HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Kathryn Cearns as Chair of the Office of Tax Simplification, HC 2012

Tuesday 5 March 2019

Ordered by the House of Commons to be published on 5 March 2019

Watch the meeting

Members present: Nicky Morgan (Chair); Mr Steve Baker; Colin Clark; Mr Simon Clarke; Charlie Elphicke; Stewart Hosie; Wes Streeting.

Questions 1 - 36

Witness

I: Kathryn Cearns, Nominated Chair, Office of Tax Simplification.

Written evidence from witnesses:

– CV, Questionnaire

Examination of witness

Witness: Kathryn Cearns.

Q1 **Chair:** Good morning. Thank you very much. We are going to have a debate first about your name, Ms Cearns. I am going to ask you to introduce yourself and also how you would like to be addressed—I am not sure if it is Miss, Mrs or Ms—and then we will get underway.

Kathryn Cearns: It is Mrs Cearns, but Kathryn is fine.

Q2 **Chair:** Thank you very much for being here this morning for your pre-appointment hearing as chair of the Office of Tax Simplification. I am going to start and my colleagues all have some questions based on your questionnaire that you completed for us, your CV and the role of the Office of Tax Simplification. We will have a general question to start, about how you found out about the role, why it appealed and why you think you are a good fit as the future chair.

Kathryn Cearns: I found out about the role through two routes: the chairman of Companies House, who I am friendly with and which I am on the board of, had mentioned it to me; also it was on the Women on Boards website. That was the basis on which I chose to apply. The overall fit was partly to do with general public interest work in the public sector but, more specifically, the chance to chair a body that could have a huge impact on wide parts of the population in areas that people generally find worryingly difficult to deal with appealed to me. Also, being able to chair would mean trying to set the strategic direction of the organisation but, at the same time, having sufficient understanding of tax issues and general business issues as well to be able to take part in the debate and act not just strategically, but also as a sounding board to make sure that what was coming out of the OTS was making a difference for people.

Q3 **Chair:** Perhaps you can tell us a bit about your experiences. Obviously this is a tax organisation, so dealing with tax policy and tax administration, but the role of chair is not a day-to-day executive role. You mentioned strategy there. Mel Stride, in his press release welcoming your appointment, said that you were the “ideal candidate” due to your “strong vision”. Could you give us, based on your history and other roles you are doing, examples of where you have had an opportunity to put in play that strong vision?

Kathryn Cearns: The vision is about moving an organisation to give some benefit to the public to make things better, easier for them and more understandable. In the role that I had chairing the Financial Reporting Advisory Board to the Treasury, there were slightly esoteric technical arguments again in some areas but, actually, it was all about how transparent public finances were to the general public and also to those who were looking at the public finances on behalf of the general public, including the press. That idea of giving some real insight into these difficult technical areas was one of the big drivers for me.

Q4 **Chair:** You mentioned, both in your questionnaire response and also in your first answer, ordinary taxpayers. This Committee gets a lot of submissions from people who are ordinary taxpayers and have found themselves caught up, perhaps, in dealing with HMRC and tricky situations. We know this is not for the OTS, but there is the loan charge situation at the moment. How do you balance being an ordinary taxpayer, while also looking at things from a Whitehall or HMRC perspective?

Kathryn Cearns: I am an ordinary taxpayer too and I appreciate the difficulties that can be faced and how daunting it is for people who are facing what can seem quite a bureaucratic system. I have also had experience of dealing with small businesses that are trying to deal with tax issues. My father ran his own small business and my husband used to run his own small business, so I have been through quite a lot with them. As an accountant, friends and colleagues often approach me to give them some guidance about what to do and how to move things forward.

The OTS has done a lot of it but, once you start listening to the direct taxpayer experience, it becomes very clear that statistics about how people are doing things with the tax system—for example, the statistics about how many people are doing things digitally—are one thing but, until you hear that direct tax experience, you cannot get a proper picture of how normal taxpayers are finding the system and whether they are finding it easier or harder. Progressively, is it getting any easier or are they still finding it continually difficult? Even if they have got over the hurdle of filing things digitally, are they still finding it complex? Those direct stories are really important. As an accountant doing the things that I do, I hear stories like that from people all the time and it is important to keep listening to them.

Q5 **Chair:** You are quoted as saying you are "delighted to have the opportunity to develop a tax system in the UK that is … fit for purpose for the 21st century". What does a fit-for-purpose tax system in the 21st century look like?

Kathryn Cearns: I only have two minutes available. No, it is always going to be a work in progress; there is no doubt about that. There is never going to be a state of perfection but, in that context, we are looking for continual improvement. The digitalisation agenda, how much can be done online and how helpfully that can be done online is a big part of that, but also helping with the questions about where and how tax should fall, which people are capable of doing things in certain ways, which are not and how much help they need. That is particularly on the guidance side of things. It is a process of continual improvement and continually moving that forward.

There are a lot of people who think that, in an ideal world, we will ultimately end up with everything online and everybody will do things digitally. I think that is quite a long way off in certain areas, so the question mark over how to help people those people who are not digital and not online is just as important as for those who are. Pushing towards progress is going to do that. Of course, it will always be in the context of what is required from the tax system politically as well, so one has to work with that in mind.

