House of Commons

Treasury Committee

Oral evidence: Shifting Sands: An Inquiry into UK tax policy and the tax base, HC 314

Tuesday 6 September 2016

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Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Stephen Hammond; Helen Goodman; George Kerevan; Mr Steve Baker; Mr Jacob Rees-Mogg.

Questions 224 – 294

Witnesses

I: Bill Dodwell, Head of Tax Policy, Deloitte, and President, Chartered Institute of Taxation; Cara Bendon, Founder, Cara Bendon Brand Consultancy, and Prince's Trust Young Ambassador; Toby Parkins, Founder and Director, Headforwards and UKNetWeb, and President of the Board, Cornwall Chamber of Commerce; and Adam Fox-Edwards, Owner, Arundell Arms Hotel, and Managing Director, Devon Hampers.

Examination of witnesses

Witnesses: Bill Dodwell, Cara Bendon, Toby Parkins and Adam Fox-Edwards.

Q224 **Chair:** Welcome back, everybody. Welcome aboard. The Treasury Committee is in session again. I would like to begin by asking you a question, Mr Dodwell. By my rough count, with the help of staff, there have been about a dozen quite major reorganisations of HMRC since the merger. That sounds like quite a lot. Have there been too many reorganisations, how is this affecting you as a recipient of their product, and are they getting their objectives and priorities right? Do not pull your punches, Mr Dodwell; we need to get straight to the point first up.

***Bill Dodwell*:** The first thing to say is that HMRC is a huge organisation. Few of us have the experience of trying to manage anything of that scale. Their reorganisations over the last 11 years, since they were formed in 2005, have really driven a lot of focus in what they do. We also need to see this against the whole background of the digitisation that has happened over the last 11 years and is obviously continuing to happen.

One of the very first things they did was focus a team on dealing with the largest businesses in the UK. That was a really good idea. They have now expanded the Large Business Directorate, which looks after the tax affairs of the 2,100 or so largest businesses in the UK. They have got a couple of thousand tax inspectors in that group. It is the best way they reasonably have of dealing with the complex tax affairs of very large domestic businesses or indeed foreign-owned or UK-owned multinationals.

They have started looking at high net worth people—rich people with more complex tax affairs. The High Net Worth Unit, overall, has done an effective job. You can see from the HMRC figures that they have collected additional money through that focus. They have merged it in with a directorate that focuses on mid-sized businesses in what you might call the entrepreneurial business company sector, under the lead of Mary Aiston. The final big change is focusing counter-avoidance, again, in a separate directorate run by David Richardson. Those are all good things.

The other thing that has gone really quite well—I am sure others will have different views—is that they made massive progress in a lot of the IT processes over the last three years under the leadership of Mark Dearnley, who is unfortunately just leaving HMRC. Where are they not getting it right?

Q225 **Chair:** You mean, "Where are they getting it wrong"?

***Bill Dodwell*:** Yes, sorry. There was a very significant blip on customer service in call centres about 18 months ago. They have been given extra money by the Government and they have put in more people to do it. Their figures are considerably better than they were, but many people would say that they would like them to be better still. The ambition of HMRC is that you will not need to contact them on the phone or by letter; instead, so much more will be done digitally. There is an appetite for doing more digitally. It is easier if you can just log on, say what is wrong with your tax code, and have it fixed.

Q226 **Chair:** Sorry, I do not want to interrupt, but we are going to come to that. On the two questions I asked, you are saying that the reorganisations were necessary, and on their priorities and the way they have brought resources to bear, you are scoring them eight or nine out of 10, aren't you?

***Bill Dodwell*:** I would probably put seven or eight, yes.

Q227 **Chair:** Let's move on to digitalisation. One of the concerns there is that the proposals that are being put through will not be understood by the mass of ordinary taxpayers and, even if they are, they will constitute a considerable burden and business cost, which will presumably be passed on to consumers eventually. Perhaps I can draw in others to give a view on whether that concern is justified and, if not, why we should be supporting the roll-out.

***Adam Fox-Edwards*:** Good morning. From my experience, I have a couple of points. Firstly, I was surprised by some of the IT issues with HMRC. Last week, I had a password-reset issue, and I was surprised by how easy it was to access stuff and make something happen that would traditionally be quite difficult. The outsourcing that they have done in terms of security accreditation seems to have worked quite well. I was pleasantly surprised; I expected it was going to take a week to get the password reset done, but it happened online within seconds. That seemed to work well, so some of the IT processes were better than I was expecting.

On your point about digitalisation, for the micro-businesses—the plumbers, hairdressers, agricultural contractors—from the way the consultation is phrased, it looks like the introduction of the system is doing them a great favour. From their point of view, most of them are not financially literate, although they will know whether or not they are making money. They are used to a cash-based economy, where they get paid for the job they do and keep some sort of record, which may be paper or Excel. They probably have a bookkeeper or an accountant who comes in once a year, does their books and submits a return for them.

For them, I do not see much upside in going to a quarterly basis; they will undoubtedly incur more cost, because they are going to have a bookkeeper or accountant do that work for them. It is most unlikely that they will be doing that all themselves at this very micro-level, so I suspect that there will be more cost. As for the minor advantage of knowing their tax position, if they really want to know their tax liability through the year, they can ask their accountant or bookkeeper at any stage. I do not see the upside of this approach for micro-businesses at the moment.

***Toby Parkins*:** On the security side, I have four Government Gateway accounts to access two different businesses, and I am trying to merge four into two. I still have not been able to do that after a number of years, and I run IT businesses; I like to think that I am reasonably IT-literate. The helplines do not help things.

Q228 **Chair:** As the modern phrase goes, can you just unpack the remark that "the helplines do not help"?

***Toby Parkins*:** Yes. If you phone a helpline, they will say, "We think you have to do this and that." However, when you follow the advice, you come across another problem. The advice may have been well-intended, but if we are going digital, lots of people use messenger-based systems on Facebook, Skype, WhatsApp, or Slack. There are now lots of systems where you can just send messages backwards and forwards. Systems like that can stretch over time, are far more effective and secure than email, and would allow efficiencies for HMRC and better and easier customer service for businesses.

Q229 **Chair:** Than the helpline, do you mean?

Toby Parkins**:** Yes.

Q230 **Chair:** Are you arguing for something more electronic and less human-based?

Toby Parkins**:** A majority of the population are digital. Therefore, if you can get half of the population using more digital systems, which should be designed to be more efficient and effective, you can get some great savings.

Q231 **Chair:** What about the £10,000 threshold that has been introduced as part of the response to the consultation?

Toby Parkins**:** If you go to a very cost-effective, cheap accountant or bookkeeper, you are unlikely to spend less than £200 for a very small set of accounts. Realistically, it is more likely to be £300 or £400—maybe £500 or more. For a business that is turning over £10,000, doing that four times a year is simply going to put them out of business; they are just not going to bother, or they will try to do it themselves and get it wrong. I would say that £50,000 to £100,000 is a more realistic figure. It is still a significant burden for a business turning over £100,000 to have to spend £1,500 or £2,000 instead of £500. However, I do think that the £10,000 threshold is far, far too low.

