That, Dame Lin, I'm afraid, is absolutely outrageous. You know as well as I do that the last line of the table in figure 16, and, indeed, the preceding one, do not principally relate to individuals at all. That relates to organised crime; it does not relate to tax evasion.

Dame Lin Homer: No, these are our volume crime cases. These are tax evasion.

Stephen Phillips: I would like some help from the NAO on that.

Rob Prideaux: It is actually the case that these are all of the—

Dame Lin Homer: Volume crime.

Rob Prideaux: No, not volume crime, they are all the cases that went to conviction in 2014-15, from your data given to us.

Dame Lin Homer: No, that's smaller than the number.

Rob Prideaux: No, because these are cases that went to prosecution, in figure 16, from your data. Figure 14 is all the individuals who were prosecuted. It is not the targets around prosecutions, it is the numbers of people prosecuted.

Q158 Stephen Phillips: Dame Lin, I am afraid you have just been hoist by your own petard. If you look at the second column in the table in figure 16, "Number of cases in range", within those cases there are sometimes several defendants.

Dame Lin Homer: Yes, there are.

Stephen Phillips: And if you look at the last line of that table, "£1 million or over", those are principally organised crime cases. They are not wealthy individuals evading their taxes. This is not a table about volume crime.

Dame Lin Homer: It is largely a table about volume crime.

Stephen Phillips: No it isn't!

Dame Lin Homer: Yes it is, because in the year concerned, from memory I think only 165 cases are organised crime, so the biggest proportion of this table is volume crime. It must be.

Q159 Chair: In the notes underneath the table, note 1 says: "Each case may involve several people. The figure includes both convictions from the Volume Crime project and organised crime cases." I think you are both right: it includes both.

Dame Lin Homer: It definitely includes both.

Simon York: In the top two categories, we definitely have non-organised crime, in those biggest categories.

Q160 Chair: Could Rob Prideaux clarify note 1?

Dame Lin Homer: The point that I am agreeing with Mr Phillips on is that across the piece we don't prosecute everybody.

Chair: Dame Lin, can I bring in Rob Prideaux so that we are clear what we are talking about?

Rob Prideaux: Figure 16 does include both volume and organised crime. Dame Lin is right that the majority of the cases in it are volume cases. The minority are organised crime. Of course, the organised crime cases tend to be the high-value ones, so it is skewed in that respect.

Dame Lin Homer: I am happy for us and the NAO to re-present the table to you, excluding organised crime.

Q161 Stephen Phillips: We tried to unpick the data, and unfortunately it cannot be done, but let's look at the £1 million or over line. The NAO's view is that 90% of that is organised crime.

Dame Lin Homer: I am happy to give you a note. We will not give you the names of the individuals, but I am happy to re-present the cases, separating organised crime from individuals.

Chair: That would be very helpful. Thank you very much.

Q162 Stephen Phillips: That would be very helpful. Why could that not be done the last time I asked about this? It was question 89 in the last hearing we had. You provided a written note and said that you could not break down the number of prosecutions by reference to wealthy individuals. Has that now changed?

Dame Lin Homer: The issue of what is wealthy and what is not is quite difficult for us, but this is a table of specific cases, which we can disaggregate. We do not always keep our data in that form.

Q163 Stephen Phillips: In any event, you said earlier that this table relates solely to volume crime. Do you now accept that that is wrong?

Dame Lin Homer: I do accept I was wrong, but it relates significantly to volume crime.

Stephen Phillips: You said it was solely volume crime.

Dame Lin Homer: I apologise for that, but you were suggesting that the wealthy were getting away from being prosecuted. That is not the case.

Q164 Stephen Phillips: Let's get back to that. You are currently prosecuting 35 a year. By 2020, you are going to be prosecuting 100. That means that, at the moment, each and every year

there are about 65—no, in fact, 65 is an underestimate, because even in 2020 you will not be prosecuting everyone, but there are a lot of wealthy individuals who are evading their taxes and are not prosecuted. You can agree with that, Dame Lin, and it will reflect credit on you.

Dame Lin Homer: I said a few minutes ago, and I think you probably didn't hear me, so it will say it again, that across the whole spectrum we do not prosecute everybody in every category. There will always be individuals—wealthy, less wealthy, and not so wealthy—who we do not prosecute. I totally accept that. It has never been our intention to prosecute everybody. If I go back to the long list of questions you asked me to say yes or no to—I said yes to them all—one of the final questions was that we should discharge our obligations in mounting prosecutions unless there is good reason not to. You know as well as I do that the test is “beyond reasonable doubt and in the public interest”, and we have a duty to consider the full range of our tools, which is what we do.

