

Public Accounts Committee

Oral evidence: [HMRC Standard Report 2018-19](#), HC 28

Monday 21 October 2019

Ordered by the House of Commons to be published on 21 October 2019.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Sir Geoffrey Clifton-Brown; Shabana Mahmood; Nigel Mills; Anne Marie Morris; Bridget Phillipson; Gareth Snell.

Gareth Davies, Comptroller and Auditor General; Adrian Jenner, Director, Parliamentary Relations, National Audit Office; Darren Stewart, Director, National Audit Office; Claire Rollo, Director, National Audit Office; Leena Matthew, Director, National Audit Office; and David Fairbrother, Treasury Officer of Accounts, were in attendance.

Questions 1-130

Witnesses

[I](#): Penny Ciniewicz, Director General, Customer Compliance, HMRC, Jim Harra, Interim Chief Executive and Permanent Secretary, HMRC, Justin Holliday, Chief Finance Officer, HMRC, and Angela MacDonald, Director General, Customer Services, HMRC.

Report by the Comptroller and Auditor General

HM Revenue & Customs 2018-19 Accounts

Examination of witnesses

Witnesses: Penny Ciniewicz, Jim Harra, Justin Holliday, and Angela MacDonald.

Q1 Chair: Good afternoon and welcome to the Public Accounts Committee on Monday 21 October 2019. We are here to look at the National Audit Office's Standard Report of HMRC's 2018-19 annual report and accounts. The good news is that HMRC reported that total tax revenue is up to £628 billion, which is an increase of £22 billion on the previous year. We know that all that tax collected is important to spend on public services. We will be challenging the officials in front of us today about the transformation programme and customer service—all the normal things that we challenge HMRC about.

We are pleased to welcome a strong panel of four. We should say that the outgoing chief exec and permanent secretary, Sir Jonathan Thompson, has now left HMRC, so I am pleased to welcome—unusually, not going left to right—Jim Harra, who is second left as I face him. He is the interim chief executive and permanent secretary, and also the tax assurance commissioner, at HMRC. You are collecting titles, Mr Harra.

Jim Harra: I am actually no longer the tax assurance commissioner, because as part of stepping into this role, I have passed that on.

Chair: Never an organisation for short titles. We welcome Mr Harra to his interim position. From my left to right, we have Penny Ciniewicz, the director general for customer compliance at HMRC—welcome back to you. On the other side of Mr Harra is Justin Holliday, the chief finance officer at HMRC—welcome back to you. And of course, we have Angela MacDonald, who is the director general for customer services at HMRC. It is the full top team. I am going to ask Sir Geoffrey to come in first on a couple of issues that we are going to go into before we get into the main accounts.

Q2 Sir Geoffrey Clifton-Brown: Good afternoon, Mr Harra. You must be a busy man these days. Could you give us an update, please, on where you have got to with the loan charge episode?

Jim Harra: The loan charge was introduced by the Government in 2016 as a response to a long-standing problem with tax avoidance schemes called disguised remuneration schemes. They are schemes used by employers and contractors to, effectively, disguise taxable remuneration as a non-taxable loan. They really came into their own in the late '90s, early 2000s when Parliament closed down earlier tax avoidance schemes. They have grown and multiplied over the years; there are about 250 different marketed schemes. The Government has introduced legislation a number of times to tackle them, but the fact is that we continue to see those schemes being marketed.

We have opened thousands of inquiries and taken cases to tribunal to establish our entitlement to collect tax on them, but the Government decided to introduce the loan charge to, effectively, say that if you have not paid tax in relation to your disguised remuneration scheme or repaid your loan by 5 April this year, there will be a tax charge on the loan. That is obviously a controversial measure, and the Government has announced an independent review of the loan charge, but in the meantime, it remains in force, and we continue to work with users of the schemes to encourage them to settle and to gather information in preparation for implementing the loan charge, which is payable on 31 January.

To date, we have settled about 8,000 cases with disguised remuneration users for about £2 billion—that is up to the end of August¹. We continue to work with people to settle, although I expect that many will now await the outcome of the independent review before they do so, which is understandable. People were required to provide information on outstanding loans to us by the end of September, and then, as I say, they are supposed to return the tax in their self-assessment returns at the end of January. We await those returns and we will work through them, subject to the outcome of the independent review.

Q3 Sir Geoffrey Clifton-Brown: I am afraid that begs a few questions. As a point of clarification, you and others talk about a loan charge, but, of course, an individual taxpayer can have several different loan charges relating to several different tax years. Is that correct?

Jim Harra: Yes, and they could also have entered into several different schemes, but what the loan charge does is, basically, add up all your loan balances at 5 April 2019 and apply a tax charge for the year '18-'19 to that balance.