Cara Bendon**:** I would agree with a lot of those points. Your idea of a chat system is very good, but it has to be as well as customer service on the phone rather than in place of, at least for several years and not by 2020, for example. It is unfair to assume that everybody is going to be digitally intuitive and comfortable. It would cause quite a bad backlash if it was completely digitised, because there is already an issue of there being less service. For it to become less humanised would be a problem.

However, I do absolutely agree that digitising is a good way forward. For me, the problem lies with the word "mandatory". This is a great system for opting in for the next four or five years, but this is a huge burden. I can see the benefit for companies that are set up today or this year and can immediately go into the system without having to reconfigure any of what they are doing. However, for existing businesses, it is either time or money—probably both—and it is certainly a burden. If you are doing your own accounts because you do not have enough revenue for an accountant or do not want to spend it that way, you are losing profit for the time it takes to do this.

I understand that doing it quarterly means that you have less of a big job at the end of the year, but I do not think, in reality, it is going to work out that way. It is not going to be a quarter of my time to do this every quarter; it is going to be half to three-quarters. In fact, it will probably take the full amount of time it would take me to do my annual return for the first one or two times. That is a lot of profit to my business.

I have been in a situation where accountants have kindly advised that I do not take on their services, because my profits are not enough to afford them. I am now in a position where I am taking on an accountant, but I certainly cannot afford to pay them several hundred a year to do something I would normally do myself. The way to approach this is to offer better support for the annual return and to give the option of checking in through the year, so that by the end of the year there is very little do to. It should not be completely mandatory to report every quarter.

Q232 **Chair:** That is very helpful. Mr Dodwell wanted to get in a moment ago, and I am going to allow him a rejoinder. Then I am going to ask Mr Fox-Edwards about a point that we very briefly spoke about outside the meeting, which was the question of whether we should do some sort of pilot rather than roll this out right across the country.

Bill Dodwell: HMRC have launched a webchat facility. It is like one of these online shopping sites, where up pops a little thing saying, "Can I help you?" HMRC have done that with the personal tax account, and they hope to be using that. Apparently, the feedback is that it is going very well. It obviously does not deal with the security issues that you are covering, but they are aware of that.

Adam Fox-Edwards: I echo the point about the mandatory nature of the approach. About two-thirds of the way through the large consultation paper, which I have read over the past couple of days, it talks about the quarterly return as though it is an optional thing—you can try it and see what it looks like. Buried within that is a tone suggesting that whatever you put in quarterly is set in stone, and at the end of the year you need to explain why you have changed something.

Also, the quarterly return needs to be completed within a month of that quarter-end; for a lot of businesses, you have got invoices and statements that are not even with you within 30 days of a quarter-end, so you do not have a completely accurate picture. For HMRC to then tell you that you cannot change something without explaining why there has been a change smacks of this going from a flexible, "try it if you like it" approach and a helpful service to an approach that says, "You are to do it this way", and you are going to be told off if you do not do it correctly and penalised if you are more than a month late for a quarterly report.

Q233 **Chair:** Other colleagues want to ask questions, but I was asking you a question that you raised with me informally before the meeting.

Adam Fox-Edwards: This is a huge programme with potentially more than 5 million businesses involved, and huge IT programmes have a history of not running to time, budget or quality. This seems to be a tight timeline, because it is all to be rolled out within two or three years, so I would very much recommend that a pilot is done for 1,000 or 10,000 businesses to see how it goes. It would be useful to get that feedback, learn from experience and incorporate best practice before rolling it out and mandating it. Early adopters could potentially be given a tax advantage, such as a 5% or 10% discount, to encourage their active involvement.

It would be madness to go ahead without trialling this in the real world and seeing what the burden is on business. It is suggested that it is going to save between £85 million and £250 million for business. I cannot see how something that brings in quarterly reporting is going to save industry money; the reverse would be the case, surely. I may be missing a point, but let's do a pilot, trial it and see if it is going to save, or indeed see what the delta is if it is going to cost.

Q234 **Chair:** Is there anybody who wants to add very briefly to that contribution? I will assume that silence betokens consent, so if you dissent from it, please speak.

***Toby Parkins*:** I would just like to add that having a fixed roadmap of changes is optimistic at the very best. Realistically, you should be expecting to change a roadmap, bringing dates forward and putting dates further back.

Chair: That is very interesting.

***Cara Bendon*:** A pilot is a good idea, but across businesses of larger scale. Beginning with the smallest businesses and then working up means you are only getting a cross-section of people earning the least. The money that this is going to save is going to be for the much larger businesses; the smaller businesses are going to be hit dramatically by accountancy costs.

Chair: Very helpful, thank you.

Q235 **Stephen Hammond:** Before I start, could I just declare that I know Mr Dodwell both in a personal and political context? I will address my first couple of questions to Mr Dodwell. Leading on directly from the last question, one of the things raised in the written evidence from the Chartered Institute of Taxation to the Committee is the speed at which the implementation of making tax digital is being brought forward. There have clearly been quite a lot of concerns about the mandatory aspect and the scale and size of businesses. Having now had a chance to reflect, when do you think those issues—the weaknesses of the system against the strengths of the system—may be overcome?

***Bill Dodwell*:** Our view is that it is too rapid and making it compulsory is going to make the roll-out very challenging. It is going to be even more challenging than some of the previous digitisation projects. Every single one of them, whether we are talking about real-time information for PAYE or the iXBRL reporting for companies and company tax returns, has had challenges; software providers and HMRC have not got everything perfect on day one. We think that moving away from mandation would be a good idea. We completely support the point regarding starting with larger businesses; it would make sense to start with more capable businesses with accounting systems. We also certainly support lifting the threshold for quarterly reporting well above £10,000.

Q236 **Stephen Hammond:** Presumably you have made those points to HMRC, and also, given their track record, the concerns about implementation. What has the reaction been?

***Bill Dodwell*:** We are in the middle of that, to be fair, because the six papers have only just been launched. We have certainly not done our detailed response to them, and we have not had a series of meetings. At the moment, if you are a self-employed person, you file your tax return by logging on to the HMRC system and it costs you nothing. You enter about 14 different figures relating to your business: sales, cost of sales, property costs and those sorts of things. From that, your tax is calculated for the year.

We cannot see why HMRC would not retain that for these businesses maybe to do that quarterly entry. That would mean that businesses would not need to go and buy software if they did not want to. It would cater for the fact that maybe not all accounting software providers will be ready. It would also still meet HMRC's objective of trying to improve compliance by getting it done early.

Q237 **Stephen Hammond:** Are you surprised that HMRC have not offered any bespoke software of their own?

