House of Commons

Treasury Committee

Oral evidence: [HMRC Executive Chair and Chief Executive](), HC 232

Wednesday 8 June 2016

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Members present: Andrew Tyrie (Chair); Mark Garnier, Stephen Hammond, George Kerevan, John Mann, Chris Philp, Wes Streeting

Questions 1 -91

Examination of Witnesses

Witnesses: **Edward Troup**, Executive Chair, and **Jon Thompson**, Chief Executive, HM Revenue & Customs, gave evidence.

Q1 Chair: Thank you very much for coming to give evidence to us this afternoon. Edward Troup is a familiar figure to the Committee; Jon Thompson, we have seen less of you, but we will give you an opportunity to have a first outing. Perhaps I should begin with you, Mr Thompson, and ask you what your impressions are of HMRC, a department that has been buffeted this way and that; how much it has improved itself; what remains to be done; and whether it has deserved the flack it has had.

Jon Thompson: Thank you very much. This is my 10th week in the job of Chief Executive. I find HMRC in reasonably good order. We will have met 21 of the 23 targets that were set for the department in 2015-16, and I am happy to share the initial yield data with you, if you want. There remains much for the department to do to continually improve its services to customers, to respond to what is a huge demand and to transform itself into the kind of customer-centric digital business that it can be. I find it in good health, but there are a significant number of issues for us to try to change, in order to make this the kind of professional organisation that it needs to be.

Q2 Chair: What are they?

Jon Thompson: One of my worries is about the staff view of the organisation.

Q3 Chair: You are talking about morale.

Jon Thompson: Morale is currently measured at 45%.

Q4 Chair: But that is much better than it used to be.

Jon Thompson: It is indeed.

Chair: Was it not bottom of the league for a while?

Jon Thompson: It was, and we should give enormous credit to the executive and the leadership of the department for increasing it over the last five years, but it remains, rather worryingly, significantly below the Civil Service average. There is clearly further work for us to do to improve morale. Some excellent research was done for the last Government by Nita Clarke and David MacLeod on the connection between higher levels of engagement and higher productivity. It would be our aspiration to continue to involve the staff as much as possible in the operation and in improving the operation for customers. That is definitely one area where we would want to do more.

As to the tax system and its administration, it is an evolving system and people are constantly trying to work out new ways in which they can attack the tax system. We need to continue to be responsive to that. You could maybe get into the tax gap in that particular area. We need to be alert to all of that. We have started a digital journey and we need to continue to transform the organisation.

Q5 Chair: I am always nervous when people talk about digital journeys; most of those seem to have ended up as crashes of one sort or another, but we will see whether yours goes that way. I very much hope not; we will be keeping an eye on it. You did not answer one part of my first question, I am sure inadvertently, which was: did HMRC deserve the flack or the criticism it had been getting?

Jon Thompson: The straightforward answer to your question is: I do not think it did.

Q6 Chair: Can you say why, in a nutshell? Coming from outside, you are not carrying any cans for anybody on this; you can say exactly what you think. In a year or two's time, you might find that more difficult, so this is your opportunity.

Jon Thompson: Let us be really clear about it. In an objective way, the department was set 23 targets for 2015-16. I think it will have met 21 of those targets. We should take a great deal of pride in the fact that we met those targets. We increased the compliance yield; we increased the overall yield; we think we reduced the tax credits fraud and error, and so on. Those are significant steps forward for us, but there clearly is more to do on things like customer service, post-handling and so on. I find it in good shape. The flack the department had was somewhat unfair, yes.

Q7 Chair: Somewhat unfair? Very unfair? Unfair in parts but fair in others? I am trying to get a feel for whether this great swathe of criticism that came your way, particularly from the PAC but from other areas too, was justified, in your view, coming from the outside for the first time, having a look at it, before you become too institutionalised at HMRC.

Jon Thompson: Yes, of course, everything will be wonderful from this point on between the two of us.

Chair: Exactly. This is your one opportunity to tell it to us as it is.

Jon Thompson: Some of that criticism was justified, and some of it was not. Let us be up front about it: there is a current National Audit Office report on customer services in 2014-15. HMRC somewhat lost its way in relation to that in 2014-15. That criticism by the National Audit Office is fair; we should apologise to customers for the poor performance in that particular time, and we have now recovered it. That criticism is fair, but it seems somewhat unbalanced to me, because there are 66,000 colleagues doing fantastic work across the whole of the country. We have been travelling widely and meeting them. They are very proud of working for this organisation and we are very proud to lead it. That criticism feels somewhat unbalanced to me.

Q8 Chair: People are unlikely to like the taxman or to rush to say what a good job he is doing. It is when the money does not come in, when the yield drops, that people notice that perhaps somebody had been doing a reasonable job. I take the points that you have been making. Perhaps I could turn to Mr Troup for a few questions and just declare to the Committee, as I have done before, that we have known one another for a very long time. In fact, when I first met you, you were a Young Turk, considered one of the finest tax avoidance lawyers at Simmons & Simmons. Quite suddenly, this extremely high-class poacher who had something in every pocket became a gamekeeper, and one of the ablest young gamekeepers I knew about when I was involved in these issues a bit. You have now taken on a very senior gamekeeper role.

I just want to take you back to what you said in 1999—and I gave you a moment's notice of this question—when you wrote in the *FT* that tax was "legalised extortion", and you criticised a proposed anti-avoidance provision as putting taxpayers "at the mercy of the bureaucrat". I wonder how your thinking has developed since then.

Edward Troup: I am glad something I wrote for the *FT* still retains such an interest 17 years on. I have written an awful lot over the years.

Chair: We keep an eye on all sorts of things on this Committee.

Edward Troup: Before I come to the substance of the article, I wrote that when I was in the private sector. The language is probably more colourful than I would use in my more staid days as a civil servant now, but, if you read the article—and your summary was probably slightly too brief, Mr Chairman—it made the point, which I completely stand by, that the challenge of tax collection is to recognise that it is effectively using legal means to raise money for the state that is necessary to fund public services. As such, it has to be supported by the word and force of the law, and not left to the discretion of the bureaucrats or designed in a way that creates uncertainty for the taxpayers. The article was criticising not the concept of a general anti-avoidance rule but the proposal put forward in 1998 by a previous Government.

Chair: Which is now in better shape.

Edward Troup: It is now in much better shape and, sitting on this side of the table, the criticisms I made of the formulation there have been dealt with, because it is not in our discretion as HMRC, as to whether we like something or not, to determine the application of a rule. It is set out, as clearly as is possible with a general rule, by the word of statute, with protection through an independent panel who will, effectively, give a view before the rule can be applied. The point made in the article about the importance of taxation being rooted in law and the administration being delivered with certainty by professional administrators remains good. As I say, the language was probably more colourful than I would use these days.

Chair: We much prefer colourful language here, so please do not hold back.

Edward Troup: I am afraid my job is to be un-colourful and to do the task that Jon and I have been entrusted with.

Q9 Chair: We prefer primary colours to monochrome, but we will see how well you do this afternoon. Can I move on to the tax gap you were talking about before, Mr Thompson? Perhaps the best person to answer these questions, though, is Edward Troup. I have here in front of me an excellent paper written by the Revenue on the tax gap; at least I think it is a good paper. You set out the tax gap by behaviour on page 11. I gave you a moment's notice of this too, and I think you have the same page in front of you. I have taken a good look at these numbers and it has led me to wonder just how much of this tax gap is ever going to be eradicable in practice, given human nature. There are always going to be some criminal attacks; there is always going to be some evasion. Both of those are very serious criminal activities, by definition. There is always going to be some non-payment caused by bankruptcy. There is always going to be some human error and some failure to take reasonable care. You can bear down on these numbers a bit, but you will never be able to eradicate them.