Q165 Stephen Phillips: Will you look at figure 15, please? Your assessment of the value of the risk from various forms of evasion is set out in the right-hand column. Do you see that?

Dame Lin Homer: Yes.

Q166 Stephen Phillips: If we look at the yellow bar in that chart, which is over 40%, it is, essentially, income tax, national insurance, capital gains tax and inheritance tax.

Dame Lin Homer: Yes.

Q167 Stephen Phillips: So your estimate of the risk to the Revenue from evasion in relation to those categories is that it is 40% of the risk that HMRC faces.

Dame Lin Homer: Yes.

Q168 Stephen Phillips: Yet, if we go to the left-hand column, the percentage of prosecutions in relation to those areas of tax, where tax is deliberately evaded by individuals, is only 20%. Would you like to explain why that is the case?

Dame Lin Homer: I might ask Simon to explain to you how we use the strategic picture of risk—

Q169 Stephen Phillips: Can I ask for the policy position to start with?

Dame Lin Homer: Our policy position is that we will consider prosecutions across the piece. It will be the case with some types of tax and some types of evasion that it is easier or harder to find the evidence to prosecute. It will also be the case that we will try, as Jennie said earlier, not to have an approach that is so linear that people can work out where we are going and take the view that we will always chase the biggest financial risk, as opposed to an emerging trend or a new type of behaviour that we are keen to dissuade people from. So it is unlikely we would ever see these columns exactly matching. We would have a mixture of the type of case and of a professional

judgment about how, perhaps, to deter people in a new and emerging area, even if it is lower-value in terms of the risk.

Q170 Stephen Phillips: The trouble with that is the message you are sending out. You assess the risk of individuals evading personal taxation at 40%, yet you prosecute only 20% of them. The message that goes out is loud and clear, isn't it? It is, "Evade your taxes and you're not going to be prosecuted."

Dame Lin Homer: No, I don't think it is, Mr Phillips. I am not deliberately disagreeing with you, but I think the message is that we will use a range of approaches to dissuade people from evading their tax.

Q171 Stephen Phillips: Look at the last bullet of paragraph 3.21.

Dame Lin Homer: We don't believe prosecution is the only way—

Q172 Stephen Phillips: I am not suggesting it is the only way.

Dame Lin Homer: Therefore—

Q173 Stephen Phillips: We have already discussed whether you have any idea at all—last sentence of paragraph 3.19—whether you are striking the right balance.

Dame Lin Homer: Therefore, the column which is prosecutions will not necessarily be the same shape as the column which is value and risk.

Q174 Stephen Phillips: Well, look at paragraph 3.21—the last bullet point. This is your own survey data. Your survey of individuals found "a decrease in the proportion of respondents who felt that tax evaders were likely to be prosecuted." So your message has got across, in fact, Dame Lin: "Evade your taxes, and we won't prosecute."

Dame Lin Homer: That isn't our message. I don't think that is what is heard. Jennie spoke earlier about our view that we need to improve the awareness in that space, but, as she said, what we have seen is that, in the bigger area of risk—SMEs—awareness is growing and is significant.

Q175 Stephen Phillips: Go back to figure 16. The vast majority of the prosecutions in relation to volume crime, I am going to suggest, are in the lower value cases in figure 16. You are going to break down the data, so we will be able to see whether that is the case. If you go back to paragraph 3.16 of the Report—

Dame Lin Homer: Sorry. Could you just explain? If you look at the number of cases in the range, what you just said is not true, is it? So, 100 cases are at the lower end, involving up to £10,000 tax being evaded.

Q176 Stephen Phillips: I am counting everything under £50,000.

Dame Lin Homer: Okay, but I don't know that I think evading £50,000 is a small thing. That is the tax that's being evaded.

Q177 Stephen Phillips: Yes, I am aware that that is the tax.

Dame Lin Homer: You think that that is a small thing. No, I disagree.

Q178 Stephen Phillips: Right, Dame Lin, go back to paragraph 3.16 of the Report, please. I want to go back, finally, to your target of 1,000 prosecutions a year. You have met and exceeded that target, which is to be welcomed. The second sentence—incidentally, the first sentence is “HMRC has recognised that it needs to better prioritise its prosecutions”, so that was agreed—says: “Its aim to increase volume and productivity resulted in a focus on less complex cases, but these cases did not correspond closely with HMRC's assessment of the tax fraud risks across tax regimes.” We have dealt with the second point, which is figure 15. The first point in that sentence is saying that you have essentially focused on the low-hanging fruit—you have taken the less complex cases.

Dame Lin Homer: I am sorry. I thought you referred me to paragraph 3.15.