***Bill Dodwell*:** No, I can understand that, because accounting software is more complex and has a lot more design. I happen to know, for example, a small garage, which is a family-related business. Dealing with MOTs and MOT reminders is a special thing, for which small garages require software. However, most software systems do not do anything like that, and so you have to go and get bespoke software if you want it matched to your business. I am sure it is the same with lots of other business sectors, too; there is bespoke software. I am equally certain that HMRC have not worked out how all these people are going to provide it, and I am certain that they are going to put up their prices for doing it as well. Why should they not? There is a real cost to the software providers in writing extra software.

Q238 **Stephen Hammond:** You spoke about the six papers. Obviously you would intend to respond to all of those.

***Bill Dodwell*:** Yes, we shall.

Q239 **Stephen Hammond:** It would be helpful for the Committee to have a copy of your written response.

***Bill Dodwell*:** Of course. While most of this focus is on small businesses, there are also other papers on information providers. There is something about landlords and property as well. It is worth reflecting that it is not just about small businesses. I also personally think that employees and pensioners may end up with a simpler system, albeit businesses will end up with more complex systems.

Q240 **Stephen Hammond:** Regarding making tax digital, there are a number of objectives set out by HMRC, one of which is tax simplification. Do you see this as a process that will meet that objective?

***Bill Dodwell*:** I do not think it will meet that objective. It could be neutral; it is not necessarily going to help.

Q241 **Stephen Hammond:** In your answers to the Chair, all of you were fairly clear. The Federation of Small Businesses has welcomed the concessions that the Government announced in August, a major feature of which was the exemption for businesses with income below £10,000. Is it correct that although you would welcome that, it is nowhere near the right level of threshold, and a threshold of approximately £50,000 would be the right answer?

***Toby Parkins*:** Possibly higher. We have talked about the problems of rolling out systems across everybody and how it is better practice to use pilots. The other way of doing this is to start with larger businesses and then go smaller and smaller. We are seeing with the pensions system that pensions providers have been overcoming challenges over the past five years, and that experience is being used to try to produce an easier solution for very small businesses.

You might want to stage that threshold, so that it starts at £10 million, £1 million, £250,000, and then bring it down to the point where it becomes far too costly. By testing this out, you will find out whether or not a business of £250,000 turnover incurs so much cost that you do not want to bring the threshold any lower. By doing it in a more agile, stage-by-stage, iterative manner, you will get it right, as opposed to trying, as we say in software, to "pin the tail on the donkey" at the beginning, which is very difficult.

Q242 **Stephen Hammond:** I take it from the answers given by Mr Fox-Edwards, Ms Bendon and Mr Parkins that at the moment, in terms of how you see making tax digital, it is unlikely to simplify the way you have to administer your tax affairs and is likely to incur extra cost.

***Adam Fox-Edwards*:** That would certainly seem to be the overview for very small businesses. A bigger business is doing most of this stuff anyway, so it is not a big deal to extract some data and put it in quarterly. However, it would be useful to make software packages compatible, so that you do not have to keep re-entering data and can do an export from your own system straight into HMRC. It would be easy if HMRC had a commonly specified open interface that makes clear to software providers HMRC-compatible exports.

I would definitely keep the bigger businesses first, and if we are going to do a pilot, I would do a range of businesses and sectors rather than just using one sector or size. No one has done this, and it is a leap of faith without trialling and experimenting.

Cara Bendon: I agree. It would be good to make the software able to export immediately, but beginning with businesses with a turnover of under £50,000 is not going to bring much learning. In general, most people are going to report more of a grievance or burden. It might therefore stop something that could be quite good progress on the whole, because of bad feedback from individuals and very small businesses.

Q243 **Stephen Hammond:** I will ask two final questions. Mr Dodwell referred to the six papers that have been out for consultation. Do any of you in the business world intend to respond to any of those and, if so, are you going to make that representation yourselves or through an agent? Secondly, you represent small businesses from around the country. It does not seem to me that you are in tune with how the FSB responded to HMRC. Is it fair to say that HMRC's Digital Advisory Group has not really taken into account the views of small businesses around the country?

Adam Fox-Edwards: That is a difficult question; I have not seen the FSB's comments. In terms of the first point, having read these papers, I will probably send some comments in. I would not have otherwise sent comments in; it is because of this process and my involvement with my trade body, the British Hospitality Association, that I am involved. I was unaware of this process, so I would not imagine that most small businessmen will go straight on to the HMRC website and put some comments in. I suspect it will be a fairly muted response

Cara Bendon: I agree. I did not know about this process before. I have been invited, so yes, following this, I would definitely consider it. No, I will not do it through an agent, because I do my own return.

Toby Parkins: I would be feeding back through the chambers of commerce. I am technically a member of the FSB, but I do not tend to engage much with their consultations. I may put a separate return in as well if I have time.

Bill Dodwell: The Chartered Institute of Taxation was surprised at the FSB's comments, because they did not think that a mere extension of one year for an indeterminate group was sufficient resolution of the challenge that we shall discuss now.

Q244 **Helen Goodman:** Mr Parkins and Mr Fox-Edwards, you are both working in a rural community. My impression is that broadband roll-out in Cornwall has gone quite well, but across the country as a whole at the moment, 10% of people do not have access to super-fast broadband. By 2017, the Government's rather optimistic view is that that number will be down to 5%. Have you had any discussions with people who simply do not have access to broadband about how they will manage this process?

Toby Parkins: No, not specifically. I have not gone around looking for people who have not got access. People will find ways of getting better access quite often. Businesses are finding that there are such huge advantages to using super-fast broadband that they do have to find workarounds, whether that is using 4G or satellite. Ultimately, some of these systems are not particularly bandwidth-heavy. If somebody has got a pre-fibre connection, some of these systems should still work.

Q245 **Helen Goodman:** That is not what the farmers in my constituency tell me.

Toby Parkins: General internet access is absolutely a real challenge for the last 5%. However, overall, as far as these digital tax changes are concerned, there is a mixture of issues. Partly, it is that not everybody is digitally enabled, as well as the broadband speeds. I am surprised that it is as low as that. Cornwall is well connected; we are 95% on fibre, but only 87% above 24 megabits per second and 83% above 30 megabits per second.

Adam Fox-Edwards: I have experience of this. I am in Devon, on the Devon-Cornwall border. Tantalisingly, one mile from the English bank of the Tamar rather than the Cornish bank, we did not get super-fast broadband, because it was Cornwall only.

Chair: Both banks are English, you know.

Adam Fox-Edwards: The Cornish do not see it that way, but that is a local rivalry. It will undoubtedly be a factor for very rural businesses that are tucked away on the end of a very long piece of copper, which is just a physical thing. As my colleague said, this is not a data-intensive thing, so if you are able to get any broadband at all, you will be able to do this. This is just a few files; it is not like downloading films or large files.

Q246 **Helen Goodman:** Ms Bendon, I do not know where your business is based.

Cara Bendon: My business is in London.

Q247 **Helen Goodman:** Are you in one of those dreadful notspots?