Q6 **Chair:** Before I hand over to Stewart, what do you think are the main challenges in the system? You have mentioned digitalisation and online, but what are the main challenges for tax itself, if I could put it that way? The OTS has a programme of work coming up. How do you prioritise, as chair, some of the work of the OTS?

Kathryn Cearns: Looking at where tax complexity falls, in terms of the greatest number of people and businesses affected, is important. Some of the issues around different types of employment status that people can have, how they manage them, how they work out which they should be in and how they should be paying their tax in those circumstances is an increasing problem. VAT is also a major issue, because of the prevalence of it and the complexity of the rules. There is also the fact that, on leaving the EU, there will be issues coming out about what happens to the VAT regime.

Broadly speaking, I would be looking at where the bulk of the burden falls on the widest part of the population, and in particular the widest part of the population that is struggling to deal with it. That is where I would push the priorities. I would also look—and the inheritance tax work is a good example of this—at whether there are areas where people have to go through a lot of the work in relation to a tax but, ultimately, are not having to pay it. Those sorts of issues are increasingly important. That is my broad thrust.

Q7 **Chair:** How do you approach the difference between being chair and being an executive employee? You have lots of experience and a long CV of lots of other positions, which others might want to raise, but what is your experience as a chair?

Kathryn Cearns: The strategic aspects of running the board and making sure that it is operating effectively, in both monitoring the executive and holding it to account for its work, particularly the quality of its output, are important. As in many non-executive/executive situations, here the executives are the ones with the real, deep tax knowledge. We then need to let them have their head and make sure that they get to use it in the most appropriate way. We then need to be monitoring as a board to make sure that that translates into where we are trying to get to in terms of the overall strategic objectives of the organisation.

They have broadly achieved that so far. The output has been of that quality and that standard but, undoubtedly in such a complex area, you will always have to keep an eye on that and keep coming back to the strategic objectives, which is what I will be trying to do as chair.

Q8 **Stewart Hosie:** Good morning, Kathryn. I am just looking at the current stuff on your CV. You are a member of the chartered accountants' council, the audit and risk committee of the Press Recognition Panel, Public Sector Audit Appointments Limited, International Public Sector Accounting Standards Board, Financial Reporting Review Panel, the audit committee at Companies House, a trustee at the Royal British Legion Industries, non-executive at the UK Supreme Court, on the advisory board of Emperor Limited, on the external audit committee at the IMF, the chair of the audit and risk committee at Highways England, a member of group audit and risk at the Department for Transport and a board member of the Property Ombudsman. I make that 13 roles plus the consultancy and writing role. You are hugely experienced. Is there no one else who could chair meetings about tax simplification?

Kathryn Cearns: No, definitely not. Yes, it is a lot. I do not know if anybody is going to ask specifically about this, but one of those has already gone, which is the membership of the council of the ICAEW, because I thought, and the Treasury agrees, that it is a conflict of interest. I have been carefully through the time commitment to all of those bodies and, as I mentioned in the written submission, it works out at about 120 days, roughly speaking. That was not what was originally promised when I took the roles, but what is actually being done. That is not the same as how much attention you are giving to each of the roles, and I am very clear that I have created sufficient space and time to do both the roles that I am still doing there and the OTS role.

You mentioned the consultancy work; part of the reason is that the consultancy work is dying away gradually and has been for the last year or so. It mainly consists of writing work now, which is flexible and works around other commitments on a long-term timescale.

The advantage, to my mind, of some of that work, particularly in the public sector, is that there is some useful crossover between some of the work and experiences that are happening in those other organisations, and the things that the OTS will be dealing with and how the board will deal with them. A good example is Companies House, where there is a transformation programme going on about digitalising the register fully, how to deal with that and how to deal with the users of the system to make it as straightforward for them as possible. I am clear that I have to keep the time commitments under review, and would have to deal with it if necessary and rearrange things, if I felt that there was a problem.

Q9 **Stewart Hosie:** That is helpful. Let us move on to tax simplification proper. What does it mean to you and why should tax be simplified?

Kathryn Cearns: What it means to me is that, if you are a taxpayer in whatever context, you ought to be able to approach the tax system in a way that it is not so daunting that you have no idea where to start. You should feel confident that you can run your tax affairs in the best way and, frankly, not take too much time over it, particularly at the smaller end of the scale, because everybody has a lot of other things they need to do in terms of running their business and their lives. I want people to feel confident that they know what they have to do in relation to paying their taxes, to giving their information to the tax authorities at the right time and that, although they might not like it, they at least feel confident and comfortable that they can do it well. That is not really happening at the moment. Even people with relatively simple tax affairs still find it a frightening system to deal with. Taking that fear out of the system, partly through simplification but also through education and finding better channels for them to deliver the information in a way that makes sense to them behaviourally, so that it is more intuitive to do it in the right way, are the sorts of things I am looking for.