Q4 Sir Geoffrey Clifton-Brown: Does HMRC reckon that it now has all the individual information, particularly relating to the earlier years when the schemes were introduced?

Jim Harra: We believe that we have very good information about who has used disguised remuneration schemes, through the disclosure of tax avoidance schemes regime, in which people were obliged to register those schemes with us. In cases where they have not done so, we have pursued the promoters through the tribunal to force them to disclose that. We do not necessarily have information about the outstanding loan balances for each individual—that is why there was an obligation on people to return that information by 30 September—but we have a good handle on who the users are.

Q5 Sir Geoffrey Clifton-Brown: Your 8,000 cases settled, as I think you said, sounds slightly disappointing, out of a total of 140,000.

Jim Harra: We expect about 50,000 taxpayers to be affected by the loan charge. The number of settlements is lower than we would have liked. About 28,000 people registered an interest in the settlement, and about

¹ The Bank of England would like correct the month reference to June.



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19,000 provided us with all the information we needed by 5 April to settle. As I say, to date, about 8,000 of those have done so. ²I very much hope that more will do so. Obviously, the balance who did not register that information with us by 5 April, unless they have repaid their loans, will be subject to the loan charge, which will be payable on 31 January.

- Q6 **Sir Geoffrey Clifton-Brown:** This is the smallest lot, but in addition to that 8,000, presumably there are quite a lot you are in discussion with who are likely to pay. Can you give us an indication of that figure?

Jim Harra: Altogether, 19,000 provided us with all the information that we would need in order to settle. As I said, I would expect that some of those people will now wait to see the outcome of the review before they take that step, but that step is still open to them to take because they provided us with all the information on time. I would hope that more of them will settle with us because, generally speaking, this settlement is more financially advantageous to the taxpayer than paying the loan charge—that is because, obviously, the loan charge taxes all the balances of the loan at your highest marginal rate in the 2018-19 tax year.

- Q7 **Sir Geoffrey Clifton-Brown:** May I clarify a question I asked in a previous session on this? Are all the early years still collectable?

Jim Harra: In relation to the settlements year on year, there may be some cases where some years would normally be out of time for us to assess, because we might not have opened an inquiry or made an assessment in time. However, that does not affect the operation of the loan charge, which is a charge on the outstanding balances on loans at 5 April. Therefore, when we invite people to settle with us, to make sure that their settlement removes any possibility of them then incurring the loan charge, we invite them to settle with us voluntarily for any years that, strictly speaking, we cannot oblige them to pay. They are obviously free not to do that if they don't wish to do so, but if they don't do that and the corresponding loan is still outstanding at 5 April, they would be liable to the loan charge instead.

- Q8 **Sir Geoffrey Clifton-Brown:** There are two different issues here: settling the loan charge, presumably with their employer, or whoever gave them the loan, and settling the tax due on that loan charge. They are two different issues, aren't they?

Jim Harra: Sorry, when I talk about settling the loan charge, I mean paying the loan charge to HMRC. There is the alternative, if people wish, to repay the loans, but they had to do that by 5 April 2019. I expect very few people did so, because the reality of these schemes is that no one ever expected to repay these loans—that is the nature of them. This money was really remuneration, which people will have spent on whatever, so I expect that the majority of people will not have taken that step, but we will not know that until people have submitted the information to us.

² The Bank of England have added that 8k relates to settlements by both employers and individuals. The 50,000 is individuals so not directly comparable.



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Q9 Sir Geoffrey Clifton-Brown: This is my final question, because we have a lot to do today. To be absolutely clear, will you treat those 19,000 individuals—some of whom are constituents of colleagues all around this room—sympathetically? Could they have extended payment terms, given that some of these sums are quite large?

Jim Harra: Yes. We recognise that people will experience big tax bills, whether they come forward to settle or they have to pay the loan charge. We have already announced automatic entitlement to time to pay for people settling with us, depending on their current income. In addition, anyone else can negotiate time to pay with us. We have a published policy for what that is. We cannot make people pay money that they do not have. We have committed that no one will have to sell their home in order to pay this bill, and that we do not want to bankrupt people. In particular, if people are able to meet their ongoing tax liabilities and are not deliberately trying to evade paying a debt, we will not bankrupt anyone. We will give whatever time people need to pay, taking account of their means. As I say, there is an automatic allowance for people whose income is below £50,000, or below £30,000. They can automatically self-serve for a certain amount of time to pay. If that is not sufficient for them, or their income is outside those ranges, they can speak to us to agree a longer time period.

Q10 Chair: May I just check when you expect the review to report?

Jim Harra: The review is due to report to the Government next month.