Cara Bendon: At home I am, but in my office I am not. My opinion would be that before everybody has got good broadband access, it is unfair to pass something across the board that requires online use. Even if you can access something, if you are not familiar with using digital processes, this is going to be additionally stressful for you.

Helen Goodman: Yes, indeed.

Adam Fox-Edwards: It goes back to the earlier point about mandating this rather than opting in. If this was an opt-in process and it was good, and is going to save the industry money, as is suggested in the consultation paper, industries should be clamouring to opt in, saying, "Yes, please, because it is going to save me money." I suspect that is not the reality, so let's make it an opt in, and that will demonstrate whether or not it is saving money. There will be those that physically cannot opt in because they do not have the sufficient bandwidth, and that will not be a problem. If this is an opt in to start with, let the market say that it is a good measure.

Q248 **Helen Goodman:** I think the estimate is that there are 11 million people who lack internet skills and 7 million people who have never sent an email in this country. They are not all going to be small businesses, but some of them might be. I am quite sympathetic to your suggestion about raising the threshold to £100,000. Mr Dodwell, you were nodding vigorously. Are people going to have to buy software to join in this scheme? That is another business cost. If all you have to do is log on to a public website using a computer that you already have and send your stuff off, we know what the costs of that might be. However, if in addition to that you are supposed to buy some piece of software, that is another £500 for these small businesses.

***Bill Dodwell*:** HMRC's view is that you have to buy software. They believe that accounting software providers may provide some free software to very small businesses in the hope that as they grow, they upgrade and start to pay a fee. However, their view is that everyone should have to buy or have to have software, most of which, in our view, is likely to cost them money. We think this is wrong.

Q249 **Helen Goodman:** To give an example, completely at random, you are a sheep farmer on the hills of County Durham and you are turning over £60,000. There is no possibility of your income growing or your business going up, because that depends on the price in the market next year, and that fluctuates. What would the cost of software be for you?

***Bill Dodwell*:** I do not think we have a view. You were given an example of a system that costs £20 a month, but we do not yet know what the software providers will charge. Two years out, it is too hard to tell.

Q250 **Helen Goodman:** We have got quarterly costs of an accountant; let's say a minimum of £200, so that is £800 overall, then another £240. We are talking about additional costs of over £1,000 for these small businesses going down this path.

***Bill Dodwell*:** It could be, yes. It is fair to say that not every small business or micro-business will need to use an accountant, but I am sure that plenty will. HMRC hope that the systems offered will be sufficiently easy to use that many will just do it themselves. We are back to the point Ms Bendon made: that it just takes up your time.

***Cara Bendon*:** Exactly.

***Toby Parkins*:** The way in which you go about introducing these computerisations will influence their success. A very small business that is counting up fewer than 100 pieces of paper each year, in terms of invoices and receipts, when they are doing their annual accounts might still do manual bookkeeping. To put 14 figures into a web-based system is relatively straightforward. For a more complex business that has millions of transactions, a computerised system is perhaps the only way of doing things.

The key thing is that you provide different opportunities, so that people do not have to buy a single piece of software designed only for a certain type of business. If HMRC open or expose their API, which is an application programming interface, with good sandboxing and good testing systems to allow software developers to integrate other software systems more easily, that will provide competition in the marketplace for a wide range of software solutions. This will cater for the very large businesses as well as the small businesses, and potentially the micro-businesses at very small cost.

Q251 **Helen Goodman:** I want to flip over to a completely different issue. Mr Dodwell, we have been looking at the Revenue's definition of the tax gap. They are not including the devices that have been used so famously by Google, Amazon and Facebook, and I wonder whether you think, when they talk about the tax gap, they are talking about something completely different from what the general public understand by tax avoidance. Does that distort the way they approach tax avoidance?

***Bill Dodwell*:** I personally think that too much focus is placed on the tax gap analysis prepared by HMRC. Originally they started preparing it, and they say they continue to prepare it, to help them allocate their resources in the best way to reduce the tax gap. However, today, every time there is a new release, there is a massive public interest in it and there is always a great focus. We all argue that it is minutely accurate when it obviously cannot be; it is a set of economic estimates. In some areas it is quite precise, for example in the very largest businesses, because they each have a tax inspector responsible for them. In terms of the VAT gap, a big piece of that is saying, "How big is the UK economy? It is £1.8 trillion. How much VAT do you think we should get out of that? £130 billion. Well, we have £120 billion, so the gap is £10 billion." It is a lot more finger-in the-air stuff.

Q252 **Helen Goodman:** That was not quite the point I was making. They may or may not estimate accurately the loss of revenue on the definitions that they have chosen. My question was whether the definition they have chosen, by excluding the issue of the way multinationals in particular manipulate different international systems, ignores one of the biggest leakages. Are they not addressing the problem sufficiently energetically because they have the wrong definition?

***Bill Dodwell*:** Firstly, the tax gap in their view—and this is the way it is done internationally—is how much tax you should collect under the laws you have got compared with the amount of tax you actually collect. The difference is the gap. The question is whether you should change your laws to affect other areas such as multinational corporate tax. It is very hard to get a realistic estimate of the potential tax loss that you might change. The OECD is part of the base erosion and profit shifting work and produced an estimate of it being between 4% and 10% of global corporate taxes, which is between $100 billion dollars and $240 billion dollars. That range just tells you that it is really hard to be precise.

We do, globally, have a sense of the scale. When you look at the measures the UK government has taken to implement some of it, there you will see much more detailed costings. For example, measures to limit interest deductions for the very largest UK businesses are thought to bring in about £1.2 billion a year, which on top of the £20 billion or so that large company corporate tax raises is quite a chunk of money. That is where we get a more precise estimate. It is not possible to be precise on that big thing of whether we have the international system right.

Q253 **Helen Goodman:** No, it probably is not. The Government has in the last few months decided to toughen up on the role of tax advisers in facilitating, marketing and advising taxpayers on their tax liabilities. This follows, in part, an extremely critical report from the PAC. They said, "PwC provides tax advice to its clients in line with an internal Code of Conduct. PwC's Code does little more than shroud the way PwC exploits flaws in international tax law to devise and offer aggressive tax avoidance schemes to its clients. PwC requires only one of three conditions in its Code of Conduct to apply for tax advice to be compliant." Could you tell us whether your firm, Deloitte, follows similar practices to PricewaterhouseCoopers, or whether it is different in any significant way?

***Bill Dodwell*:** Firstly, industry-wide, there is a professional standards code, Professional Conduct in Relation to Taxation. It is a code of ethical standards signed up to by seven bodies: three tax bodies, which are the Chartered Institute of Taxation, the Association of Taxation Technicians and the Society of Trust and Estate Practitioners; and four accounting ones, the ICAEW, ICAS in Scotland, the Association of Chartered Certified Accountants and the Association of Accounting Technicians. All seven are working on a revision of that code as requested by the last Government in a paper in March 2015.