Q10 **Stewart Hosie:** Where does the complexity stem from in the tax system? In terms of the anxiety that people face, is it because the system, in and of itself, can be complex, or is it a different sort of fear of the Revenue being a law unto themselves?

Kathryn Cearns: Broadly, there is a perception that the tax system is itself extremely complicated. People worry; even if you tell them that their tax affairs are relatively simple and that, if they do certain things, they will be fine, they do not necessarily trust that outcome. They worry that they are missing things or that there are rules that they do not know about that they ought to be concerned about and that they ought to be trying to apply. It is a fear of the very large unknown that does it. I do not know if people also think that HMRC acts in that way but, undoubtedly, there is a power sitting behind the tax legislation that may induce fear as well. If they knew where they were and felt comfortable that they knew where they were, some of that fear about what the tax authorities might do to them would disappear.

Q11 **Stewart Hosie:** How successful has the Office of Tax Simplification been so far, either in actually simplifying or in the educational role you spoke about, in trying to explain that, for most people, it is a pretty straightforward thing and there are no hidden bits of the tax code that the average taxpayer does not know about?

Kathryn Cearns: They have made some good progress so far, by fixing some issues in the tax system that will be helpful to people. In the broader context that I am talking about, I look at some of the progress it has made to date as the first steps towards that. On the more cross-cutting work on technology, platforms, the business lifecycle and life events, they start a narrative about what affects people overall, at different stages, and there are also cross-cutting issues about how things might work. They are opening the debate about that and have moved the debate on quite considerably, but it is a work in progress. Other than in certain areas, we have not necessarily moved to where we want to be, which partly comes back to my point that this is always going to be a work in progress. Shining the light on these issues, what can be done on them and starting that debate is where they have had success so far and where they should be moving things on.

Q12 **Stewart Hosie:** Is that the main lesson you take from your predecessor’s work, or are there other lessons you take from what they have done so far?

Kathryn Cearns: There are two sides to it. I have mentioned the cross-cutting side of things, but there have been the Chancellor’s reviews where the Chancellor has asked the OTS to work on particular areas. There has been some concrete progress in those particular ones, some of which are more immediate in helping to simplify certain areas or change things to make them part of a more resilient system. The cross-cutting work that has gone on alongside that is useful in looking at the longer term and the journey that we need to take to move things forward. Some of that might move back into Chancellor-led reviews, if the Chancellor decides he wants to pick up on some of them and take them up now, but some may be longer-term debates, where we need to put the ideas out there and get people to start thinking about them and where they want to go next.

Q13 **Stewart Hosie:** This is a final question then—and it is a personal question, not an OTS question—in terms of digital and putting ideas out for discussion, as you have said. Would it not be better to sow the seed in the mind of the Chancellor that we should stop shutting HMRC offices, so people can take their returns in and come away smiling, knowing that they have been put in correctly?

Kathryn Cearns: I do not know that I can answer that question. You are right that some of the discomfort that people feel is undoubtedly helped by face-to-face interaction. That is partly going back to this point about whether online is always going to be the answer, and I do not think it necessarily is, but the work that has been done on the technology side of things by the OTS has recognised that and has said that there are substantial concerns about people who are effectively not online, who are not digitalised and who need more direct help. The question is how they get that help and move things forward. Whether it has to be face-to-face interaction in an HMRC office or if another mechanism can be used, I do not know, but I think it is worthy of investigation. If there is going to be a long-term tail of people who are not online or who need more help, there will have to be a better way of delivering that help to them. A multi-channel approach, where they have choices about how to get that, will be beneficial.

Q14 **Charlie Elphicke:** Good morning. One of the biggest issues with the Office of Tax Simplification is that it should do what it says on the tin: to simplify the tax system. What is your take on how successful it has been since it was set up in that mission?

Kathryn Cearns: They have had some successes in improvements that have been made and things that have made more sense. That has included not necessarily taking reliefs away, for example, but introducing them sometimes, where it has been anomalous that they have not been there. You end up with business investment decisions, for example, which do not appear logical because the tax system is stopping investment in those areas.

One of the things that it has done is to suggest to people who have had particular ideas—"It would be obvious, would it not, to do this to simplify the tax system?"—that it will look at the question, think about what simplification might look like in that area and consider how feasible it is. Opening that debate in a neutral and objective way has moved things on a lot. If it turns out that some of the things that people have always said would be a simplification—"Why don't we do it?"—actually would be costly, would not benefit as many people as one might think and would not land simplification for those who need it most, perhaps we should move the debate on and look at other areas. At this stage, there is still a debate going on about where the right focus is and what should be top of the list.

For example, the whole question about combining income tax and national insurance has been around for as long as I have been paying tax. It is about whether that should happen, if national insurance is just a tax and so on. The work that has been done on it has raised the issue about how difficult it would be. Similarly, the issue about aligning depreciation and capital allowances, in terms of what would make sense for the bulk of business, particularly at the smaller end of the scale, has shone a light on what would be effective and whether it is worth trying to pursue that route. It is genuinely important to say that we have done that work and produced some results. It is still sitting there as work. People can come back to it, but do you know what? There are some better priorities that we could go to that would have some more immediate effects, would be more cost-effective and would probably hit the right targets.