Therefore, it seems to me that the element of true tax avoidance—that is, what people think of when they hear the phrase: clever people devising a scheme to avoid tax, the sort of thing that you might have been engaged in, many years ago—is a relatively small proportion of the tax gap. Indeed, I tried, on the back of an envelope, to come to an estimate myself. I am sure you will be reluctant to come to a number, but I might press you, if not now, later, in writing. I thought this number might be only 10% or 15% of the total notional tax gap, which is in excess of £30 billion.

Edward Troup: I will try to keep my answer reasonably brief.

Chair: I apologise for the length of my question.

Edward Troup: Can I step back a bit? First of all, in relation to the tax gap, it is, in a very real sense, the best measure of the long-term performance of a tax administration, because it is effectively the tax that is not collected, for whatever reason, and our goal should always be to reduce the tax gap, but I accept the tax gap has different components. I would also say that we are the only country in the world that publishes, annually, a measure of the entire tax gap, not just the VAT gap or the personal tax gap. We have led the way. We have also, in terms of performance, over the last 10 years since we started publishing this, reduced the tax gap from 8.4% to 6.4%. As a tool not to drive activity but to tell us how we are performing, it is incredibly useful.

You pick up the question of how the tax gap is decomposed; you have picked up the decomposition by behaviour, but the publication you refer to also decomposes it by types of tax and, quite importantly, by types of taxpayer: small business, large business, individual. All of these decompositions of the tax gap help us allocate our resources, so that we can focus the money that Parliament—

Q10 Chair: I was focusing on one particular question, which is whether we are always going to have a tax gap, and, if so, roughly what kind of size that might be.

Edward Troup: We are always going to have a tax gap, because there are always going to be criminal attacks; there is always going to be evasion. The point you are making is that avoidance is always going to be a relatively small proportion. I would not want to look into the future. You mentioned non-payment and error as areas. We think what we are doing, particularly with our digital transformation, will give taxpayers, particularly business taxpayers, the tools that effectively allow them to reduce their errors. There are areas of the tax gap that currently look quite intractable but we think, even with the plans we have at the moment, can be reduced significantly. It would be a brave man or woman who said that any of these elements of the tax gap are completely intractable.

Q11 Chair: I am not suggesting that. I am trying to get, though, to a sense of what it might be reasonably concluded is always going to be in the system.

Edward Troup: I genuinely do not know. We have got it down to 6.4%. If I said 5%, I would not want my successor in five years' time to say, "Job done—we got it down to 5%. We are not going to try harder". No country in the world has an observed tax gap significantly lower than ours, which means we are already pushing at the boundaries of what is doable with current technology, with the current tax system.

Q12 Chair: Are those data for other countries collected on the same basis?

Edward Troup: As I say, no one else publishes a comprehensive tax gap. To the extent that we do compare to other countries, we are having to do a bit of extrapolation and interpretation. I am not saying there are not more efficient tax—

Q13 Chair: How much of that has been published?

Edward Troup: I do not think we have published any. We are effectively just observing other tax gaps.

Q14 Chair: The Committee would be extremely interested to see those comparisons, to support the assertion you have just made that you are right at the bottom end of the spectrum of major countries or countries with advanced tax systems. That would be very interesting.

Edward Troup: I am happy to share that. Can I make one other point about avoidance, which is £2.7 billion here? The recent public debate—well, over the last few years—has shown that there is a category that we do not regard as avoidance but the public and, indeed, Parliament regard as behaviours in the tax system that are going beyond acceptable tax planning. We do not ourselves have the tools to address that, because, by definition, if it is tax planning, it is legal; but we do have the means, by identifying areas where there are behaviours that are seen as aggressive or unacceptable tax planning, to work with the Treasury and put proposals to Ministers.

Q15 Chair: What number would you put on that?

Edward Troup: That is such a subjective point.

Chair: All of this has an element of subjectivity.

Edward Troup: No, the tax gap as measured here is not subjective. Avoidance as measured by the tax gap is absolutely not subjective, because it is measured here. Let me pick an example. Is it unacceptable tax planning to headquarter your company outside the UK? There is a strong view that, if you do that for tax reasons, yes, it is unacceptable. We took the view that some of the arrangements that allowed profits to be diverted to non-UK companies were unacceptable. We put proposals to the Treasury, which became the diverted profits tax, which came into effect from April last year. That effectively changed the law, in order to prevent that diversion of profits.

Q16 Chair: You made a good point, if I may say so. You say you have reduced the tax gap from eight-point-something to 6.4%. How much of the tax gap is cyclical?

Edward Troup: I do not have an answer to that, but there are clearly cyclical elements to the tax gap. Obviously, in significant downturns, we see an increase in bankruptcies and liquidations, and hence in non-payment, but I do not have a historic answer to that.

Chair: The Committee would be interested, also, to see an analysis of that, so there are two things we are commissioning from you here.

Q17 Wes Streeting: Good afternoon. Following the Panama Papers revelations, the Government set up a joint task force with HMRC and the National Crime Agency to look into the potential tax ramifications. Could you provide us with some more information on what exactly the task force is doing and, in particular, how many full-time staff from HMRC and the NCA have been seconded to that task force?

Edward Troup: I agreed with Jon that I would answer that, because I was here through the period of Panama, which has obviously been running this year. First of all, to give a bit of context, although some really useful stuff will potentially come out of Panama, this is just another dataset that adds to our very considerable amount of data. We have collected £2.4 billion from offshore initiatives over the last five years. Although I would not understate the importance of this, I would not suggest that somehow it has given us information that we had not had before; we were already following up on 700 leads that, in some way, were linked to Panama before this dataset was published. The task force, towards which, as you know, the Prime Minister has pledged £10 million, as a joint initiative between us, the NCA, the Financial Conduct Authority and the SFO, currently has about 100 staff and, of those, around 70 are HMRC staff working on this project.

Q18 Wes Streeting: How would you describe the progress that the task force is making? Your contextual introduction sounded like, "No news here. We are making progress". In that case, why would you have a task force?

Edward Troup: I was managing expectations in the sense that we are not suddenly going to produce thousands of prosecutions that we would not otherwise have done. We expect to get useful material out of that. I would remind you that the ICIJ, which actually holds the dataset—because the BBC and *The Guardian* have just had bits of information from the ICIJ—have a stated policy of not releasing information to government agencies. Although we have asked them for it, we do not have the dataset from the ICIJ, so I have to be a bit careful. That is not to say we will not get access to it in one way, or some access to it, in the future.

There is progress. There are people on the ground from the task force in Panama. The Financial Conduct Authority is analysing the returns from 64 companies, including banks and wealth management firms, with contacts with Mossack Fonseca. I am not going to either give an update on progress or say exactly what we expect and when, because it depends on the outcome of that work. This is work that is actively going on, but building on existing strands of work in all of the agencies.

Q19 Wes Streeting: The Chancellor announced support for public country-by-country reporting for large multinational companies. What steps is HMRC taking to implement this in the UK and when would you expect that to be in place?

Edward Troup: Country-by-country reporting relates to corporates and not to the Panama Papers.

Wes Streeting: No, large multinational companies.