Q179 Stephen Phillips: Paragraph 3.16. The second sentence. The first part of the second sentence. In an agreed Report. You have focused on the less complex cases in order to reach this artificial target of 1,000 prosecutions. Those less complex cases are the less wealthy individuals.

Dame Lin Homer: Yes—sorry. I was looking at the right one. I am going to ask Simon to give a response to that. I would have to say that in my final discussion with Amyas, I was clear that I did not agree, as I said earlier, with some elements of this Report.

Q180 Stephen Phillips: Forgive me, Dame Lin. This is the Public Accounts Committee. We get these Reports from the National Audit Office. If you do not agree with something in them, you need to indicate that.

Dame Lin Homer: And I do indicate that.

Q181 Stephen Phillips: Well, you haven't in relation to that sentence.

Dame Lin Homer: No, I haven't. Every single sentence of the Report—it is very difficult. At the end of each of these Reports, normally the Comptroller and Auditor General and I have a discussion. On this one, we had a discussion, and he made some final changes. There is an element of compromise about whether every single sentence is agreed. I have been clear to Amyas that if that is your expectation as a Committee, we have to stop being given a short time to agree these Reports.

Chair: You have made that point. I am going to ask Rob Prideaux to come in and explain what happened.

Rob Prideaux: I just wanted to add that we had this Report in a clearance process with the Department for more than six weeks for detailed comments on the draft, and this draft did not change, in my recollection, throughout that time. We had no written comments at all from the Department, from Dame Lin's officials, that challenged this. Indeed, it was drawn from what they told us, so it is surprising to hear that the Department feels that it disagrees with this finding.

Q182 Chair: I have to say, Dame Lin, that we now just need to move on. You have made your point, but we as a Committee—I am sure you do, too—respect the National Audit Office in its work.

Dame Lin Homer: I accept that.

Chair: It does very valuable work, and we really cannot in a Committee get into discussing the veracity of a word or a sentence in an overall agreed Report, because the overall Report is agreed, and that is what our Report's recommendations will be based on.

Dame Lin Homer: I completely accept that.

Chair: The questioning is allowed to get into forensics, but on the overall balance we write our Report. I think enough has been said on that.

Q183 Stephen Phillips: In order to meet your target of 1,000, you focused on the less complex cases, which are the less—

Dame Lin Homer: I don't accept that.

Q184 Stephen Phillips: Well, we'll see when we get the breakdown of the data in figure 16. If necessary, you can come back, but just assume that that is the case at the moment. The point I want to put to you, Dame Lin, is this: there seems to be one rule for the rich and one rule for the poor.

Dame Lin Homer: I strongly disagree with what you are saying. If I can go back, I accept your point, Chair, that overall, I agreed this Report. I do not believe that you are asking accounting officers to accept the veracity of every single word, and that is what Mr Phillips is doing. If you look at the sentence he has just given me and at figure 16, there is a difference between the two parts of the Report. What figure 16 shows is a significant spread between lower value cases—so, cases involving £10,000 stolen tax account for less than a quarter of these cases. Many people in this country—90%—pay less than £5,000 tax. I think they think that cheating on double the tax they pay is, in itself, quite large. What it means is that 75% of these cases are more than double what 90% of the people pay. That feels to me to be a good, broad range and I reject the assertion that we have ignored rich people and chased small people.

Q185 Stephen Phillips: The problem with that is that, on your own figures, you have asked the Treasury for more money so that you can prosecute more wealthy tax evaders—another 65 a year by 2020.

Dame Lin Homer: Yes—and more money to do volume crime, which is what led to this increase.

Jennie Granger: The point is that that is adding to the range of prosecutions that we do, Mr Phillips, not falling back.

Dame Lin Homer: Absolutely. It is not an alternative; it is in addition.

Jennie Granger: It is a build.

Q186 Stephen Phillips: But it means that some very wealthy people who you will wilfully be prosecuting by 2020 are at present not being prosecuted.

Dame Lin Homer: And some less wealthy. We will never prosecute everyone. You are trying to make a particular point by doing the angel on a pinhead, and I am saying that we take an approach that tries to say to everyone, “We will use our full toolkit. You may pay a penalty. You may be helped to understand your tax position. You may be prosecuted. You may be named.” We approach that fairly across the range of people and types of business.

Q187 Caroline Flint: I do not quite understand why you are so defensive about this.

Dame Lin Homer: I am not defensive. I do not want the message to get out there that there are certain people who we will not go after. I reject words being placed in my mouth, I am afraid. I am not at all defensive.