The debates about some of these issues, particularly about technology, platforms and the interaction with things like employment status, will necessarily take a while to play out, partly because technology moves on so much as well. There have been some quick answers, but I think there will be some more slow-burning answers that we hope to see flowing into the tax system, ultimately, as a result of the work.

Q15 **Charlie Elphicke:** You talk about this as being a work in progress, but a decade ago there were 11,520 pages of tax legislation. Today, there are over 21,000 pages so, in a decade, the tax code has doubled in length. What do you have to say to the person who says, "It does not look like the Office of Tax Simplification has been successful"?

Kathryn Cearns: I appreciate people who look at the tax code and think, "That is an absolute nightmare. How does anybody tackle it?" I have a lot of sympathy for them. One of the big issues for me, which is worth looking at, is how the tax code is structured to make it accessible, so that those who need to look at it only have to look at the parts that will affect them.

I will give you an example of something in an area that I specialise in technically. When the Companies Act was rewritten and came out in 2006, there was an interesting question raised. In all of the regulations that sit behind the Companies Act—there is a lot of detail in it about what goes in the accounts and things like that—how should it be structured to make it helpful and accessible? In fact, they set up a set of regulations on the accounts stuff for small companies, and then another for medium and large companies. A small company knew they could just go and look at that bit of it. That meant there was a lot of repetition between the two sets of regulations, so it was longer, but it was actually more structured and accessible for those businesses that need to look at it.

I do not think it is length per se, although I agree that length often engenders complexity. Looking at how it is structured and how that flows through to guidance to people, so they only have to look at those parts or can shine a light into those parts that affect them, is going to be a bigger issue. For all I know, there may be relevant parts of that legislation that will always need to be there, which only affect the biggest companies or companies carrying out activities in specific industries, but for the vast majority of businesses, if we can say that only certain parts of the tax code are relevant and accessible to them, it would be an achievement, even if the tax code was still longer.

Q16 **Charlie Elphicke:** Is there not a real opportunity here for the OTS? The Treasury is just a treacling machine as far as tax legislation is concerned. There are 10 million words, which have doubled since 2009. It is now 12 times the size of the King James Bible. Our tax legislation is completely out of control and there is a massive opportunity to simplify. Do you not think there is a powerful role you could be playing to say, "Here in Hong Kong it is just 300 pages, as opposed to 21,000 pages in the United Kingdom"? Is there not an opportunity to have a wholescale simplification of our tax code, so that ordinary people can understand it?

Kathryn Cearns: That is a hugely ambitious plan, but then I am quite ambitious with the OTS. There is no limit to the work it could do on the overall tax code and there are all sorts of things that it could be looking at but, if it tried to suggest that there could be a wholescale restructuring of the tax code all in one go, we would struggle to get anywhere immediately. There is a certain amount that has to be chipped away at to start getting to a position where you can genuinely start to make inroads into it. Also, we might start identifying various parts of the tax code as redundant, but I do not know that that is the best role for the OTS. The Treasury itself could probably be looking at whether some of it is redundant and ought to be got rid of.

The structuring point is key to me. As I said in my written submission, it will be really helpful if the OTS starts to point out areas where you could make some of the legislation more pointed, accessible and better structured. That will start feeding through to how the tax code is put together by the Treasury. I certainly do not say "never" because, as I say, I am ambitious for the OTS but, to make progress that matters to people on the ground, we need to chip away, rather than do the overall code all at once.

Q17 **Charlie Elphicke:** We are very concerned, as a Committee, that not everyone has access to the internet and is sophisticated, so the tax code needs to be simple. Do you not think the reality is that this tax code is out of control, completely inaccessible and impossible to understand for the ordinary person in the street, who does not have access to a computer, and maybe does not have an expensive tax accountant to boot?

Kathryn Cearns: The accessibility of the tax system for those who are not online is an incredibly important issue. The OTS work that has been done on HMRC guidance, how accessible that is, how well written it is and therefore how well understood will be crucial. We need to think about the routes that people are going to take to get that guidance and to understand it if they are not on a computer. There may be different ways of doing it. It could be done through other public service routes and we need to think about that.

The incomprehension that people have around tax is not necessarily ameliorated by guidance on its own. How they have to fill in the forms, whether online or on paper, in terms of how they read them and understand the information that is in them, is huge. I spend a lot of time talking to people who are not accountants about financial information, and you see people freeze when they look at pages of numbers. A bit of that goes on with these tax things. You have a long complicated form, even though the bits you have to fill in are tiny, because you do not have anything that is terribly complicated. How do we get people over that? Online is just the same there as paper, but it is harder on paper, because you cannot have a system that loses the stuff that is not relevant to them, so they do not even have to see it, whereas you can do that with an online system.

I think education, as well as accessibility, is vital, and getting a broader understanding of the tax system in the general population would help with that. I am keen on the idea of trying to liaise with those who educating people, particularly on life skills in schools, for example. How you deal with tax, how you deal with the tax system and more broadly across what happens with your student loan repayments and things like that should all be in there, so they have an understanding at that level, so that, by the time they actually come to do it, they have a much better comprehension of what they are having to look at.