Q11 Chair: We don't want to get too much into hypotheticals, but it is possible that there could be a change of policy on this, and yet 8,000 people have settled. Were there a change of Government policy, do you have plans? You have got differential groups, haven't you? The 8,000 who have settled and then the 41,000 who haven't.

Jim Harra: We will have to see the outcome of the review and the Government response, and I cannot prejudge what that might be. What we have said to the 8,000 people who have settled is, "You should continue making payments under the terms of your settlement." We have said to others, "We would still encourage you to settle"—although we understand that people probably won't. Beyond that, we have to wait for what the review finds and what the Government response to it is.

Q12 Chair: The review will come out and then it will take at least a month, I imagine, for Ministers to consider it. Roughly, given that tax bills are due in January, when do you think that you will be ready to act on any recommendations of the review?

Jim Harra: I cannot commit Ministers to when they will act on that, I'm afraid. At the moment, the loan charge is in force, and the first obligation has already passed, which was to provide this information by the end of September. We have not taken any enforcement action in relation to that at this point—obviously, it is only three weeks ago—but the point is coming when people should put on their self-assessment returns the

amount for which they are liable for the loan charge. As I say, 31 January would be the payment date.

- Q13 Chair:** We are expecting an imminent election for the Chair of the Treasury Committee. As a lot of this relates to policy, I am sure it will be picked up by them.

I wanted to check what is happening with your chief digital and information officer. Jacky Wright left only last week, or the week before last, to go back to Microsoft in the US. You have an interim chief digital and information officer. What is the long-term plan for that position?

Jim Harra: Regrettably but inevitably, Jacky Wright returned to Microsoft. It was brilliant for the Department to have her for as long as we did, but it was inevitable that we were not going to be able to keep someone like Jacky. She has set us up well in terms of our technology strategy going forward.

Two things have happened. First, we have Martin Coombs, who is a member of our senior team, acting as our CDIO while we make an appointment. My intention is to appoint an interim, probably for six to 12 months, and then to fill the post substantively. By that point, we should have, hopefully, not only a substantive appointment in the chief executive chair, so anyone applying will know who they will be working for, but a longer term investment programme as well, so any applicant for the job will know what kind of funding we will have into the future to invest in technology. In the meantime, I intend to make a six to 12-month interim appointment.

- Q14 Chair:** This is the biggest public IT transformation programme in Europe, and it is pretty significant to a number of your programmes, which we will be touching on during the main hearing. How much bad news is it that Jacky Wright has gone? You have got someone acting up, then an interim coming in—this sends out worrying messages about the importance of this project and how capable HMRC will be to deliver on what is a very complex project.

Jim Harra: I think this is a manageable risk. First of all, there are some excellent interims on the market who are available. We have already interviewed some, and we are near the end of that process. In addition, Jacky has set out quite a clear programme of work for someone to take forward, which the executive team have endorsed, so I believe that the risk is manageable. Obviously, it would be ideal to have a substantive appointment, but it is also worth waiting six to 12 months before we do that, so that we have a clear picture, which hopefully will enable us to attract the best possible candidate.

- Q15 Chair:** When do you think that the interim person will be in place?

Jim Harra: I expect that to be very shortly.

- Q16 Chair:** So probably before Christmas—but I know you never give out dates.

Jim Harra: Yes. That is very much the case.

- Q17 **Chair:** That is more certain than most things in this place at the moment. We also want to touch on some of the issues around preparations for Brexit. Obviously, the deadline for Brexit is looming very fast—just next week—and you have had a lot of time since April, or quite a lot of time, to ramp up preparations. How ready are you for a no-deal exit if that is what happens next week?

Jim Harra: Obviously, the Department has had two dress rehearsals for a no-deal Brexit, on 29 March and 12 April. We have had a good time to make further preparations for 31 October, and significant additional funding, which was given to us at the end of July, to do that. There is a very intensive daily rhythm at the centre of Government driving that readiness.

My view is that internally we are ready—our systems are ready, our guidance is in place, and our staff are in place and trained—and the main issue is external readiness, in particular businesses getting ready to meet their obligations, either to us or to EU customs, so that goods can move smoothly over the border. A lot of our effort since the summer has been, first, on increasing that readiness and, secondly, on putting in mitigating factors to the extent that people are not ready.

For example, we have auto-registered 88,000 businesses with an EORI number, which is the first step to being ready to trade. We have also auto-registered 95,000 VAT-registered businesses for the transitional simplified procedure, which is a simplified procedure enabling them to import—

- Q18 **Chair:** These numbers are all okay, but what about percentage-wise? An awful lot of businesses are not ready, even though the Government have been spending a lot of money on advertising. Has the money spent on advertising seen the number of businesses registering to get ready go up considerably?