Edward Troup: Country-by-country reporting is one of the action points out of the BEPS initiative, which was signed up to in October last year by the G20 and which we are actively taking forward. Country-by-country reporting will come into effect between participating tax administrations next year, at which point, we, HMRC, and other participating countries will have access to country-by-country reports for multinationals. We will be able to effectively use the information in those reports to improve our knowledge and compliance activities against multinationals. The proposal that that material should be made public is something that the Government support, but it is not something we are directly involved in, in the sense that it is an initiative at the political level, to get international support.

Q20 Wes Streeting: You touched on BEPS. What impact do you think the implementation of the BEPS process will have in the short and medium term, both on the UK's own tax revenue but also genuinely impacting on the global problem of tax evasion and aggressive tax avoidance?

Edward Troup: It is already having an impact. We already see multinationals far less willing to set up the structures that the diverted profits tax was aimed at. BEPS has a whole raft of different proposals. The proposal, for instance, around hybrid entities and interest deduction the UK is already implementing; it has already been legislated and will come into effect next year. We are obviously expecting and hoping that other countries are going to bring forward their legislation under the BEPS initiative at an equivalent pace.

Q21 Wes Streeting: The diverted profits tax was nicknamed the "Google tax", but it does not seem to bring in a great deal of money from Google. How effective do you think the diverted profits tax will be in achieving its aims? Are there other levers the Government need to pull, domestically or internationally?

Edward Troup: It goes back to your first question: what will the impact of all of this be? The diverted profits tax, when it was announced, had a yield scored from it of around £1.5 billion over the period; however, we were quite explicit that that was not necessarily going to be raised from the diverted profits tax charge but also from the fact that companies would rearrange their affairs so they would pay more corporation tax in the UK, which would count, for us, as an impact from the diverted profits tax. That score still stands; we expect to get that amount of yield, and we are seeing businesses adjusting their affairs to reflect the imposition of the DPT.

Q22 Wes Streeting: How, as scrutineers, would we or any other organisations or individuals looking at this issue objectively assess and distinguish which part of the corporation tax yield is coming from the indirect impact of the diverted profits tax?

Edward Troup: We will look at how we report this. It is clearly going to be quite difficult, not least prospectively, because there may be companies now that, were it not for the DPT, would have set up a structure that would have diverted their profits but do not now do so. Overall, corporation tax yields will hold up more than they would otherwise have done as a result, but it will be very hard for us to say, "Company X, we can score a bit of your corporation tax yield because you might have adopted a structure but were deterred by the DPT".

To digress slightly back to the task that Jon and I have, in a sense that is one of the challenges we have in a lot of our activity: how much is the work we do directly raising money, which we can measure, and how much is it deterring other individuals or businesses from doing things that would reduce the tax yield? We know that our compliance activity supports the 90% of revenues that come in without compliance, but you can never be quite sure which bit of our deterrent activity supported which bit of the tax yield.

Q23 Wes Streeting: The British Government have come under pressure, both domestically and internationally, regarding the role that British overseas territories and Crown dependencies are playing in the whole global debate on tax evasion and aggressive tax avoidance. The Government have put some stock in the agreements reached with overseas territories in terms of transparency of beneficial ownership of offshore companies. Are you not concerned that so much of the success of this initiative will be reliant on the ability of regulators in those territories to accurately record the ultimate beneficial ownership? Figures I have to hand suggest that the overseas territories and Crown dependencies have incorporated something in excess of 600,000 companies, but, when you look at their number of regulators, BVI, for example, has 148 staff in its financial regulator, with 10 compliance officers. Anguilla Financial Services Commission employs a total of 14 staff. They cannot do the job, can they?

Edward Troup: First of all, the success here is that all 101 of these territories have signed up to the common reporting system.

Q24 Wes Streeting: That is progress, but it is not success. Success is measured in impact, not in process.

Edward Troup: It is progress, but we are already seeing success. We anticipate something like £500 million of additional yield from the common reporting system over the next five years. We are already seeing cases where the information we have had from Crown dependencies, in anticipation of the CRS, has given us real hard yield, so we are seeing success. Your point of whether the regulatory capacity of these offshore territories is yet up to the task that this sets them is a good one, which is why HMRC and the Treasury are not working alone; the engagement with all the offshore centres is one that has a number of different aspects. We want to improve the quality of regulation, enforcement and compliance in all these territories.

Q25 Wes Streeting: I want to pick up on two more points before we need to make progress around the table. Further to my point about resources in overseas territories and Crown dependencies, what assurance can you give this Committee that HMRC has sufficient resources to address this issue, given that HMRC has already had to write off some of the estimated revenues from Crown dependencies' tax agreements for lack of resources?

Edward Troup: We are satisfied that we do the best we can with our resources. I do not know, Jon, if you wanted to pick up on the wider issue.

Wes Streeting: It is an opportunity for you, Jon, because, in a few years' time, we will be blaming you if it is not happening; whereas now you can say, "I do not have the resources. Help us out, Government".

Jon Thompson: I cannot honestly answer the specific question you are putting to us, but we have 28 targets to try to reach. We have 54 million customers and 66,000 staff. One of the tasks that we have, with the senior executive, is to try to deploy 66,000 people to meet 54 million customers and the 28 targets. There is a constant debate between us about whether we strip down the back office to make sure we have as many people as we can on enforcement and compliance, on personal tax, answering the telephone or whatever. There is a constant debate about that.

At this point, I would say our 66,000 is well deployed, but we need to continue to change it. In fact, we had a meeting this morning about further changes that might strengthen our policy development function, which is the interface with the Treasury. How do we put more people into frontline compliance? How do we get a few more people into contact centres for customer service and so on? I could not answer the specifics, but I can give you some sense of that general pattern.

Q26 Wes Streeting: Finally, one of the big public concerns off the back of the Panama leaks is a perception that HMRC goes after the little guy in terms of clamping down and collecting revenues, or tackling avoidance, evasion and all the rest of it, but the big guys get let off the hook. I am certainly not the only constituency MP who represents people who have been victims of pension mis-selling scandals.

In the context of further liberalisation of pensions, I think this is an ongoing risk. In particular, in the case of the Ark pension scheme, I have constituents who were misled into investing in a scheme that has effectively rendered their pension either worthless or of a lot lower value than it might otherwise have been in a legitimate scheme. They were also told they could take out a cash lump sum equivalent to half the pension without a tax liability, and, as a result of a high court judgement, they have now had, effectively, a demand for the loan to be paid back and, in addition, they are receiving letters from HMRC demanding tax bills of tens of thousands of pounds. I and other MPs represent people who have a pension that will not see them through retirement and are faced with a tax bill that could lead to them losing their homes and their livelihoods. Can I ask you to look, in particular, at the Ark scheme but also the broader issue and, in particular, consider not just the impact on the individual but, in that context, the benefit to the UK taxpayer generally in effectively bankrupting people and leaving them living in poverty in retirement? That sounds dramatic but I think that is genuinely the impact that many of our constituents will have, not just off the back of what has happened to their pension, which is not the fault of HMRC, but as a result of the letters that many of them received in March.

Jon Thompson: I am not familiar with the Ark pension scheme. Are you?

Edward Troup: No, I am not. I am aware there has been a considerable amount of concern about people who have been wrongly liberated from their pensions, and I think that is what you referred to. I suspect that in the cases you referred to we have quite rightly applied the law as it stood. I know that some of the other regulators have been involved in this. I think we should probably take that away and write to you about it.

Wes Streeting: I will write to you on that. That would be very helpful.