Q18 **Charlie Elphicke:** Finally, at the end of your term you come back here for a valedictory session. How will you persuade us that the OTS was not just a pointless quango that burned more money while tax legislation expanded, but you were a success because—what is the "because"?

Kathryn Cearns: I would like to be able to produce some information—this is an area that we need to look at—that says, "These are the areas in which we have delivered very specific improvements to people". I like the idea of whether we can start looking at how long it takes people to fill in their tax returns, for example. Companies House does this a bit, about how long people have to be online to do their annual registration and so on. There are those things.

Some of it, though, is about statistics and some of it is about good information and the impact it is having on people. Some of it is about the stories that we hear from people and if we are getting feedback from the tax-paying public that says they are now finding it easier to deal with some of these things. I come back to the direct taxpayer experience: can we show that some of that is happening? Can we deliver those stories to you, which tell you that enough people are feeling they have a better handle of what they are doing in terms of their tax affairs?

Q19 **Wes Streeting:** Good morning. In your questionnaire, you say there has been "considerable cynicism" regarding the OTS and "positive results". What steps will you take as chair to engage with the public on these issues?

Kathryn Cearns: To be honest, I think some of this cynicism has come from the tax profession. There is a little of that at the top end of the scale, at the big business side of things. You do not necessarily get that in the wider public. If they start to see results that could be overcome. Communication with the tax-paying public is important to the work of the OTS. We have access to HMT statistics, HMRC statistics and the work that they do to give us a broad picture of what is happening, but it is about talking to people on the ground and directly to taxpayers, talking to small businesspeople but also their advisers, so small accountants and tax advisers as well, to get the picture from them about what is causing the problems and how we are going to deal with that.

It is also about being seen to be open to doing that. I know this is already happening, but I am keen to encourage more face-to-face interaction, outside London in particular. We should be visiting lots of different places in the country to talk to people on the ground about it.

You can see that some results are already bearing fruit. Some of the responses that the OTS has had, in terms of the size of response to some of their consultations, are quite considerable. I have been dealing with bodies that have been putting out consultations for years, and some of them are lucky to get half a dozen responses. The fact that the OTS is getting such a high volume in certain areas helps to show that they are looking at some of the right areas, and that people are really hoping that they are going to make a difference because, if they were absolutely cynical about it, they would not bother responding. We have to do more of that and we have to keep doing that.

Coming back to the point I made before, where we look at something but say, on cost/benefit grounds or for whatever particular reason, at the moment it is not the right time to do certain things, people need to understand the rationale around that, so that people can move on the debate. Undoubtedly we will not be able to do everything, so there has to be some managing of expectations around that. I am very keen on trying to find as many channels as possible to talk to more people and, as I say, directly to taxpayers ideally, but certainly to their advisers.

Q20 **Wes Streeting:** I will come back to taxpayers and the public shortly, but you mentioned the cynicism among tax advisers and that particular community. The OTS held a conference at the end of February that was not broadcasted or recorded. The explanation given by the OTS was that they do not have conference or video facilities and the budget to do so. Given the emphasis you have already outlined about expanding engagement beyond London, how do you think this is likely to affect genuine national engagement with the right people, and what steps would you take as chair to try to remedy this situation?

Kathryn Cearns: I think that is unfortunate. I would be very happy to look at the overall transparency of what we are doing. There may be times when it is appropriate, particularly because the people we are talking to want it to be private, that we may want to do things in private but, for things like general conferences and broader discussions with people, being transparent would be helpful. Broadcasting it would be ideal but, in any case, we should be putting information out there about what has been discussed and said, and should try to do more of that.

Undoubtedly there are budget constraints about how much you can do in these areas. Part of the reason for saying that we should be going to other parts of the country and talking to as many people as possible is to utilise people's goodwill so that, if there are people who say, "Actually, you can come and use my office. We have broadcasting or recording facilities", it would be wonderful to take advantage of it. We need to look for those opportunities but, as a broad principle, I am very keen on us being as transparent as possible about the kinds of conversations we are having with people.

Q21 **Wes Streeting:** Some of this is not particularly expensive either. In preparation for today, we looked at what I assume is the OTS Twitter account, but it is currently locked. I am not sure if it is used, and that is why it is locked; someone has bagged the name and then not used it. There are cost-effective ways of trying to get the message out.

Kathryn Cearns: That is a quick win, definitely. I have not looked at that.

Q22 **Wes Streeting:** You could become the first tweeting chair of the OTS. Who knows? Back on to some of the substantial issues, Angela Knight, the outgoing chair, recently addressed the question of how we can make the Office of Tax Simplification and what it does more relevant. Do you think relevance is a challenge for the OTS and how will you seek to answer the question as chair?

Kathryn Cearns: At risk of repeating myself, the relevance has to be to the tax-paying public. Demonstrating what we have done that will have an impact on the tax-paying business, be it in business or individually, is the way we would be demonstrating it.