Jim Harra: Yes. As well as surveying more generally, we identify the highest-priority businesses, and we have had one-to-one contact with them. For example, in recent weeks we have had one-to-one contact with 3,000 high-value businesses that export to the EU but do not export or import to the rest of the world and therefore currently do not operate any customs processes, and what we find is a very high level of awareness and readiness in that group, which is reassuring. We had concerns that about 20% of them were not as ready at this stage as we would have liked them to be. We are therefore following up with intensive engagement with them to make sure that they do so.

It is inevitable that there will be some businesses that are not ready or that cannot access the agent services that they want because the agent industry has not increased its capacity. That is why we have put in mitigating measures to take account of that. The transitional simplified procedure in particular enables importers to bring their goods into the country and comply with their customs obligations later. They can defer up to six months before they have to do that.



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Q19 Chair: That is imports. It is about the exports. There are the readiness checks. You have now bought more land in Kent—or Border Force has—where hauliers who do not have the paperwork can go and sort it out. Can you talk us through how that will work in practice? If you have, for instance, a lorryload of perishable goods, and you do not have the paperwork and are syphoned off to the lorry park to sort it out, there is still going to be an issue about flow, isn't there?

Jim Harra: You are right; one key risk is that UK goods going into the EU will not be ready to get through, say, French customs, and therefore one of our priorities has been to try to make sure that goods moving into Europe through the short straits in particular are ready on day one to meet the French customs obligations. There are two things on that. First of all, quite apart from the general comms campaign that I mentioned—the 3,000 high-value exporters who we are engaging with—the DFT are running border-readiness checks. They are doing that voluntarily at a number of sites across the country, mainly motorway service stations.

At the moment, it would be mandatory, if Operation Brock were invoked after EU exit, for lorries to go through those DFT checks. What that is doing is checking that those lorries have the right paperwork to get through French customs and, if they don't, then preventing them from going to the port and trying to board the ferries. We are embedding support services at those sites to make sure that if a haulier needs our services, they can access those.

In addition, we expect that there will be increased demand to use a transit procedure, because one of the advantages of transit for traders is that they are able to complete their customs obligations at destination rather than at the port—so they will be able to take their goods through Calais, for example, and on to their destination in the EU and complete their procedures there. Transit requires some activity at a physical location. That is why we have made sure that we have six additional transit sites in Kent and Essex to cope with the increased volume of transit.

Q20 Chair: Who owns those?

Jim Harra: HMRC has leases to operate those sites. There will be Border Force staff at those sites as well.

Q21 Chair: So you have leased them all?

Jim Harra: Yes, I think we have leased them all.

Justin Holliday: *indicated assent.*

Jim Harra: My ³finance officer confirms it.

Q22 Gareth Snell: This all has the potential to happen in a no-deal scenario. Presumably, if the Government gets its deal ratified by the end of next week and we enter into the transition period, a lot of this stuff will just carry on, but at slightly less pace. What I wanted to know is, given the

³ The Bank of England would like to clarify they referred to their Chief Finance Officer.



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Government has set out what it would like the next stage of negotiations to look like—a free trade agreement that would come into force at the end of the transition period, in December 2020—how soon before that date would you need to know the exact terms of any future trade arrangement in order to have all the infrastructure that you have got ready for a no-deal Brexit next week pointing in the correct direction for December 2020?

Jim Harra: In terms of the procedures that traders have to comply with, they are pretty standard. You are right that a lot of the procedures that we would expect people to be liable to comply with on 1 November in the event of no deal, they will be liable to comply with on 1 January 2021 at the end of an implementation period. Those procedures are pretty standard; I think people could have a high level of certainty about what it is that they have to prepare to do. Obviously, one aspect of free trade agreements is what your tariffs are. I need to know that to put it into my customs systems so that I can administer them, but businesses also need to know them so that they can make their plans for trading. That would be something they would be keenly interested to know—in other words, whether the free trade agreement between the UK and the EU will give zero tariffs, for example, which would be the most beneficial in allowing that trade to move. That is a key piece of information that I guess people would like to know early, but in terms of all the customs procedures, I cannot imagine that it will significantly impact what it is that people have to do.

Q23 Gareth Snell: You say that you would like to know early. From a purely practical perspective from HMRC, how early would you like to know in order to ensure that on 1 January 2020 we are able to smoothly transition from the transition period to being an independent, free trading nation?

Jim Harra: As far as loading the tariffs into our systems and being able to administer them goes, you are talking about a week or so, really. It could be that late. I think last week the Government announced its revised tariff policy for 1 November, and that was plenty of time—touch wood—for us to load that information on to our systems and to be ready to administer it from 1 November.