Edward Troup: It is as much a regulatory as a tax issue.

Wes Streeting: Absolutely. Thank you.

Q27 John Mann: Good afternoon. Coming back to Mr Streeting's question on the Crown dependencies and overseas territories and their capacity requirements, can you quantify precisely what your organisation is doing and within what timescale to increase that capacity within those different territories and dependencies?

Edward Troup: It is not our responsibility directly to add to the capacity of the offshore territories, but we do work with them. Indeed, a former senior director who left us last year moved on to a job in one of the Jersey or Guernsey regulators; I cannot remember which one. A transfer of skills goes on. We have extremely good relationships with the tax and the regulatory authorities in the Crown dependencies, and we have a general responsibility to work with all of our partner territories to make sure they have got the capacity. However, in answer to your question, I do not think I can say, "Yes—HMRC is seeking to build capacity" in any specific territory, but we do have a number of capacity-building initiatives with territories around the world. We have a lot of exchange visits. We have visits all the time from different tax administrations, who come in and see what we are doing. We exchange information about specific cases where the legal provisions require us to but, more importantly, about how we do things. I can give you some reassurance we are giving help of that nature.

Q28 John Mann: It does not sound very reassuring. You are tasked with maximising the tax returns owed, and some of it would appear to be not being received because of actions in these territories and dependencies, which have a specific relationship with this country. You are regarded as the ones with the expertise, which should be seen as a compliment. Therefore, let me ask again: how are you using the skills that we have to upskill in those territories and dependencies, and if we are not doing it on a coherent basis, why not, and what is the loss to the British taxpayer?

Edward Troup: We are doing it in the way I described, both by bilateral visits and exchange of skills. There are a number of fora and working groups that bring together a number of jurisdictions. I myself chair something called the Forum on Tax Administration, which brings together all the tax commissions from the G20 and OECD. Under its aegis, we have a number of working groups, of which offshore compliance is one, where we share expertise and best practice on how best to ensure compliance with the citizens of each of our countries to ensure there is not offshore evasion, to make best use of the information that is already flowing but will flow under the common reporting system.

I do not think I can quantify how much additional tax would be attributed to any of these events, but I am quite satisfied that the world's tax jurisdictions are collectively increasing their capability in this area, because we do have a shared and common goal to drive out tax evasion.

Q29 John Mann: Two weeks ago I met all the senior tax people in one of the countries of potential concern. They highlighted to me their concerns over capacity and skills. It would be unfair to name them; it was a private discussion. They are, without question, one of the much better organised and respected countries. If they are saying they fear problems in relation to skills and capacity, what about some of the others—Mr Streeting has identified two—where those problems are clearly of a totally different degree? What are we going to do about that? How big a priority is that going to be? Or am I hearing you right that it is a small, ongoing priority rather than a big priority, and where does that leave us in getting the information that we are promised?

Edward Troup: I am going to risk repeating myself. First of all, we are getting information already, and we are using it and we are seeing tax collected from it. When you say it is a small priority, we are set by Parliament, the Chancellor and our remit some very clear big priorities, which are getting in the £520-odd billion and the £27 billion of compliance, improving customer service, and reducing fraud and error on tax credits. Those are our big priorities.

We have a huge raft of other priorities, some of which are set as specific objectives and that we developed to deliver our main objectives. This is definitely in that category. Jon is responsible as accounting officer for how we spend that three-point-whatever-it-is billion that we have to spend this year, and we have to make some choices. As it happens, in capacity building we have had some specific money in recent years from the Department for International Development, which we have put towards capacity building in developing countries. We do not have any specific money towards capacity building in Crown dependencies and the offshore territories, but we do put some effort in there as well.

Q30 John Mann: Let me have one more go, briefly, with Mr Thompson. Here is your opportunity. This Committee is one tiny part of your accountability to Parliament, so there is an opportunity. Are we right, those of us who think that this is a big problem that needs addressing, and do you have the resource to do anything significant about it?

Jon Thompson: I could not honestly tell you whether it is a big problem, to use your language, but my reaction to the conversation you are having with Edward is it feels to me like there is more that we could do to offer help. We also have to respect the fact that some people may not want some help, but there is something that we could do to offer help to improve the capacity and capability of tax organisations across the world, and perhaps the 10 are some that we could specifically reach out to.

I still think there are things that we can learn from other tax management organisations across the world in order to improve our own systems. But I take on board the point you are making. It is something we should definitely have a look at.

Q31 John Mann: That is helpful. Finally, on a totally separate subject, the production of HMRC work histories, there is currently a 383-day delay in work histories being provided, for example for cases of asbestos victims and others who require their work history in order to pursue a claim; perhaps a widow of an asbestos victim. 383 days is longer than it was before—significantly so—and this is a significant problem. Do you recognise this as the problem that it is, in my view, and, if so, what are you going to do about it?

Jon Thompson: We recognise that it is a problem for us. We visited Newcastle last Friday, where this work takes place. The records that you are talking about are essentially people's National Insurance records, which therefore identifies their employer, which allows them to open up potential insurance claims against their employer for previous histories. We have had a look at it. The essential challenge we have here is these records go back several decades—well back—when records were kept in a particular way. In fact, the majority of these records before the mid-1970s are on microfiche. We specifically went and looked at this challenge. The challenge here is microfiche records from the 1940s and 1950s are difficult to access, but we do need to think about what we can do. The machines necessary to identify the information are not made anymore, for example. We are having to scour various parts of the internet to repair the machines in order to provide the service people are asking for. We recognise there is a problem. We specifically went and had a look at it in Newcastle. We are going to see what we can do to improve the service. I cannot promise you a short-term leap in our performance, but we recognise that challenge is there, yes.

Q32 Mark Garnier: Good afternoon. I will carry on with these tax agreements and disclosure facilities for Switzerland, Liechtenstein and Crown dependencies. The original estimate, which came out in 2013, was for a yield of £9.3 billion. This was revised down this year to £5.43 billion. Do you stand by your £5.44 billion?

Edward Troup: That is adding together the numbers for the Swiss agreement and offshore facilities.

Mark Garnier: That is Switzerland, Crown dependencies and Liechtenstein.

Edward Troup: It is quite important to distinguish between the two. We have had a series of disclosure facilities over the years and we have had the Swiss agreement. All of those were established and entered into at a time before there was anything like automatic exchange of information, and indeed the Swiss agreement was entered into in the very clear expectation that the Swiss were never going to give up on bank secrecy and we were never going to get details of Swiss bank accounts, except in limited circumstances. The world has changed extraordinarily in the four years since that agreement was entered into, and we now have 101 countries, as I said in reply to Mr Streeting, signing up to the common reporting system. That has effectively done away with the need for either the specific agreement on Switzerland, which we will wind down quite soon, or the disclosure facilities, all of which have come to or been brought to an end. It is important to put that in context.

Q33 Mark Garnier: Nonetheless, you still have this year's estimate of £5.43 billion, of which £1.9 billion is for Switzerland, £3 billion for Liechtenstein, and £530 million for the Crown dependencies.

Edward Troup: On the figures we have actually had, Liechtenstein has been £1.4 billion received to date. I think there is still some to come, because although the disclosure facility is closed, we are still working through disclosures and awaiting receipts. The Crown dependencies disclosure facility, which was always going to be a smaller one, has been £31 million to date. From the Swiss agreement, we have had £1.35 billion to date 44,000 disclosures. We are still forecasting another nearly £500 million from Switzerland. I am sorry I do not have the totals.