I come back to the channels of communication. Obviously we produce an annual report, which is reasonably succinct and gives a good flavour of what has been happening, but I think we will get to the stage when we will want to look at the result of things that we have suggested that have been put into effect by HMRC, for example, and what we can talk about by way of what we now know in terms of whether they have been a success against what we expected. Are there tweaks that need to be made or some unintended consequences coming through? We will be able to discuss those sorts of things, in terms of effects, so that we have a reasonable picture. We do not do something, HMRC takes it up, it comes into effect and that is it. We need to look at whether it has had the impact that was intended and start producing some of that information, so that people get a clear picture of how effective the original suggestions had been.

Q23 **Wes Streeting:** You mentioned consultations already. There were 3,000 respondents for the inheritance tax review, which strikes me as being a good level of consultation response. What level of engagement will you aim to achieve going forward? I do not expect specific numbers, but what does good-quality engagement look like to you and how would you seek to achieve it?

Kathryn Cearns: For a lot of the things in our sight, coming back to this point about what will have the greatest effect for the greatest number of taxpayers, ideally speaking, we would be looking at those sorts of numbers, but it is going to vary depending on whether we are looking at areas that would not affect quite so many people. For whatever reason, there will be some variation in that.

I would be concerned if the level of response dropped considerably on something on which we thought there should be a good level of engagement. At that point, we would need to think about whether there is something else we need to do to make this more accessible and find a way of getting further input. For most consultations, as now, there are already a wide range of different things that are done, in terms of direct visits, talking to people and putting the consultation documents out. We would need to be monitoring it but, if we are going to start talking about some aspects of the VAT system that affect most VAT-registered businesses, we would be looking for quite a high response rate. If it ends up being an area where even those people struggle, we might suggest that it is more likely to be tax advisers. Again, you would look to see who we are affecting and whether they have engaged. If they have not, we need to do something about it.

Q24 **Colin Clark:** The OTS published a technology review in January 2019, looking at the possible uses and impacts of technology for tax simplification. What are your views on the use of technology? You have already touched on digital being a long way off.

Kathryn Cearns: Full digital is a long way off, but it varies enormously, depending first on whether it is purely business or involves personal taxation. The experience of Companies House, for example, is that pretty much all companies do at least one transaction online with Companies House, even if they do not do everything online. For businesses, there are more likely to be pushes towards digitalisation in certain tax areas that would work, but it is much more difficult when you know that a certain proportion of the taxpayers you are aiming at are not necessarily digitally enabled, nor do they necessarily want to be. What do we do about that?

There is a difficult balance between moving people towards online if we think they are going to get a better experience that way, which is what we have generally found in a lot of areas, and where you get to when you start mandating it, because that is the only way that we are going to get a real benefit from it. For individuals in particular, that is a long way off. There is the whole issue about how we deal with people who are not technologically enabled. Will areas of technology come along that will encourage them or is there always going to be a certain group of people who are not? How we manage that is difficult.

Q25 **Colin Clark:** 11 million people do a tax return, which is relatively sophisticated. The vast majority of PAYE, which is transferring to digital already. Are we overblowing how many people are finding this complex? Okay, there are a lot of small businesses in those 11 million returns, but I am thinking of who really will be affected by digital. If PAYE is already very digital, you have made the biggest win, have you not?

Kathryn Cearns: That is my point. What we will look at is, for a lot of tax and a lot of tax situations, we will get to a critical mass where it may become appropriate to say that we can push everybody to moving into the digital space. For some individuals, there would still be problems with that. There is still a problem with a surprising number of businesses that are not VAT-registered and perhaps do not have employees; they just do not computerise. They are still there. They will become fewer and fewer, but the question is how few they have to be for it not to be an issue anymore.

For individuals in certain tax areas that may continue for some time. That balance between encouraging, encouraging, encouraging, and then saying, "Right, we think now that everybody should be doing it, because actually you will get a much better experience if you do it that way, and what is the route to get you there?" will have to happen in certain areas. I am not very keen on forcing people down that route, unless you were absolutely sure they could get there.

Q26 **Colin Clark:** Going back to some of the questions my colleagues have asked, would you not get a bigger bang for your buck and a bigger effect as the OTS by driving to simplify tax, rather than moving a complex tax system to digital? You said yourself it is taking the fear out of the system. Surely it is simplification of the system that takes out the fear, rather than the digitalisation. Most people are nervous about booking an airline flight in case they change the price at the end. Is that not the bigger issue?

Kathryn Cearns: It is both. I know the OTS has suggested in a couple of places on VAT and making tax digital that, in some areas, it might be better to simplify first and then digitalise, but I can also see how digitalising things could allow people to bypass the complexity. The complexity is there for the people who it applies to but, actually, once you go online and start answering the right questions in the right order, the system leads you down the route that says, "You do not have to worry about all of that stuff. In fact, you are not even going to look at it, because we are going to take you directly to the questions that you need to answer and put information in for. Everything else goes by the wayside". As long as it is structured in that way, they are driven down the right route and only have to answer the questions they are expecting to answer, hopefully, by then. The system is still complex, in the sense it can deal with the complexity that others may have when they come to do their returns or put in their information, but the people at the simpler end, if they had had to engage directly—i.e. they are not just PAYE—have had a route through that the digital system has managed for them.