We expect that there will be a new code issued by the end of this year, although it depends on reaching an agreement with the Government, HMRC and lawyers and others who have advised on the process. The code will focus on enhanced standards for promoting avoidance, essentially trying to make it a breach of those professional standards to promote or market aggressive tax avoidance.

Q254 **Helen Goodman:** Practice has not changed significantly yet, but it might towards the end of the year.

***Bill Dodwell*:** It is just about to.

Q255 **Helen Goodman:** What are the penalties for breaching the code?

***Bill Dodwell*:** You will get referred to a disciplinary tribunal, depending on the body of which you are a member. The sanctions can range from admonitions and instructions for more training, through to fines and expulsion from the relevant institute.

Q256 **Helen Goodman:** How will we know whether people have broken the code or not? It is the old question: who will guard the guardian?

***Bill Dodwell*:** The Chartered Institute of Taxation, the body I represent, is independent. We, the CIOT, do not investigate any of our members. That is done by the independent Tax Disciplinary Board, who also work with the Taxation Technicians and STEP. They do their investigations; it is all public on their website, including the sanctions and sentences. I believe it is the same for the other bodies, because it is important, as part of justice, that you can see this publicly.

On your point about whether things have changed, I would say very definitely that they have. We at Deloitte and, I believe, all the major firms have quite significantly changed the approaches we take to tax planning and similar areas of public concern. We have an internal review panel, of which I am a member along with various other partners. We assess anything that partners wish to market. We have told some people that we do not think they are suitable for the firm to market.

If you talk to HMRC, they will tell you that they believe there is very little evidence of the aggressive avoidance of the past. I honestly believe things have changed. If you look at companies too, it is the same sort of thing. The major companies we have all heard of have changed, and some of the international structures you are dealing with need to change when the laws change. Governments are currently putting those law changes in place, but overall there has been a very big change.

Q257 **Helen Goodman:** Do you think that the proposals HMRC put out for applying sanctions were reasonable? They have put out some consultation documents over the summer: "Strengthening tax avoidance sanctions and deterrent" and "Tackling tax evasion: a new corporate offence of failure to prevent the criminal facilitation of tax evasion".

***Bill Dodwell*:** On tax evasion, the Chartered Institute of Taxation's main concern is around criminal offences. The Government's plan is that there should be a strict liability offence; in other words, you do not have to prove guilty intent, which is a foundation of most criminal things. We think that is wrong. Even if it is difficult to prove, we think that an offense involving dishonesty, which is what tax evasion is, requires proof of guilty intent. That is our general view. We welcome some of the changes that the Government and HMRC have made, essentially lifting some of the thresholds. However, we are still concerned about that particular aspect.

On the most recent document, which is about financial penalties for enablers of tax avoidance, our initial view is that the net has been cast too wide. The Financial Secretary in her introduction to the document said that there is still a minority of people promoting things. We understand that and do not have an objection to targeting that minority, but we think the hopper is too wide. If changes are not made, we are worried whether all the advisers in the country who try to give honest advice under law would be able to continue in practice given the scale of potential penalties if they were to get it wrong. That is the second thing: we think that the penalties are too high.

Q258 **Helen Goodman:** What sort of advice do you think will be caught that should not be caught?

***Bill Dodwell*:** These are quite complex bits of law. The document includes about 270 targeted anti-avoidance rules; that was a number estimated three years ago, and it is probably about 300 by now. If you have 300 individual bits of law, any one of which could trip you up, we think people could come in the ambit of that just in the context of giving normal commercial advice. We think that is too broad. To thin that out, we think you should fall into it if you have disclosed a scheme under the tax disclosure rules or if a scheme has been tripped up under the general anti-abuse rule.

Q259 **Helen Goodman:** Looking at it from outside the system, it could be that some businesses will go out of business because their business is about telling people how to avoid or evade their tax. Therefore, we, the public, would like them to go out of business.

***Bill Dodwell*:** I think we would all be happy if that was the outcome. However, if you have a really broad hopper going in, you catch people who I hope you would believe should not be caught for ultimately not getting the advice right in relation to an area. We think the penalty of asking them to pay the tax is out of all proportion to any financial gain that they have made. We think that you should follow the Australian system, which is to look at your fees. You should have a minimum penalty for sure, but look at the level of fees and set a penalty by reference to that. That is a much more proportionate response.

Q260 **Helen Goodman:** One thing that struck me that was rather strange in the tax evasion paper was that people are being given until September 2018 to make changes to their arrangements. We are at this point talking about evasion and not avoidance, and I do not really see why people should be given a two-year window of opportunity to carry on evading until the guillotine comes down.

***Bill Dodwell*:** My recollection, and I may not be right, is that this is about corporates having systems to monitor whether every part of the multinational globally is doing the right thing. The reason for the delay, as I understand it, is to allow time for those systems of training to make sure that you are doing the right thing. It is not to countenance evasion at all; we absolutely do not.

Q261 **Chair:** I just want to clarify a few points about the tax gap. What is the headline aggregate figure for the tax gap this year?

***Bill Dodwell*:** I think it is about 6.5% of the total—something like £30 billion to £35 billion.

Chair: Yes, I have got to about £35 billion on the back of an envelope.

***Bill Dodwell*:** You will recall that the bulk of it is evasion rather than debt.

Q262 **Chair:** That is what I wanted to go through, just so people understand what this figure is. This is not a great lump of money that HMRC have wantonly failed to collect. A very large proportion of this is always going to be in the tax system as it is defined by the Revenue. I want you to correct me if I have got this wrong. First of all, 8% of tax gap is error. There is always going to be error; maybe digitalisation can reduce it and, maybe, as we were discussing a moment ago, it is going to increase it.

***Bill Dodwell*:** To be fair on that error, HMRC hope that by doing your earlier reporting, rather than waiting a year, you will make fewer errors, because the data will be fresher in your mind. That is their ambition.

Q263 **Chair:** That is pretty much what the failure to take reasonable care is as well, so that is 20%.

***Bill Dodwell*:** Yes, it is.

Q264 **Chair:** Then there is non-payment; I take it that is basically bankruptcies and firms who cannot pay anymore.

***Bill Dodwell*:** Generally, yes.

Q265 **Chair:** That is 12%, and we are not going to eliminate bankruptcies. We might find a way of getting hold of the cash before they go bust, and maybe HMRC can think of cleverer ways of doing that, but it is going to be very difficult to get rid of that. Then we have got legal interpretation. That is disputes, which keep you guys in business, particularly the lawyers.

***Bill Dodwell*:** It is disputes, but not in the avoidance area. It is disputes about what the scope of the law was and whether, for example, one should or should not get tax relief.

Q266 **Chair:** Yes, and this is in the nature of any complex tax system in a sophisticated economy. I was surprised that the uncollected revenue figure was only 14%. Then there is avoidance, hidden economy and evasion, which strikes me as the lion's share of what people think of when they hear the words "tax gap", and that is a little under a third of the headline figure of £35 billion. Last on this list are criminal attacks. There is always going to be crime, and we need to make ourselves less vulnerable to it. However, that is an enduring struggle that has been going on for generations. The figure for criminal attacks is 15%. What I am putting to you, and I want you to challenge it vigorously if I have not got this right, is that when people talk about the tax gap, they are generally referring to a figure that is about a third of the £35 billion headline figure that is currently in circulation.