Q34 Mark Garnier: That is fine. However, in terms of the order of magnitude, there are a couple of figures. For the Crown dependencies, the revised estimate is £530 million and so far it is £31 million, so it is quite disappointing. For Liechtenstein, however, the revised estimate is unchanged at £3 billion, and it is actually doing okay. £1.4 billion is halfway there or near enough. Switzerland, again, £1.9 billion, £1.35 billion, so I suppose we are getting there. Part of what I am getting towards is: is it not the case that, given that the Liechtenstein agreement has a slightly different tone to it, where you do not get penalties, I believe, people are shunting their money from the Crown dependencies and Switzerland to Liechtenstein in order to avoid the penalties you get with those two and take advantage of the Liechtenstein agreement?

Edward Troup: There was a bit of that behaviour in the past, yes, but all of these disclosure facilities have now closed. All of these territories are now subject to the common reporting standard. For all of them, effectively, we will from next year get information automatically on bank accounts.

On the question of the forecast, because we are dealing with known unknowns—we knew there was money out there but we did not know how much—forecasting what we were going to get from these facilities in the Swiss agreement was particularly difficult. If we pitched our forecast less optimistically, you would be praising us for exceeding our target. We would like to count this in terms of money actually received, and it is several billion. But I think the real success is the fact that there is a vanishingly small number of jurisdictions in the world—Panama is one, but we hope that they will sign up to the common reporting standard soon[1]—where you can put your money and not know that information about that bank account will be automatically sent back to the UK on an annual basis. In a sense, that is the real success of this campaign.

Q35 Mark Garnier: How many did you say it was?

Edward Troup: 101 countries have signed up to the common reporting standard.

[1] To clarify- Panama has agreed to adopt the Common Reporting Standard and begin to exchange information by 2018

Q36 Mark Garnier: I do not want to sound too cynical, but presumably someone like North Korea could provide offshore financial services for dodgy people.

Edward Troup: I look forward to the disclosure facility with North Korea.

Q37 Mark Garnier: The point is you will always find somebody who will not sign up.

Edward Troup: Yes. It comes back to the Chairman's point about tax evasion always being with us. We are there to create a climate where the risks of undertaking tax evasion increase to a point where only a vanishingly small percentage of people will do it by any particular means, but there will always be those people who are determined, come what may, to hide their money from us.

Q38 Mark Garnier: I completely take that, and those are the criminals who you then go and hunt out, which means that your compliance and enforcement division becomes that much more important than the people who just capture the voluntary reporting. How many assets do you have in compliance and enforcement? This seems to be a common thread. How many people do you have in compliance and enforcement working on this specifically? Now you have the disclosure requirements—101 countries giving you disclosure—you have to have people looking into this in order to find out who is being dodgy. That is where it becomes a compliance and enforcement activity. Do you have enough resources for that?

Edward Troup: We have 26,000 working on enforcement and compliance activity. We have 4,600 in the fraud investigation service, which is the division that will deal with most of the serious work, which will include this. In a sense, we do not think about these topics just by, as it were, country—by Panama. We think about it by behaviours, by customers. The high-net-wealth unit deals with high-net-worth customers but may deal with some serious evasion within that, or may come across it and then refer it across. I think the question on how many compliance staff we have on this, if that is what you are asking—

Q39 Mark Garnier: It is exactly that.

Edward Troup: We can go away and look at it, but I am not sure we can exactly say.

Q40 Mark Garnier: Put it in order of magnitude. Is it 100, 1,000, 10,000? Perhaps not 10,000. How many are looking at the types of people who really upset our constituents—the sort of people we read about in the papers?

Edward Troup: The answer would be 4,600 in the fraud investigation service. They are dealing with what I would call the high-end evasion, either in quantity or seriousness of offence.

Q41 Mark Garnier: Do you think that is enough?

Edward Troup: It comes back to Jon's answer about juggling the resources from time to time.

Jon Thompson: As Edward said, we have 26,400, as at the end of last month, and that continues to rise. There was a further £800 million investment from the Chancellor of the Exchequer in the last fiscal event. At the minute, we think that is enough, but we need to evaluate where we are and see whether there is a case for us to talk further to the Treasury. But that is almost half the department.

Q42 Mark Garnier: If you go back to your original estimate, just as a benchmark of what you think there is out there, the original estimate in 2013 was £9.3 billion. The prize for getting people is quite substantial.

Edward Troup: Yes, although we have revised that downwards, as our forecast has shown.

Q43 Mark Garnier: Sure, but £5 billion, £9 billion—it is in the billions.

Edward Troup: These are still known unknowns. We know there is still offshore evasion. We still do not really know exactly how much there is out there. The disclosure facilities helped us calibrate our information better. We exchange information with other developed countries, which helps us calibrate it. A common reporting standard is going to reveal a lot more, but there is always going to be some unknown unknowns beyond our radar.

Q44 Mark Garnier: This revision is based on the fact you have better information than you had. The finger in the air in 2013 gave you £9.3 billion. A finger in the air with a wind-speed measure on it gives you £5.4 billion.

Edward Troup: That is being a little unkind to my excellent analyst colleagues. The finger in the air was based on a very limited amount of information. We do now have more information, so the finger in the air is a better judgement, but all of our forecasts, or forecasts of any kind, are always subject to revision as better information comes in. This has been a very steep learning curve over the last few years where both the policy behaviours and knowledge have moved on at an extraordinary rate, and we are still driving forward with leading internationally. I have no doubt I or somebody will sit here in two years' time and give you some different figures, and I would not want to say whether they would be lower or higher, but they will be better.

Q45 Mark Garnier: I just one last question, if I may. Finally, Richard Murphy, who I find myself increasingly agreeing with, makes a point whereby he says it is quite wrong that you only get a 10% penalty for offshore tax evasion, as a result of this deal, when you can get a penalty of 15% or more for simply paying your VAT late in the UK. Is this a fair point?

Edward Troup: Mr Murphy has misunderstood our new penalty. The penalties for offshore evasion are double those for onshore evasion, so up to 200% of the tax evaded. We are introducing a new penalty, which is 10% of the assets that are the subject of offshore evasion.

Q46 Mark Garnier: If you have £10 and it has grown and you owe two quid in tax on that earned income, you could still get £4—

Edward Troup: I do not want to do the arithmetic. There is both a penalty on the tax evaded, which there has always been, where we have the double penalty on offshore tax evasion, and a new penalty that says, "If you have got some money in this offshore bank account that effectively reflects tax evasion, we will take 10% of that money as a penalty in addition to the tax, interest and penalties otherwise".

Q47 Mark Garnier: This is very interesting. The point is that somebody who is feeling pretty aggrieved that they have had a 15% fine because they put in their VAT return a bit late can now be happy with the fact that somebody doing some wholesale tax fiddling in Panama, for example, will get a whole further fine if they are caught.

Edward Troup: They will get a double fine, a double level of penalty—

Q48 Mark Garnier: It could be 200% of the tax—

Edward Troup: Plus 10% of the money they have got in their offshore account.

Jon Thompson: There are other aspects to this. There is a new criminal offence in the Finance Bill, and if the evasion is more than £25,000, we can publicly name the individuals concerned. There are other aspects to it.

Edward Troup: I am quite happy to look at what Mr Murphy has actually said, but I think he is comparing apples and pears.

Mark Garnier: Maybe. It is a quote to try to bring out this exact type of conversation, so it has been very helpful, as it turns out. Thank you very much.