Q24 Chair: Originally, the transition period was supposed to be longer, but it has shrunk because of other dates moving. Optimally, what would be your ideal transition period? Have you fed that in? Presumably you have fed that in through the normal systems, but what would be optimal for HMRC?

Jim Harra: You would expect me, as an administrator, to want as long as I can possibly get, but we are content that we can make the systems changes necessary to operate the withdrawal agreement by 1 January 2021. There are obviously a number of external things, in terms of external readiness, and a number of the procedures, particularly in relation to the Northern Ireland protocol, have to be agreed with the EU



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during the implementation period. We will need to know those as soon as possible.

- Q25 **Chair:** You said one week to Mr Snell for changing certain procedures. What is the lead-in time? I will come on to Northern Ireland in a moment, after Sir Geoffrey, but what is the lead-in time that you need to make the changes?

Jim Harra: I would envisage that for Great Britain-EU movements the procedures will be very recognisable from what they are today. It is just a matter of ensuring that people get ready to operate them. A lot of the work we have done for no deal will stand us in good stead—for example, giving people EORI numbers.

- Q26 **Chair:** What is the lead-in time? You say for that it is quite quick.

Jim Harra: Yes. We already have a level of preparedness for 1 November, but we will want to build on that. For example, one of the challenges for us has been that there is insufficient capacity in the customs agents market, and we have a grant scheme going to encourage them to expand. We have been doing that at pace to try to get them to expand for 1 November or as soon as possible afterwards; obviously, we will have a new, longer target date, but I still need that industry to expand. Once the withdrawal agreement was passed, they would have the certainty that they have not had before about what they need to do and the timeframe for that, so I hope they would step up and do that.

- Q27 **Gareth Snell:** I suppose my question is the mirror of that: that works for tariffs going across, but for things coming in, when do you need to start potentially having those conversations with your counterparts within the EU about what import tariffs might be put on to goods, so that we are aligned? This is not a one-way process, is it?

Jim Harra: First of all, as far as the import procedures that the EU would expect people to comply with are concerned, I am pretty sure it will be their union customs code. They have spent many years putting that in place and I suspect that they are in no mood to adapt that very much, so I think people can have certainty about that. As far as the tariffs are concerned, that is obviously not my Department's policy area, but people will have to know in advance what those tariffs will be, if any. As I say, that is something that can be done quickly in compliance terms, very shortly before the date, but I am sure that businesses would tell you that the more advance notice they have of that, the more they can do their commercial planning.

- Q28 **Sir Geoffrey Clifton-Brown:** You have probably four principal duties at the border: tariffs, which we have discussed in some detail and I don't want to go into again, because Mr Snell has asked you about that; customs declarations; VAT; and duties and charges. Can I go into the customs declarations, which you touched on? The Report makes it clear that you have 4,000 agents who could help with those declarations, but you say that is not sufficient. What number does that need to build to, and by when?



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Jim Harra: By “agents”, I mean external customs agents who can act as intermediaries. I forget the name of the organisation, but an external organisation has estimated that we may need anywhere between 10,000 and 30,000 agents.

Q29 **Chair:** When you say agents, does that mean individual people?

Jim Harra: Yes, that would be individual people, not necessarily new firms. We have seen a significant increase in the number training for that. We have done two things. First, we have funded a new online UK customs academy to provide more capacity to provide training. We have also given grant funding to agents to take up that training. More recently, the Government has announced a grant scheme to fund recruitment and initial salary costs of new agents. That totals, I think, £26 million-worth of grants available to the industry to help it expand. That is obviously in anticipation of no deal, but it will equally benefit us for a deal. Those are the kinds of numbers that you would expect, given the increase in the volume of customs declarations that you would expect to see as a result.

Q30 **Sir Geoffrey Clifton-Brown:** So, you currently have 4,000, and you estimate that you might need between 10,000 and 30,000. You didn’t actually answer the second part of the question: by when? Is this a real problem in terms of flow of trade from the UK to the EU? Could we get to a situation where people will simply not be able to do the paperwork?

Jim Harra: I haven’t looked at the 4,000 number, because I’m not sure we actually know very well how many customs agents there are. But our experience of traders who currently trade with the rest of the world is that the vast majority of them prefer to use a customs agent, rather than try to do this themselves. However, many of them may already use a logistics provider to move their goods, and the logistics provider will actually be able to offer the customs declarations service on top. But they will need to increase their capacity to enable them to do that. There is time to recruit and train people to be able to do that, but we need to—

Q31 **Sir Geoffrey Clifton-Brown:** You say, “There is time,” but when do these people need to be in place? If we crash out without a deal on the 31st, it does not sound as though we have a lot of time.