Q27 **Colin Clark:** Is there a risk in the digital system that people feel less connected to their tax return? They believe the digital system led them through and that it is HMRC's fault. We have heard evidence about the loan charge, where people have simply said, "I did not understand it. I was advised it was fine". I can imagine the same situation where people will say, "I did follow the system. OTS signed it off. HMRC signed it off. Everybody said it was wonderful and, if I did not pay enough tax, it really was not my fault. It is your very complex system".

Kathryn Cearns: There are several separate risks sitting in there. One is that the system itself does not operate properly anyway, so you get the wrong result out at the end. The other risks are that people do not understand when they get the output, having gone through the system, and cannot see what it is they have actually done. They have put the numbers in, a tax figure has been spat out at the end of it and they do not understand the connection between the two.

Colin Clark: I know the feeling.

Kathryn Cearns: You can deal with some of that because, in the output part, you can help to explain to them how the calculation has been done and how the relevant rules have been applied. Also, the issue about the questions you can ask somebody—and if the answer is no, you just move on—could help some of that, because you should be able to construct something that, in some ways, will stop people from tripping over at the beginning, because they are in a different situation from the one they thought they might be.

I do not say that a digital system can achieve that wholly, but it might alert people to a situation where they have more complexity than they thought they had and might need to do something different about it. The system might stop them at some point and say, "Actually, you have a more complex situation than this system is going to be able to deal with. You need either to talk to HMRC directly or get some advice, because you are in a difficult area". Those sorts of issues around technology need to be explored. The technology paper has started that debate and started the debate about how you make sure that people can still take personal responsibility for their tax and feel confident about it. Again, it is trust in the system.

Q28 **Colin Clark:** That is a good point, because how much tax is our individual responsibility, as people have discovered with things like the loan charge. They have signed something off that they may not have misunderstood, because of the complexity of the system.

Can I finish on Companies House, which has moved to a fully digital platform? There must be an enormous difference of complexity or sophistication between people who do tax returns and companies filing Companies House returns. What do you see as the dynamic difference? Can you transfer your experience from Companies House straight into the tax system? Where is the weakness?

Kathryn Cearns: Companies House has found it has a wide variety of customers to deal with, some of whom are agents acting on behalf of companies and some are the companies themselves. They have a wide variety, but it is not as wide as the whole tax system, by any means, because they do not have individuals, in that sense, although they have single-person companies that have to do this stuff. There is quite a wide overlap. Of course, they have people at the very sophisticated end of the scale, the very largest businesses and companies as well.

The lessons are more general ones about how you deal with the interface between what is effectively a form of regulator and the public that it is seeking to get information from and record in the right way to give certain outputs. In that broad sense, the challenges have some similarities with the tax system, but there are definitely some differences.

When I say they are going through a change, there is already a lot that has been digitalised at Companies House, but there is more that needs to be done. There is a big tail-end of more obscure transactions that people might undertake with Companies House or different types of company, for which it is harder to do things in a digital way. They are trying to get a comprehensive system that people can operate, whatever they are trying to do, but they do not and will not have the same issues about people who are ultimately not online although, again, they are being very careful to make sure they are not excluding people who are perhaps not digitally enabled. They are thinking quite hard about making sure that they have everybody there.

They are not the same, but there is some read-across in their overall experience. There are certainly some behavioural issues about how people do things online. Companies House does some of the work that HMRC does in this area, and actually watches people filing information. How do they deal with it? What do they look at on screen? What helps them to understand what they are doing, which makes things easier and more straightforward for them, or can make things an absolute nightmare, if they just cannot see on screen what they are supposed to be doing? There are a lot of similarities across those sorts of experiences.

Q29 **Mr Baker:** Good morning. You are becoming chair at a time when Bill Dodwell is also becoming the new tax director. There is considerable change on the board. How do you see that affecting the office?

Kathryn Cearns: We are fortunate in some ways that Bill was already involved in the organisation and had been for about six months before his appointment. Also, he has a very well-known name in tax and tax policy, so the fact that other people who he was working with in the OTS knew him already has been helpful. Undoubtedly it is not ideal to have chair and chief executive changing at the same time. Trying to make sure that we run the business as usual, keep being effective and keep staff happy and settled, as you would in those circumstances, is important.

My impression, through the conversations I have had so far with Bill and the head of office, David, has shown that they are broadly happy with the direction of travel. Bill will have new ideas as he is coming in, but they have been supportive of the work that has been done to date. It is helpful that we will have some stability around carrying on with the work that is in train at the moment. My concern as chair is to make sure that everybody feels settled and that we can get on to a business-as-usual platform before we start moving the organisation forward, so making sure everybody is settled. In particular for staff, these are difficult technical areas and we need good people, so we need to make sure they are satisfied with how we are running things.

Q30 **Mr Baker:** Are there any opportunities for culture change?