Chair: It is comparing 15% of tax with 10% of the asset base or whatever is the source of the cash in the beginning that created the liability. Those are very different numbers indeed. They are certainly at least as different as apples and pears.

Q49 Stephen Hammond: Good afternoon, gentlemen. Mr Thompson, when the Chairman invited you to give your reflections on your first 10 weeks, I think I heard you say that you had an organisation where the staff were happy to work and proud to work for it. How do you reconcile that with the national survey done by the Civil Service at the end of last year, which showed that 27% of your staff were hoping to leave within the next year, and what are you doing to change that?

Jon Thompson: That is an excellent question, if I may say so. I have done 20 staff visits in 10 weeks. I have probably met more than 3,000 members of staff so far. We have both travelled very widely across the United Kingdom. I generally find our teams are very proud of what they are doing. They are very proud to demonstrate what they are doing. They generally are very positive about their immediate team leader. The staff survey results say there is very little trust in the senior leadership of the organisation, which is manifest mostly in the two of us. We have deliberately set out on a strategy of engaging people as much as possible, travelling widely, listening as much as possible to the concerns of staff, and then trying to respond to the issues that they have got.

I am still not satisfied we have got to the bottom of that question, because it is concerning. People you meet are happy, like doing it, proud of it, but somehow, when they fill in that staff survey, they say they do not like HMRC. That is a concern for us. I think the best thing for us to do is continue to travel widely and listen to people's concerns, and then try to address them.

Q50 Stephen Hammond: When you are here next year we can ask you about how the programme of cultural change has gone.

Jon Thompson: I am not massively keen on a programme of cultural change. It is not that.

Q51 Stephen Hammond: Maybe we will be able to ask you whether the new leadership has made such as difference that people are now happy.

Jon Thompson: We have deliberately tried to be as open and transparent as possible. We both blog on a regular basis. We both travel widely. There were 78,000 responses to my first blog. That is more than the number of staff; we are not quite sure how exactly that worked. We are saying, "We are here; we are the leadership; we are open; we want to listen. We are listening and trying to make a difference". I think I have a decent handle on the top two things people are concerned about: the performance management system and the technology offer we give them. We are rolling out new technology across the whole of the estate, so we think we should be able to solve that, and we are looking at the performance management system, which people regard as a sort of totemic thing. They really do not like it, and we are listening very carefully to what we can do about it.

Q52 Stephen Hammond: Thank you very much for that, but what you did not say in your initial analysis of the first 10 weeks is your assessment of the risk from the IT system. In fact, the contract has been extended for another three years. How do you perceive that risk? Are the costs of that contract, which have increased substantially, going to increase hugely over the next three years or are they now under control?

Jon Thompson: I can give you some assurances about that. The cost is not going up significantly. But if you stand back from what the big risks are, clearly that is one of them, but there are four more. One is clearly the technology, and you need to couple that with the fact that we are, according to the statistics, the second most attacked brand in the world for cyber-attack. We need to get the technology offer right for our people and for our customers, but we also need to protect where we are in cyber terms. The other four are about raising revenue, serving the customer. Have we got the capacity to lead this organisation and the amount of change that we are trying to run? The transformation programme for HMRC is a significant one. Those are the five big risks.

I am very conscious of the technology one. We are in front of the Public Accounts Committee on Monday to give a further update on that. We have announced the end of that contract. The Chief Digital and Information Officer and I have met the company. We have been clear about what the strategy is going forward. We are now bringing it largely in-house and have created a government-owned company to manage it. We then need to make some further decisions about where we go next in order to deliver the technology offer. In the end, it will actually save the taxpayer money. I can give you an example of that if you want me to.

Q53 Stephen Hammond: I am conscious of time. I have a number of other questions I want to put, so we will look at that. You mentioned one of the other risks is the service to individuals. There are two things I frequently get in my postbag: one is how difficult it is to contact you. Obviously a lot more people are coming through online registration, but last year it took on average 47 minutes in the October deadline week for phones to be answered. Do you have any idea what it will be this year?

Jon Thompson: First, we should recognise the fact that in that period we were not providing the level of customer service that we should, and we should apologise to customers for that, and we should recognise the difficulty. I can go into the reasons for that, if you want. There are essentially two reasons why that happened. We have significantly recovered customer services. If I give you the May numbers, for example, we answered 90% of the calls and we answered them, on average, in five minutes. That is a significant improvement from where we were. We need to continue to press on that. We have a plan to continue to reduce the waiting time from five minutes. We would expect that number to go further down in the course of the year. We should recognise the difficulty. We should apologise to customers for that. We got it wrong. I think we are back in a good position and we will continue to improve the customer service offer.

Q54 Stephen Hammond: In response to one of Mr Garnier's questions, you talked about the fraud and investigation unit. Can you just say what the current backlog is in that unit and how many cases were settled last year?

Jon Thompson: I could not off the top of my head. Could you?

Edward Troup: I do not have those numbers either.

Jon Thompson: We will write to you.

Q55 Stephen Hammond: When Lin Homer came before the Public Accounts Committee in early 2015, I think, she talked about the scale of backlog being something like 30,000 cases.

Edward Troup: Is this question about avoidance cases?

Q56 Stephen Hammond: This is the next question. I wanted to know about the fraud investigation unit. I was going to move on to the avoidance question.

Edward Troup: I do not recognise the concept of a backlog in the fraud and investigation service. It may be that I missed that, so we should take that away.

Q57 Stephen Hammond: How many cases are you currently investigating? On the avoidance question, there were some substantial errors about cases and how they were being done. One of the issues that keeps coming back, certainly to me, was the lack of preparedness of staff in meetings to settle cases. I will give you an anecdote: you were due to settle a very big EBT case. £100 million in tax would have been coming into the Revenue.

Three times they came with their chequebook to a meeting. Three times you had not prepared enough to do it. This was 18 months ago. I am asking in particular in this area if you have upskilled the quality of staff. Can we be sure that this backlog is now being tackled? That backlog must have meant a substantial amount of revenue that might have been coming in to HMRC was not.

Edward Troup: We put together the counter avoidance directorate from various parts of the business two years ago. It has actually been one of the huge success stories, because alongside that we issued accelerated payment notices in respect of what was a really significant backlog of avoidance schemes, which we had not been investigating thoroughly enough. We issued 46,000 accelerated payment notices and we have collected £2.5 billion of tax so far on this.

As to whether we are losing cash, the answer is no—quite the opposite. We are getting it in much earlier and we are effectively managing to game against those people who were gaming us by stringing out inquiries because they knew they would not have to pay us till the end. We have had the cash up front. The consequence is, as you describe, a lot of people have come in wanting to settle. That has produced quite a pressure on the teams in the newly formed directorate. I do not recognise exactly the situation you describe, but it has been a consequence of that backlog. The counter avoidance directorate, with an excellent director, has both upskilled and upstaffed—if there is such a word—and is getting through the backlog.

There is still a backlog. It is not impacting on the Exchequer, because we are getting the cash under accelerated payment notices, but there are cases where individuals who want to come and fess up, pay everything, clean up their affairs and sort out their accelerated payment notices have been slow to do so. David Richardson, the director, has a good programme. I am confident we will work through those, but it is very much a problem of bringing things up to date. Steady state, I think we will see a much more sensible level of flow.

Q58 Stephen Hammond: We will look forward to that. Moving on to another point, when the Chairman of the Committee wrote to Mr Thompson's predecessor, he asked for some information and was told initially that that information was too time consuming and difficult to produce. Eventually, five months later, HMRC produced that information. What do you feel HMRC might have learnt from that process?