Bill Dodwell**:** I rather suspect that the public thinks the tax gap is all about avoidance.

Chair: I am putting avoidance, hidden economy and evasion together.

Bill Dodwell**:** It also comes back to the point raised about international taxation, and if we are getting that right. People put that in, even though it is not the law, so how can you collect it?

Q267 **Chair:** But that is in these numbers.

Bill Dodwell**:** No, it is not, because it is not the law to collect tax on what you do in a different country.

Q268 **Chair:** This is about the existing tax gap. When you are talking about international taxation, you are talking about money that we should have a tax code to collect.

Bill Dodwell**:** It is money that we would have a tax code to collect if you in Parliament change the law.

Chair: It is quite important that people realise that this number is about a third, or slightly higher, than what people generally think of as the tax gap. It just brings it into perspective.

Q269 **Mr Baker:** Good morning. I just want to give Mr Dodwell a break, because he has just worked very hard. Could I ask whether any of the other witnesses have a personal tax account and, if so, have you used it and found it useful?

Adam Fox-Edwards**:** Yes, I do.

Q270 **Mr Baker:** Have you found it useful?

Adam Fox-Edwards**:** Yes, it works well. I also have a couple of properties and I do my landlord return on that as well. It takes you logically through the steps, and it calculates your burden for you at the end.

Q271 **Mr Baker:** Is there anything you would want HMRC to change about the way it works?

Adam Fox-Edwards**:** It has got better; it was very clunky. The front-end is still very clunky compared with modern software systems. It is pretty user-unfriendly when it comes to putting in passwords and code-words and so on. Once you get beyond that, trying to find your personal record and the last few years' accounts is all quite awkward. It is just not particularly user-friendly. The software itself, and the calculations and so on, do work quite well. It should do; that is what it is supposed to be there for.

Toby Parkins**:** I delegate everything to my accountant to do.

Q272 **Mr Baker:** Do you think that would be common practice for people? You must be one of our more IT-literate witnesses; I am a bit, and have an MSc in computer science, but I delegate to my accountant, too. Do you think that we are rare or that people will commonly delegate to their accountant where they can?

***Toby Parkins*:** My wife works and does her own tax return, and enjoys it. She then asks my accountant for advice. I have a motto of surrounding myself with people who are far better than me and can do those things for me.

Q273 **Mr Baker:** If HMRC dramatically improved the interface and brought it up to date, might you be induced to log on?

***Toby Parkins*:** I do almost have a fear of logging on to HMRC systems, because I do my own VAT returns, although I am just about to delegate that to my bookkeeper. If it was simple, and if it was as nice and easy as lots of other systems, of course I would go and have a look and do it.

Q274 **Mr Baker:** In an earlier answer, you mentioned that you have ended up with four Government Gateway accounts and the impossibility of merging them. I just checked earlier and it is a Government Gateway account that you need to get in there. I do not want to lead you too much, but do you think that HMRC might be encouraged to simplify the way that that log-on system works?

***Toby Parkins*:** As I understand it, for some reason—and I am not sure if it was policy or the way the system was set up to begin with—you had to have a separate Government Gateway account for each part: PAYE was different from VAT and so on. Apparently you can merge them together now, but of course you still have to be able to get into them and somehow then release them.

I have got about that far, but phoning helplines and being on hold takes time. That is my Gateway and so I am the only person who can do that; from a security perspective, I should not really be delegating and giving away passwords. There are other systems in the world where you have got two different systems that you need to work together, and they are designed so that you can log in, press connect, type in a password, and then they are brought together. It is possible to do, but for some reason they are not doing it.

Mr Baker: I think Helen would want me to put on the record now that she had a farmer with 100 passwords.

Helen Goodman: Defra, DWP, HMRC.

***Cara Bendon*:** I complete my own tax return at the moment and have done for the last three years. As somebody who is very comfortable digitally and who has a degree, I definitely confess that it is not intuitive. I support the idea of progressing and digitising this system a huge amount; I am just not sure that the current proposal on how to do it is the right approach. The user journey through it really needs to be looked into and improved.

Specifically, information pop-ups can lead you into new tabs that give you a definition in legal jargon, and then lead you to another piece of documentation without giving you a direct connection through to where you should input information. When you are trying very hard to understand all of this, it can add a lot of unnecessary confusion, which causes this fear of technology. This means that people are more comfortable delegating this over to an accountant.

I know that I am in a minority; I work in a co-working space of 100 people and I know that most people have an accountant because they "do not know how to do that", which is not true; they just get blinded by science and the process. Improving how easy it is to do this would be a very good use of budget and should be a priority. I also think that the signposting through the system needs to be much improved. For example, the barometer that shows the percentage of progress runs at a massive lag on your actual progress; it suggests that you have only completed about 3% and then it leaps up to 40%. All of this creates this intimidation that it is going to take weeks to complete, because you are only at 1% when you have already worked for an hour.

Q275 **Mr Baker:** With that in mind, do you trust the system to keep your tax information confidential?

Cara Bendon**:** I do trust it. The one thing that would be better is more of a sense of accountability—for the figure to be double-checked. While I obviously trust my own figures, it would have been great to get an email to confirm that the figure I put in last year had been verified before getting last year's bill, especially with the time delay. I was not sure if the number I had calculated was correct.

Mr Baker: That is not so much confidentiality.

Cara Bendon**:** No. In terms of confidentiality, maybe I am too trusting digitally, but I feel like I trust my Gateway number.

Q276 **Mr Baker:** The point about certainty is well made. Two of you want to come in. Mr Parkins was first.

Toby Parkins**:** This brings up an interesting point about the approach of HMRC. If HMRC were going about this using John Lewis customer service—really good customer service to try to help people with their user journey, whether online or with a phone call—it would help everybody get through the system. Having read through some of the consultation documents, there are pages and pages about different types of penalty.

I have heard that there is a lot of emphasis and, where it is available, budget going into trying to catch people and causing penalties. There is not much carrot and an awful lot of stick. Sometimes providing a more customer-friendly experience encourages people to want to go online, because it is easier than making a phone call, writing a letter and doing things the old way. It really does need to be looked at from the positive perspective of encouraging people to want to do this.

***Adam Fox-Edwards*:** I have a similar point. From reading the consultation, "what-ifs", where you could input dummy data, could be one of the advantages for a business. For example, a plumber might be considering taking on an apprentice. They might cost £15,000 to hire and generate £20,000 in sales, and so, "If I made £5,000 extra profit, would I lose all of that in tax?" What if the plumber could input those numbers on the taxman's own system, rather than paying an accountant to do budgeting and forecasts? "What if I made £100,000 in sales next year instead of £80,000? Am I going to pay it all in tax?" It would be useful if the system could say what your tax bill would look like in draft.