Jim Harra: Are you talking about 31 October?

Sir Geoffrey Clifton-Brown: Yes.

Jim Harra: In the case of 31 October, we know that that increased capacity is not going to be there. That is why we have put in mitigating actions such as the transitional simplified procedure, which enables an importer to wait a further six months before they have to comply with the obligation. That gives us more time for the market to grow and for people to be able to find the agents that they need.

Q32 **Sir Geoffrey Clifton-Brown:** Yes, but even with a simplified procedure, if lorry loads of goods arrive at the French border and the French customs official says, “I’m sorry, but your paperwork is not complete or in order and you’ve got to go back,” isn’t this proposition, really, a huge problem?



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Jim Harra: If we are talking about goods moving through French customs into the UK—

- Q33 **Sir Geoffrey Clifton-Brown:** No, no. I'm talking about our exports going into France, Belgium or wherever.

Jim Harra: So, going the other way, it is the EU importer who will have to make an import declaration to French customs. It is for the EU to get ready, including by growing their agent market if they wish. It would not really be UK customs agents supporting the completion of those import declarations so much.

- Q34 **Sir Geoffrey Clifton-Brown:** So presumably we can control the process the other way—importing into this country—and you can relax the regulations, as you have said, so that if there is a real problem, you just wave them through. Is that effectively what is going to happen?

Jim Harra: Yes. We have previously said we are going to prioritise flow over revenue protection. We will initially take some risk with revenue protection after 31 October, to enable that flow to happen. That is what the transitional simplified procedure does. It is a managed risk, because in order to benefit from that procedure you have to be registered with us so that we know who you are. Penny's people will in due course take the steps necessary to ensure that those people comply. The key thing is that they do not have to complete their compliance at the point when they bring the goods in. We can therefore protect the flow and they can sort out the paperwork and any tariff payable at a later date.

- Q35 **Sir Geoffrey Clifton-Brown:** In terms of numbers, I think the Report makes it clear that about 80,000 have registered for EORI already. That is out of probably about 270,000 that need to register. The Chair asked you about your advertising campaign. I am very concerned about, in particular, small businesses—those small businesses that have never had to do these declarations before because they are below the VAT threshold and those small businesses that are not regular importers. How are you planning for this? There are still very large numbers out there that really don't know what paperwork they will need to complete.

Jim Harra: The NAO Report is now a bit out of date in terms of the numbers, because we have since—

Chair: We should just say, in defence of the NAO, that it's a week out of date. But we recognise that numbers are moving fast.

- Q36 **Sir Geoffrey Clifton-Brown:** Can you tell us what the updated numbers are?

Jim Harra: In recent weeks, I have auto-registered a further 88,000 people for EORI, so we are now at, I think, around 170,000 businesses with EORIs. They are mainly VAT-registered businesses. You are right: the smaller, non-VAT-registered businesses are the ones that are the hardest to reach, because I can't identify them and we are reliant on our general information campaign. There are two things they can do. They can obviously get an EORI themselves if they wish, or they can use the

services of a fast parcel operator like DHL or FedEx—one of those firms—which can use its EORI number to move the goods.

It's not necessarily the case that all of them need to get an EORI, but you are right that one of the least ready groups will be those small businesses. They may not trade regularly; they may not trade immediately after 1 November. In any event, if we detect someone bringing goods into the country who should have registered for an EORI and for transitional simplified procedures and has not done so, the action we take will be to give them education and advice about how they can become compliant.

- Q37 Sir Geoffrey Clifton-Brown:** The Report makes it clear that one collective of organisations that you are working with is trade organisations. Are you working closely with those trade organisations, and do you know which ones are effectively contacting their members and which ones are not?

Jim Harra: I believe we are. This is people like the CBI, as well as sectoral bodies. We are doing that to gauge what they are doing to reach out to their members, but also to use them to get our messages across. We have learned some things from that. For example, even some of the terms we use, like "trader" and "importer", are not terms that some of these businesses actually recognise, so we have been adjusting our communications in response to that insight.

My view is that there is quite a high level of awareness, but there is quite conscious sitting on the fence and waiting to see what happens before people take action. With small businesses in particular, my experience is that, whether it's a tax change or any change we bring in, they take action when they know they need to, and if you try to get them to take early action, their view is that they have better things to do with their time. So I think there will be quite a lot of getting them ready after the event, which is why we will have that approach initially to encouraging compliance.

- Q38 Chair:** I want to ask Ms Ciniewicz a question. With all this going on—goods being waved through and paperwork being sorted out later—how long does it take a criminal gang to start exploiting those loopholes?