Jon Thompson: Is this in relation to migrants?

Q59 Stephen Hammond: It is indeed due to the migrant data.

Jon Thompson: I have read back through the correspondence. I am not going to try to defend the situation, but as I understand it, from talking to my predecessor, there was an answer given. That answer did not meet the question, because it had been interpreted incorrectly, I think. There was then a further exchange.

Q60 Chair: The question was clear enough. I am happy to read it to you.

Jon Thompson: Just to be clear, I am happy to answer the question right here and now, if you want me to.

Q61 Stephen Hammond: The Chairman was saying he thought the question to Ms Homer was clear enough, not the question you are answering, Mr Thompson.

Jon Thompson: Oh—sorry.

Q62 Stephen Hammond: You said the question was open to misinterpretation. I think what he meant was that he felt the letter he wrote to Ms Homer was perfectly clear. It was not your answer; it was the letter he had written to Ms Homer.

Jon Thompson: Let me correct myself then. I think Dame Lin misinterpreted your question, and then you asked the question again in February. It took some time for Lin to reply to that, and then it was overtaken by the fact the ONS went and published the data. We should be upfront about it. It is quite a complicated question to answer, believe it or not, and I am not going to go into why.

Q63 Chair: It is not a complicated question to understand. You need to get your head around the numerator and the denominator.

Jon Thompson: I thought it was relatively straightforward and I can give you the answer.

Q64 Stephen Hammond: Okay, but I think we accept it was a problem. Do you think the Government accurately interpreted the data in claiming that 40% of EU migrants coming to Britain access the in-work benefit system and that the average payment is £6,000?

Jon Thompson: Has it been used accurately?

Stephen Hammond: Do you agree with the way it was interpreted or presented? Is that a fair representation? Is it fair to compare real data from DWP, which records how many people receive benefits, with some of the data you have? Is that apples and pears or a fair comparison?

Jon Thompson: The publication we are referring to is the Office for National Statistics publication for 12 May, which does have to reconcile the difference between three different Government departments: the Home Office, the Department for Work and Pensions, and us. Although it is rather complex, the Office for National Statistics document does set out the differences between those three data sets and then ultimately tries to reconcile them in order to be able to give you the answer to your question, which in the end was 1 million European economic area migrants had interacted with the income tax, child benefit, tax credits or national insurance systems. That is the answer to the question that you asked: 1 million. It is in a footnote on page 7 of the ONS release, and the ONS tried to explain the difficulty of reconciling the three data sets. They are the lead professionals for this and, in the end, I am not the Government's chief statistician but I can understand the difficulty that he had in trying to do that piece of work.

Q65 Stephen Hammond: Do you think the way the data is currently presented is accurate?

Jon Thompson: It is not my responsibility. The Government's chief statistician is satisfied that meets the standards defined in the Statistics and Registration Service Act, and he has published that information.

Q66 Chair: You are passing the buck to them, aren't you?

Jon Thompson: I am not passing the buck. Let me answer directly. Your question was what was the number of individuals, based on the most recent available HMRC data, who have paid national insurance contributions or PAYE income tax or have claimed any HMRC-administered tax credits or benefits, including child benefit, in the most recent year, and the answer to that was 2013. It was 1 million.

Q67 Chair: You know what we want to get to. We want to know whether this 40% figure of EU migrants coming to Britain who access in-work benefits is correct.

Jon Thompson: I only run a part of the benefits system. I do not run the Department for Work and Pensions element of it.

Q68 Chair: The answer is you do not know.

Jon Thompson: In relation to your question that you gave Lin, the answer is there were 1 million European economic area migrants in the four years up to and including 2013-14 who interacted with those systems. They paid £3.1 billion worth of tax and national insurance and they claimed £570 million worth of tax credits and child benefit, giving a net of £2.54 billion benefit to the Exchequer. That was the answer to the question that you originally posed.

Q69 Chair: Have you seen what Jonathan Portes, the senior fellow at the National Institute of Economic and Social Research, has said about all this?

Jon Thompson: I have not, but I guess you are about to tell me.

Q70 Chair: I will not take you through it if you have not had a chance to think about it and reflect on it. He is quite knowledgeable in this field. He has his doubts about the use of this data in this way. It might be helpful if you take a look and come to a view on it and maybe drop me a line. That might be better.

Jon Thompson: Sure. I am happy to do that.

Q71 George Kerevan: Good afternoon. From an operational point of view, is our tax code too complicated?

Edward Troup: Is this a question about the Office of Tax Simplification and what we might do? Is it too complicated? The tax system is complicated. Life is complicated.

George Kerevan: From an operational point of view—

Edward Troup: Policy is complicated.

George Kerevan: My tax form is complicated.

Edward Troup: We administer the tax system. We are able to administer it. Would it cost us less to administer if it was less complicated? Probably. I think you can say it is more complicated than we would like, which I think everyone says about the tax system, but it is not too complicated to operate. It sometimes becomes too complicated for our customers to understand easily, and that does impact directly on our job; we find customers making mistakes because they simply do not understand the rules or our guidance.

Chair: Back to our tax gap.

Edward Troup: Yes, absolutely.

Chair: It is creating a tax gap for which they cannot reasonably be blamed.

Edward Troup: There are different approaches. We would like to automate a lot of what we do, and hopefully taking out the manual element of having to work out what the rules say and apply it to all circumstances will mean that it may be complicated but it does not matter because the box does it for you. It may be that through policy change, through the work of the Office of Tax Simplification and a political willingness of Ministers to grapple with complexity, we can reduce complexity and the cost for us to administer it in that way. I do not think there is anybody in this country who would want the tax system to be more complicated. I do not think anybody in our organisation would say we would not like it to be less complicated.

Q72 George Kerevan: Compared with other jurisdictions, given your experience, where do we sit in terms of complexity?

Edward Troup: I am not sure anybody has published international comparisons. I think I can safely say the United States, particularly when you take it with all the states' tax systems, is definitely more complicated. I am not sure I could find a developed country where I could say with confidence the system is definitely less complicated than ours. There are clearly less developed countries that have fewer taxes and simpler systems.

Q73 George Kerevan: Over the last 30 years or so, Governments of all stripes have clearly wished to reduce, and certainly not raise, income tax in a broad way. There has been a shift to lower and lower headline rates of corporation tax. When you look at the share of income tax receipts as a proportion of GDP, they are a little bit less than they were 30 years ago, and certainly not any bigger. There has been a significant fall in the proportion of the yield from corporation tax as a share of GDP. Governments have filled that by finding other taxes. If that broad-brush philosophical approach continues, where will we get the extra taxes?

Edward Troup: I fear you are asking questions of policy that must be for the Treasury and Treasury Ministers to answer, although obviously I am involved, as a lead person in the department, in working with the Treasury on policy. I would not want to sit here and suggest where the Chancellor might think up some new taxes.

Q74 George Kerevan: Understood. I think our intention is for you to comment on where the tax base is, given the broad philosophy Governments have followed. Is the tax base in danger of shrinking?

Edward Troup: We have 30-plus million actual income-tax payers in the country. Actually, it might be 45 million; it is over 30 million in PAYE. We have a significant taxable capacity in this country and we collect a significant proportion of GDP in tax. You can look at any particular tax and say, "Could the tax base be broader?" and you could probably find ways of broadening it. However, as I say, that is a political choice. Do we look at our performance for the last year, which continues to show significant increase in receipts? Are we struggling to meet our targets? We are working very hard, but we are managing to meet them.