When I first read it, I thought this was what they were heading towards, giving certainty so that you understand where you are going. However, I then realised that it was big brother with a big stick again, and if you do not do it every quarter they will beat you up. If it said, for example, that if you made £100,000, you would pay £17,000 in tax, that would be a really helpful tool that people might use. However, if you tell the taxman that you are going to make £100,000 and they beat you up when you change it later, and you have to write a letter explaining why you made £98,000 or £102,000, that gets away from it. People would be more willing to engage if HMRC made something that is user-friendly and useful.

Q277 **Mr Baker:** The point about scenario analysis is extremely well made. To what extent do you think it would help businesses to gain tax certainty, and therefore invest and grow?

***Adam Fox-Edwards*:** It is one of the factors you would use. It would remove a bit of uncertainty, particularly if people think anecdotally that there is no point in making more money or working harder, because they will only lose it all in tax. Despite this bar-room talk, tax is not that high; corporation tax is 20% or just below. It can take the fear away and might just allow people to be a little more confident. It is only a small factor in the great scheme of things, and they have still got to risk their own livelihoods and put their own investment in whatever they are proposing.

Q278 **Mr Baker:** Thank you very much. The smallest businesses are currently eligible to use a cash-basis for accounting income tax rather than accruals. HMRC are proposing to increase the eligibility threshold. If you were in the space where you could move to a cash basis, would you want to?

***Adam Fox-Edwards*:** I do not personally have any experience of that.

***Cara Bendon*:** I am sorry; I do not quite understand the question.

Q279 **Mr Baker:** Is that because you currently account on a cash basis?

***Cara Bendon*:** Sorry, I am not sure.

Q280 **Mr Baker:** That in itself is very useful evidence. HMRC are expecting people to take up the opportunity to move to a cash basis, but the entire question has ended up meaningless to at least three of the witnesses.

***Bill Dodwell*:** Firstly, there are two authentication systems at the moment: there is the Government Gateway, and there is the Verify system. The Cabinet Office is working with HMRC, DWP and others around which one to go with; that is a Cabinet Office decision coming our way.

There are a bunch of tradespeople, such as plumbers or painters and decorators, who fundamentally work on the cash basis. They spend money on buying the paint and the brushes, they paint, they get money, and then they pay tax. If you run a retail shop, though, the cash basis is going to give you some quite difficult results. It is not going to show you what the accounting proffered up, because obviously you spend a lot of money at the start on the stock that you are going to sell, and then keep replenishing and maybe change lines etc. We think that the cash basis works and probably has been used anyway by the right people, but that there are plenty of other people for whom it does not work at all as a useful business tool.

***Toby Parkins*:** I have not really used either of them particularly. I vaguely understand how cash accounting works.

Q281 **Mr Baker:** How likely do you think it is that businesses will choose to take up voluntary pay-as-you-go with their taxation?

***Cara Bendon*:** If enough incentive is given, it will happen, especially if it is not mandatory. You will get early adopters, probably from my age group. The key is either that you get something like a favourable tax rebate or discount on your tax. Tools are very important. It is not going to completely even out any ill-feeling, but especially if it is optional, people will opt for learning. The way that I have gone into business is to learn everything as I go. Digitally, this is a very common thing; the phrase "google it" is commonplace.

If HMRC becomes less exclusive to accountants and more in your back pocket on your smartphone, it could be a good thing. However, it has to be optional, and it has to be offering a lot of tools. I like the idea of conditional calculations. In fact, HMRC has an app already, which gives an estimate of your tax. I have been using that the whole time I have been in business. Unfortunately, it is really a one-trick pony; it does that one thing with lots of conditions, and that is all. That is shoddy; it could really be built up.

If we are going to have a digital presence and help small businesses in an age where internet usage is not just widespread but the main way that businesses are keeping their accounts, it needs to have tutorials, tax calculators, a payroll calendar, advice on registering for VAT, more descriptions, tax-band calculators and the ability to add your financial deadlines via your diary and software. It needs to be really integrated and wholeheartedly digital.

Q282 **Mr Baker:** Are there any other final words on this issue of pay-as-you-go tax?

***Bill Dodwell*:** There is currently a budget programme. You can opt to pay monthly instalments if you want to. HMRC are terrible at publicising it. You will find that there are a number of people who do not like being hit with a big bill twice a year in July and January, and who will therefore opt to pay monthly as they earn the money. It will not be an actual pay-as-you-go; they will not know what their tax is and will just be making budget instalments.

Chair: There appear to be a number of very helpful suggestions right across the board, particularly from Ms Bendon, which we will take a closer look at.

Q283 **George Kerevan:** Good morning. I want to go back to an issue that Helen raised, which is the consultation HMRC initiated last month on failure to correct on accounts held overseas. The consultation has offered a range of penalties for those failing to correct before the September 2018 deadline. Particularly Mr Dodwell, do you think that will change behaviour?

***Bill Dodwell*:** I suspect that I may have given a slightly incorrect answer to Helen Goodman before, because I may have missed which consultation you were talking about. If you go back to 2004 and 2005, HMRC had no data on offshore accounts. It had a suspicion, and so offered a favourable system. We have been progressing: the penalties have increased and the disclosures made to HMRC from overseas have also increased.

The reason for the September 2018 deadline is that that is when HMRC will get all the data they expect to get from over 85 overseas jurisdictions. If I have got an account in one of these 85 jurisdictions, that data will arrive at HMRC by September 2018. Their point is that they are going to receive the data, and so if you inform them of an irregularity now, you will pay a higher penalty than you would in 2005 and a lower penalty than you would in 2018. The basis of where they are going is, "We are coming after you", rather than, "You volunteering to us".

Q284 **George Kerevan:** Would your inference be that it will change behaviour?

***Bill Dodwell*:** Tax advisers and financial intermediaries are likely to be asked to send letters informing their clients that the data is coming, and if they are in any way uncertain about something, they should talk about it, because there may be an irregularity and they may need to make a disclosure. That is the best incentive you can offer.

Q285 **George Kerevan:** Forgive me; would that response from the accountants and tax advisers be voluntary or is there some mandatory process from HMRC prompting you to do that?

***Bill Dodwell*:** It is likely to be a mandatory process required by law for relevant tax advisers and others to send these letters, which will be written by HMRC. The adviser may have a covering letter, but the actual information is HMRC information.

Q286 **George Kerevan:** In recent years, the OBR has consistently downgraded the Chancellor's estimate and HMRC estimates of where extra tax would come in, particularly from pursuing avoidance in the crown dependencies and overseas territories. This is largely because, though there is clearly something to be had there, HMRC did not have the resources or put their resources into pursuing investigations. From your experience, is introducing the new failure-to-correct penalties in September 2018 simply a wish and a hope and a threat designed to bring in more money through greater transparency, or will HMRC still need to devote their resources, once it has the transparency, to go after potential avoidance?