Q188 Caroline Flint: Okay. I honestly do not quite understand why you are being so defensive about this. You have looked at the number of prosecutions of wealthy individuals—35—and got some additional funding to increase prosecutions to 100 a year. That says to me that there might be some people—maybe not all the other 65, but some of them, and obviously not the same individuals—who will be prosecuted in future but who, because of how HMRC worked in the past, were able to come in and have a conversation and something would be sorted out. Yes, they may have had to sort out their affairs and pay a backdated cheque or something like that, but ultimately they were not being prosecuted.

As an ordinary member of the public, it seems to me that we have seen too many of those conversations happening rather than prosecutions. Quite rightly, public concern at that has led to more funding coming in, at which you are going to say, “Do you know what? Maybe more of those cases or types of case should have ended up in prosecution.”

I don’t think this is a trap, so don’t be defensive about this. Public pressure and unhappiness in this particular area will lead to more prosecutions, which may mean that the way some individuals have carried out their affairs in the past will not be acceptable in the future, and prosecutions will go up as a result. Please don’t be defensive about that; it is a good thing.

Dame Lin Homer: I am not; that is our approach across the piece and has been since 2010. We have been gradually expanding prosecutions—maybe not as fast as we could have done, but we believe we need to signal clearly that for anyone who evades their tax, there is a risk of prosecution.

Q189 Caroline Flint: Given the rate of prosecutions for these wealthy individuals—we took out corporates, as my colleague said—and by setting a target of 100, there is a sense that, under previous arrangements, maybe due to a lack of funding in the Department, which is why we have a bit more funding to tackle this issue, some people have not been prosecuted when they should have been because of limited resources or a different way of tackling it. Is that fair to say?

Dame Lin Homer: It is fair to say, and I think I said to Mr Phillips about 15 minutes ago that it is fair to say that there are some people who have evaded their tax in the past and will be in the future who will not be prosecuted, because we will never prosecute everyone. It is fair to say, over the last five years and over the next, we have decided we will prosecute more in a number of categories. There is no particular category of wealth or type that we have either left to one side or will for all time target because, as Jennie said some time ago, what we have to do is ensure that everyone feels the system is applied fairly.

Q190 Caroline Flint: But would it be fair to say that if you raise the bar for yourselves as a Department in terms of prosecutions, that would suggest that you are refocusing within the Department in terms of what you do and the actions you take, and if that is resulting in more prosecutions, that would suggest that some of those people would have under the old system—

Dame Lin Homer: Yes, generally.

Q191 Caroline Flint: And you should take it as a good thing that you are doing that.

Dame Lin Homer: Yes, we do; generally, I do.

Caroline Flint: Therefore, these people would—

Chair: Can we finish on—

Dame Lin Homer: Absolutely. We can finish on that point. *[Interruption.]* No, let's finish on that point: it's a point of agreement.

Q192 Chair: Well, you are one of, I think, two Departments in Whitehall receiving more taxpayers' money to do the job.

Dame Lin Homer: We are, and we are very, very pleased about that.

Q193 Chair: Certainly our constituents want to see the tax coming into the Exchequer.

Dame Lin Homer: They do.

Q194 Chair: And the fraudsters caught. And we want to be supportive of you on that, so we don't want defensiveness; we want openness. It is clear that you have been able to meet a number

of the targets that you have set. But you talked about this being “gradual” over the last five years; we see it as very much incremental and tactical—

Dame Lin Homer: Which you know I don’t.

Q195 Chair: Well, there are issues there that we will no doubt tease out in our recommendations. Prioritising the areas of risk—I think graph 14 shows it quite well—is really important. One other issue that has come out of today’s hearing is the gap between the tax gap and the compliance yield. That is not going up as fast as the tax gap is going down, and there are issues there that have been teased out in questions.

We have had a lot of discussion about prosecutions today. You know that, as a Committee, we are keen to see more prosecutions. We are supportive of the money that Ms Flint and Mr Phillips have said is going in so that you can increase prosecutions. I think it is a settled Committee position, pretty much, that we want to see that, but there is a danger that you are hitting a target and missing the point. These figures that are plucked out, dare I say. Maybe it is not party political, because all Chancellors do it, but the Chancellor announces a figure and you then have to backfill that, which you can’t possibly say from your position, but we can. We want to see the results, which is the tax coming in and people being deterred from being fraudsters, so we do wish you well. You may not feel that, because we want to make sure that our honest constituents, who are paying their tax, and the businesses that are paying their tax, get a fair deal.

Dame Lin Homer: Chair, we have totally common ground on that.

Chair: Can we agree on that point and end the hearing there? Thank you very much for coming along.

Dame Lin Homer: It was a pleasure.

Chair: Our transcript will be out in the next 24 or 48 hours or so, and our report will come out in the next six to eight weeks. Thank you very much.