Kathryn Cearns: These are slightly early days—I have not had my first board meeting yet—but that is one of the things I will be thinking about. Is there anything we need to change in the overall profile of the staff and how they are working together? My impression at the moment is that everything is ticking along okay, but I have not met the other board members yet, so it will be a matter of looking at the board, talking to them, making sure that they are happy with what is happening and seeing if they have any ideas or things we ought to be thinking about. Undoubtedly, at some point there will be a review of the OTS's overall strategy, but I would have thought that will be in the medium to longer term.

Q31 **Mr Baker:** At the beginning, you talked about the huge impact that could be made in the role, and how tax generally is worrying and difficult for people. Other colleagues have talked about the length of the tax code and so on. Do you think that the goals of the organisation could become more specific, measurable, attainable, timely and realistic? That was the wrong way round, but there could be SMART goals.

Kathryn Cearns: That is a very good question. As I have said, as we mature as an organisation, there is more that we can do to look at what we are achieving in overall impact and how we measure that. That will be helpful. Things need to move along a little there. Also, one has to remember that we are not in charge of what is taken up but, where we can identify what we have recommended and that is run that through into HMT and HRMC putting things in place, we can start to look at overall impacts.

Timing is difficult. There are occasions when the OTS and the board may feel strongly that something specific ought to be done, but the time just might not be right. It may have to sit there for a while to wait for the time to be right. Because that is not within our power, we have to be careful about how we manage it.

Q32 **Mr Baker:** I am sure you do not want to become a campaigning organisation, but what more could be done to drive take-up of simplification?

Kathryn Cearns: The impression I have so far is that the take-up has not been too bad at all. In some of the areas that the OTS has looked at, as I have mentioned, work has concluded that it is not necessarily right to move in a certain area. That is a very helpful contribution to the debate, because it focuses resources on where we think things ought to change. If I felt that things were slowing down so much that we were not getting anywhere and nothing was really being taken up, I would get concerned. That would include making sure that the things the Chancellor is asking for are still coming through on a regular basis and we are still being useful, in the sense that the Chancellor gets that support and input at the right times. It is a balancing act in terms of right time to move in certain areas, and I appreciate that it is not always right.

My big thing is whether we have OTS work out there that looks at an issue, and has come up with some good, strong analysis that is accessible and understandable to people. If that has to wait for a while, so be it, but it will still be there.

Q33 **Mr Baker:** I do not want us to get ahead of ourselves, but you said you would stay on for two terms.

Kathryn Cearns: I would love to.

Q34 **Mr Baker:** You said that a time will come when a fresh face is required. How would you identify when that time had come?

Kathryn Cearns: It is funny when things like that happen. I have done it a couple of times, when you feel that it is the same old, same old, and that actually is your problem and not the organisation's problem, and it is time for somebody else to come in and think of a new way of approaching this and doing things. You tend to know when that time has come. For this sort of role, 10 years would be great, because you could see real progress and the organisation develop considerably in that period, so that would be my ideal, but it is not necessarily entirely within my power, of course.

Q35 **Mr Baker:** In terms of the development of the organisation, I know the organisation is hiring. I know you have not had a board meeting yet, but have you formed a view about the level of resource available in the organisation and whether it needs to be expanded, and particularly whether you need to bring in external expertise?

Kathryn Cearns: Undoubtedly, getting good people will be a challenge, but the big attraction of the OTS is that people will be doing really interesting work, which will hold them in good stead when they want to go and do other things. That will be our main attraction. We need to make sure that we have reasonable stability. It is fine to turn over different projects, but we need to make sure we have some stability in the staffing as well, which is one of the things that I will be looking at.

There is a danger in getting too much resource because, if you do not have the capacity to manage it in terms of output, the board does not have the capacity to manage it and the system does not have the capacity to manage it, because there is too much coming out and just not enough capacity to take these things up, that is not terribly helpful in itself, but I will keep it under review. I am ambitious for it. If I felt more resource might be required that is fine, but we need to keep it within the context of an organisation that is staying fairly focused. I have seen organisations ramp up and take on a huge amount of extra resource, and then you have so much happening and going on that you cannot keep things focused and pushing for real achievements to be made. I am conscious of that balance.

Q36 **Mr Baker:** Might you consider taking secondments from industry, academia and so on?

Kathryn Cearns: I do not see any reason why not. Also, remember that for some of the work that is done consultative groups are set up of volunteers, who come in and are interested in the subject. I am used to dealing with those sorts of volunteer groups and you can leverage a huge amount of help from people in these sorts of areas. In those more technical areas, people tend to be very willing to do that and serve on those sorts of committees. There are different routes to getting in help from those who have expertise, without necessarily having direct staff resource. I am open to anybody who can help us who has the right background.

Chair: I am sure careful note will be taken of that last appeal. Mrs Cearns, thank you very much for your time this morning and your evidence. We are going to consider our report, but we have been grateful for your time, both your questionnaire and also this morning's session, so thank you very much.

Kathryn Cearns: Thank you very much, and I am very happy to come back and talk to you during the work.

Chair: That is excellent. Some witnesses say that and some do not, so that is a good sign. Thank you.