Penny Ciniewicz: We keep a very close eye on serious organised criminals. We have intelligence. We risk-assess at the moment for that activity. We feel that we will be keeping a very close eye on that activity. There are known players. We work with other agencies to do that. At the moment we are not sitting in a position where we feel unduly alarmed, but we will be very vigilant, clearly.

- Q39 Chair:** You will be vigilant, but there are different sorts of harm. Adulterated food goods coming through, for example, could really damage the population. Another example is drugs that are not the real thing. Without revealing all your secrets to those who might be watching with an interest in this, how will you be making sure that you are protecting the public from things that could be coming illegally through the border, exploiting the loopholes that I think you would acknowledge will exist in a suboptimal situation, as you euphemistically call it?



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Penny Ciniewicz: Not all those things are HMRC's responsibility, clearly. Lots of those are the responsibility of other Government Departments, and they would be working closely with Border Force and in their own enforcement regimes to make sure that we are all working as closely as possible together to defend the UK against those kinds of threats. We work collaboratively and we will continue to do that.

- Q40 **Chair:** Talking about collaborative work, Mr Harra, the Border Delivery Group has lost Sir Jon Thompson, as he has gone. Karen Wheeler has gone. Her replacement has gone. Who is in charge of the Border Delivery Group now?

Jim Harra: The Border Delivery Group is led by Emma Churchill, who has been a director in the group for some considerable time—a couple of years, I would think. The main cross-departmental body that sits over the Border Delivery Group is the border planning executive group, which Jon Thompson co-chaired with the permanent secretary from the Home Office. I now co-chair that in his place. I always attended the group anyway as an HMRC representative, so I am a long-standing member of it. The Border Delivery Group is, I can assure you, extremely active and snapping at our heels all the time; but yes, you are right, there has been a move of personnel, which I think is understandable in a project that has now been going on for three and a half years. While we need enough continuity in it to make sure that you have got all the knowledge, actually sometimes you need fresh, energetic people in it as well.

- Q41 **Chair:** I am sure Sir Jonathan will be delighted with that description, but it does worry us: we know people move on, but there is a lack of stability, potentially, at the top. We will be watching that. I just wanted to touch on another issue you raised earlier, where we were talking about you bringing lorries out if they didn't have the right paperwork. If there are sensitive loads stuck in queues—obviously this is partly Department for Transport, but it could be relating to you too—how are you going to make sure that they get to the right place in the right timescale? What mechanisms have you got in place with the DFT on that?

Jim Harra: You are right. It is a DFT responsibility, and through, for example, the Border Delivery Group, the border planning executive group and the Cabinet Sub-Committee XO we have been concentrating really a lot on that. In terms of goods leaving the UK, HMRC is not really a body that is going to be standing in the way of those goods getting out, because export controls, apart from some strategic goods, are really not a key part of moving these goods. So DFT have got their plans and have got their communication lines with the haulage industry so that people understand what they need to do. In terms of the kinds of queues that you can experience approaching the short straits—like Operation Brock, for example—obviously those have already been invoked in the past for a variety of different reasons: weather, or industrial action. So while this is a new cause of that, it is a tried and trusted way of managing traffic loads; but you are right, there will be goods in queues that are very time-sensitive, where the DFT will have their plans for what they are going to do about those. Of course the Government is taking action in relation to



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bringing certain key goods into the country to make sure that there is additional capacity.

- Q42 **Chair:** We are all aware of the huge logistical nature of the problem from—for argument's sake—farm to border. There are many slips along the way that could cause great difficulty for people. We will be watching out, with our sister Committees. I need of course to touch on Northern Ireland. We have already seen in the last couple of weeks two different proposals for border arrangements in Northern Ireland. These are things that directly impact what you and your team on the ground, on both sides of the Irish sea and on the land border with the Republic, will have to be dealing with. How ready are you, and how ready are traders, to deal with what is a changing situation with no certainty as we speak?

Jim Harra: We know the outline of what the arrangements will be under the withdrawal agreement—both Northern Ireland to GB, and Northern Ireland to the rest of the world. The key thing that has been secured in that agreement is that there will be no customs controls or customs tariffs on goods moving north-south and south-north across the land border, which was a key commitment that we wanted to achieve; but there will be some documentation both for regulatory purposes and for fiscal purposes on goods moving east-west.

- Q43 **Chair:** There is a very big differential VAT rate either side of the land border. How are you going to be managing? It is there already so you have got mechanisms in place, but given that, if we leave, that is the frontier with the European Union, is there anything that you need to be doing and is that having an impact on your workload?