***Bill Dodwell*:** It is both, to be honest. It is hoped that people will voluntarily confess error. Sometimes people think that there are criminals who will definitely not let HMRC tax their money and know that they are doing a bad thing. However, there are also people who trip into this: they might be working overseas, have an overseas bank account, and pay tax overseas—or not, because they might be working in a no-tax country—and then they might return and forget about the bank account: "What do I now do? It was three years ago."

You do have challenges for how you get there, and there is no doubt that volunteering is much easier on the system. HMRC are, however, very proud of their Connect database and the way in which they do data-matching. They think that they will suck in a lot of data, and will use it to come back to investigate appropriate individuals, who will then find themselves being prosecuted for criminal evasion in quite a number of cases.

Q287 **George Kerevan:** On the new system of penalties that is being proposed and consulted on, are the penalties too onerous? We are moving away from special terms to convince people to look at their accounts at all. They are really quite draconian penalties.

***Bill Dodwell*:** Based on where we are in the journey from 2005 to 2018, they are probably about right. Yes, they are harsh, but there is plenty in the news; you cannot pick up a newspaper and read it for a month without coming across tax evasion and offshore evasion stories. People have a reason to ask questions, surely.

Q288 **George Kerevan:** We are now talking about penalties involving a proportion of assets as opposed to a multiple of the tax not paid. How far would you go down that route?

***Bill Dodwell*:** We are not happy with proportion of assets unless it is a suitable proxy for actual taxable gains. You are absolutely right; that is the one issue we do challenge.

Q289 **George Kerevan:** How would you measure that?

***Bill Dodwell*:** We feel a proportion of tax, for an egregious case, sounds right. Usually, the penalties are set so that they are mitigated down to the extent that you have not concealed something and have made voluntary disclosure of things, or have been helpful along the way when prompted. There is a range of factors that incentivise you to fess up once you have been tapped on the shoulder.

Q290 **George Kerevan:** In a general sense, do you think that HMRC is getting the balance between going after evasion and avoidance right, or is there too much emphasis on one or the other?

***Bill Dodwell*:** If you ask many people, avoidance has mainly been tackled through a wide range of things. There is still a tail of court cases going through concerning the schemes of the past, where people hoped their tax liabilities were going to disappear; they go to court; the court says, "No, they have not disappeared and, by the way, you have got to pay some more." There is still some of that stuff going through.

The Financial Secretary announced yesterday that HMRC collected £3 billion in the accelerated payment notices, which are advance notices to pay the tax outstanding on these schemes. We are still going through that, but the idea of entering into a new one today is just remote. The general anti-abuse rule kills it. The idea of paying tax in advance under accelerated payment notices means that there is no cash flow, and good advisers advise against doing them. I do not think there is a market there for anything other than the very fringe.

Q291 **Chair:** Thank you very much for coming in to give evidence to us. It is still this morning, and we are always pleased when we manage to get the Tuesday session done in time. Mr Dodwell has had more than his fair share of air time, and I am going to finish by asking if there is anything in particular, Mr Fox-Edwards, Ms Bendon or Mr Parkins, that you want to say that you feel you have not had an opportunity to say, or which you had in mind to say when you came to this hearing. I note that Ms Bendon is looking through her notes.

***Adam Fox-Edwards*:** From my point of view, we have covered a lot of ground. However, put yourself in the position of a small businessperson in the context of what has happened over the last five to 10 years. You have come through the recession. You have had a hell of a time. If your business has survived, you have done well. It has been a really tough time. It is easy to look at this tax thing as just a process point, and if we get the process right, that will be alright, but just look at the people who are risking everything.

This is a plea from the small business sector. Look at the changes that have come in over the last few years: stealth taxes, and changing stuff so that statutory sick pay is paid by companies rather than the state; national insurance changes; the burden of real-time reporting; the pensions that have just come in, which are going to cascade down to every business. All of this takes administration and takes out of your business and what you have got to sell to keep your customers. It is all taking stuff out. Before you start doing anything, you are hit with a great tax in business rates, which brings you no benefit as a business, but you pay the burden.

This is perhaps an opportunity. It will probably put our costs up, from what we have talked about in relation to the quarterly stuff. There will be a cost; I cannot see it being a saving. However, anything we can do to redress the balance and to make business life that little bit easier, rather than always putting a greater burden on you, is useful. Whether it is testing it and piloting it, or seeing if we can do the "what-ifs", we should make this tool something useful that businesses might use, rather than it being yet another burden and yet another thing that we in the small business sector have to carry.

Q292 **Chair:** A local small trader in my constituency, who I have not asked and will remain nameless, made the lion's share of those points to me while he was supplying a service that I had asked for. He made those points in more or less the same order, too, ending with rates. It certainly struck a chord with me. Does anyone else want to add anything?

***Cara Bendon*:** I definitely agree with that. I have read that there is going to be support given to small businesses, which may include software and things like that, and it is very important not to patronise small businesses on the type of support that you think they need. Rather, relating to today's discussion, there should be a more technological approach that puts out a minimum viable product and gets testing, user response and feedback. It is important to pilot it and then roll out, rather than say, "Here is some software we are giving you. Now you have to do it quarterly."

Chair: The pilot point has been well made.

***Cara Bendon*:** It is the piloting and also the feedback about what kind of support small businesses need. I completely agree that there should be more digital presence, and I cannot speak for those who still wish that there were shorter queues on the phone lines, or in-person offices to go to.

***Toby Parkins*:** The roll-out is a particularly important thing. We work on an international project and are releasing across six regions globally, on average five times a day, through an automated develop-and-release system. It is possible to have these systems that are not just piloted, released, and then that is it for the year. You can have systems that continuously deliver added value. The point of value is something that the private sector relies on. If you are in business, whether or not you are selling a product or providing a service, you have to add value and attract customers. It is an approach of making tax happy.

Chair: That is asking a lot.

***Toby Parkins*:** It is an approach, ultimately, of making the whole experience something that people want to do.

Q293 **Chair:** It is rather like that notice I saw recently that read, "Most modern dentistry is completely painless". I felt it had gone a step too far. I do not think that the taxman will ever be a happy experience for people, but it could be less unhappy.

***Toby Parkins*:** I am happy to pay tax; I want to pay the fair amount of tax, and I would obviously like to see it spent correctly. If you make it a better experience, people will ultimately say that it is good. I am not saying privatise it and split it into three or four different organisations, but rather follow a customer-first approach.

Q294 **Mr Baker:** I just want to make explicit what I think two of you have just implied. You are asking HMRC not to simply release software but to engage in agile development with taxpayers. You are nodding, so thank you for that.

***Cara Bendon*:** Absolutely, yes.

***Adam Fox-Edwards*:** Exactly.

Chair: We have got that point on board now. Thank you all very much indeed for giving evidence today. It will help inform and give depth to the report that we eventually produce on this subject.