Q75 George Kerevan: Let's strip out corporation tax for one. We moved from 28% headline to 20% at the moment; we are going to go beyond that in broad cuts in the headline rate. Do you have hard evidence to indicate there has been a positive impact on yield from cutting corporation tax?

Edward Troup: I am sorry; I do not have the OBR figures, but there certainly has been some offset, but it may be difficult to disentangle from some of the things we talked about earlier, where companies have become less willing to engage in avoidance. They are becoming more reticent about offshore structures. But there have obviously also been the consequences of the recession and the knock-on in terms of corporation tax losses. It is quite hard and not within our expertise to say, "Yes, the reduction in corporation tax rates has some sort of offsetting positive effect on yield".

Q76 George Kerevan: Are we flying blind?

Edward Troup: No. You should go to the OBR and my colleagues in Treasury and ask them what they think.

Q77 George Kerevan: The OBR projections for post-2020, when we go to 17%, suggest quite a significant fall in revenue as a result. Would you concur?

Edward Troup: The OBR forecasts are the OBR forecasts. Effectively, our job is to make sure the tax is collected, and hopefully we meet and exceed the forecasts.

Q78 George Kerevan: One of the other recent shifts in business tax, of course, in the recent budget was to alter the rules for allowing companies to offset profits against past losses, moving to a 50% rule. Is there a certain arbitrariness in that shift? Might it impact on yield?

Edward Troup: Again, these are questions of policy. There is significant yield attached to that restriction in losses, because inevitably if you restrict the equalisation of losses, it will increase the corporation tax rate. The policy choice as to the basis on which losses are offset does involve a degree of judgment, because an economist would say a pure corporation tax system would cash out losses in-year and the Exchequer would pay out and collect tax on profits. No rational policymaker would design a corporation tax system that did that, but equally it would be inequitable not to have some degree of offset for losses, and so the policy choice is to what extent you allow the offset of losses: how long do you allow carry forward and what quantum do you allow as offset in any particular year? Every country has a different model that it has adopted for how corporation tax losses are offset. We have tweaked ours in a way that I think continues to strike the right balance between what the economists would like and what is fiscally sensible in order to maintain the corporation tax yield.

Q79 George Kerevan: Given we have slightly changed the rules and we are offering different rates for different scales of companies, does that make your life any more difficult?

Edward Troup: It comes back to your point on complexity. Yes, we could administer it. Would it be simpler if there was a single rate? I cannot say it would not be a bit simpler, but does it give us any trouble? No, not really.

Q80 George Kerevan: Briefly, on petroleum revenue tax, your latest forecasts suggest there will be annual losses of something like £1 billion. Could you just explain to the Committee how that works? Does that mean the Exchequer is handing back money to the oil companies in a physical way?

Edward Troup: Yes, because decommissioning costs and other reliefs effectively allow a repayment of tax previously paid.

Q81 George Kerevan: Right. You sign a cheque and—

Edward Troup: Yes. I am afraid that this is one of the cases where a negative number in the receipts figures means what it says. It is cash out the door.

Q82 George Kerevan: How long do you expect these losses to continue?

Edward Troup: I do not have the forecast figures in front of me. I think the OBR have published them forward in the long-term forecasts alongside the budget.

Q83 George Kerevan: You obviously pick up the OBR forecast.

Edward Troup: The OBR forecast is built out of our administrative data. HMRC's analysis unit effectively provides the core data that underpin the OBR forecast, but the OBR forecast also incorporates assumptions about oil prices and economic forecasts that come partly from our material, Treasury and other sources. The OBR is an independent forecasting organisation. We provide the raw data, but then the forecasts are built up iteratively between us and the OBR, but they are OBR forecasts.

Q84 George Kerevan: Does the money come from the Treasury? Physically, when the cheque is signed and the money goes out, where does it come from?

Edward Troup: It comes out of our account, but we operate the trust accounts that effectively hold central government funds.

Q85 George Kerevan: I am not tempting you into making policy.

Edward Troup: I think you are.

Q86 George Kerevan: No, but given that switch back and given it is tied to the uncertainty of oil prices, in the current era of lower oil prices, does that make petroleum revenue tax really unfit for purpose as a revenue raiser?

Edward Troup: That is definitely a policy question.

Q87 Chair: Going back to taxable capacity, which you mentioned a moment ago, it is a fact, isn't it, that the amount of tax collected in this country has always been in a narrow band: 35% to 37% of GDP? It never seems to get any higher, despite the best efforts of Governments on occasion to try to push it higher. On the whole, it struggles to fall. What conclusions do you draw from that?

Edward Troup: They are conclusions of political economy about the willingness of the British electorate to support levels of taxation more than that, because there are clearly countries around the world that have higher levels of taxation. I do not think you can say it is a consequence of the tax administration's strength or weakness. It is a reflection of political choice, which is a reflection of political mandate.

Q88 Chair: When you say willingness, do you mean willingness as expressed at the ballot box? Or do you mean a conceptual sense of willingness, as an economist might put it with respect to taxable capacity—that people will end up on tax strikes?

Edward Troup: We have seen a number of constraints in recent periods on the ability of Governments to put up tax. We have had minor events like the VAT on hot foods in the 2012 budget. We have seen rather larger political resistance to the attempt to put VAT on fuel in 1992, if I have got the year right. We have seen what we might call more populist resistance with the fuel drivers' strike and the consequence for fuel duty in 2001. There are a variety of ways in which the unwillingness of the British public to accept tax rises manifests itself.

Q89 Chair: Okay, but you are not, in using that word, referring to tax strikes.

Edward Troup: I am not talking about tax strikes, no, although obviously if you go back to the poll tax, that was rather akin to a tax strike—although I am happy to say not an HMRC tax, so not one that we were involved in a strike on.

Q90 Chair: I only raise these questions because we are still spending more than we are earning as a country, and many would like to balance the books earlier. One of the major parties is committed to trying to find the money from raising taxation. I am asking whether, in your judgment, this is a matter for the ballot box or for the manifestations that you have just described.

Edward Troup: I do not think it is a question for me. I can only comment on what has happened rather than offer advice as to what is the best way to do things in future.

Q91 Chair: That is a very shrewd reply. I am very grateful to you for giving evidence to us this afternoon. On behalf of the Committee, thank you both. I expect it will be the first of a good number of visits. You have given some interesting replies, and we have commissioned a number of quite detailed pieces of information. It would speed things up a lot, Mr Thompson, if we can have an exchange on them first up that gets straight to the point. It appears we have had the odd problem of interpretation.

Jon Thompson: Yes.

Edward Troup: No misinterpretations.

Chair: If you have any doubts on what is being asked, do have a word with staff or with me, and we can speed things up.

Edward Troup: Before going, Mr Chairman, I notice Hammond has gone but he raised the question of engagement, and Jon reflected back what both he and I have seen—that when you meet teams around the department, they are proud of what they do. They understand the value of the public service, but they do have a problem in engaging with us as senior management. There is an open invitation to any member of your Committee to visit any of our offices and meet our staff, because I think, if you met some of these teams, you would understand both the frustrations that some of the system imposes on them but also the real pride that almost all our staff have in what they do. I leave that as an open invitation.

Chair: Thank you for that. A similar invitation was also given to us by Lin Homer, your predecessor, and we are very grateful. Thank you very much.