Jim Harra: I think, for VAT, in terms of the administrative procedures, that should be relatively straightforward. You are right that they will need to change. There is currently a 23% standard rate in Ireland and 20% in Northern Ireland. We administer that now through intra-EU procedures that will in future have to be administered through third country procedures, which was something that we were already geared up to do from 1 November for no deal. We actually have systems already developed to do that, and we now obviously have more time to get businesses ready to put that into effect.

In relation to Ireland, I am not entirely clear what they have got ready for 1 November; I will be surprised if they do not have something similar already on the stocks. However, we will now jointly work on making sure that that all works. In administrative terms, I do not think that that is a key issue. Actually, for north-south and south-north, although there will be slightly different administrative procedures for VAT and excise duty, I expect that we should be perfectly capable of putting that in place by the end of the implementation period.

- Q44 **Chair:** So there must be checks in the Irish sea. I remember, many years ago, having some responsibility for another reserved responsibility and trying to talk to people in Larne and Stranraer about intra-UK issues. You will now squarely have a role between one part of the UK and another.



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How will you manage that practically, and also constitutionally? There will be plenty of issues for HMRC. How will you manage that? What is the plan?

Jim Harra: For goods moving east-west, from Great Britain into Northern Ireland, there will be regulatory controls, in particular, on all of those goods, because Northern Ireland will be aligned with the EU on regulation, and therefore goods going into Northern Ireland—

Chair: We understand that. The question is how you will manage it.

Jim Harra: We expect that those movements will be subject to a declaration, which will be used to drive any regulatory checks and also any fiscal checks.

Q45 **Chair:** So you will need HMRC officers either side of the Irish sea?

Jim Harra: At the moment, we do not really use officers at the border at all. All these declarations are made electronically, and the vast majority are cleared electronically. At the moment, for rest of the world trade, we carry out checks on about 4%, and most of those are done electronically, if we ask to see additional documentation.

In terms of the uncertainties about how this will all work and the risks involved, two things really need to be sorted out before the end of the implementation period. One is making sure that the rules in the protocol are worked up with the EU, through the joint UK-EU Committee. The other is understanding the status of the UK-EU free trade agreement is at that point. Obviously, if there is an ambitious free trade agreement at that point, with zero tariffs, that would significantly reduce the east-west fiscal risks that have to be managed, although there will of course still be the regulatory side.

Q46 **Gareth Snell:** I was going to ask about physical infrastructure— I appreciate that there will not be any on the island of Ireland—but you kind of partly answered that by virtue of the fact that there are electronic declarations. However, I know that David Hanson has asked on a number of occasions about what that will mean for north Wales and any infrastructure that might need to be in north Wales, particularly for goods travelling through Holyhead and over the Irish sea, either into Northern Ireland or through Northern Ireland into the Republic of Ireland.

Duties will be collected, and for anything that does not then go through Northern Ireland into the Republic and into the European single market directly, those duties can be reclaimed. Do you have the infrastructure in place to do that yet? Is the infrastructure likely to be in place any time soon? This is not a negotiating objective for the future; this is what will potentially happen to Northern Ireland in 15 months' time. How soon will you have that up?

What role will HMRC play in making sure that things that are declared to only be going to Northern Ireland are not then smuggled or erroneously taken over the border into the Republic of Ireland? If you are not doing those checks, will anybody from the Republic be expected to check that



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something destined only for Northern Ireland has not accidentally ended up over the border and on the other side?

Jim Harra: There are several parts to that. I will start with Holyhead. Obviously, Holyhead is a port that faces on to the Republic of Ireland, in terms of its ferry services. When we leave the EU, goods moving from Holyhead to Dublin will be moving between two separate customs territories, in the same way as at Dover-Calais, and therefore there will have to be customs procedures in place for those declarations made, and there may be some infrastructure requirements. That is all being put in place, in any event, for 1 November, in the event of no deal. I know that Dublin port is ready for that. On this side, we have put in additional infrastructure close to Holyhead for carnets and for transit movements. I have also agreed procedures for the scanning of transit documents at the port. That follows from leaving the EU and is nothing to do with the Northern Ireland protocol.

In terms of goods moving into Northern Ireland from GB, there is a sort of cascade that people can benefit from: first, obviously, if there are zero tariffs between the UK and the EU, there is nothing to pay anyway; and even if there is an EU tariff on certain goods coming in from GB, that will not be payable if the goods are not deemed to be at risk of moving on into the EU—in the joint committee we have to agree the details of how that deeming will work. Then below that, even if a tariff were payable, because goods were deemed to be at risk of moving into the EU, there is an ability for the UK Government, if they wish, to waive or reimburse those tariffs, subject to certain conditions. If we get to that third level, our aim will be to build that into our systems as much as we possibly can as a waiver, so that at the point at which you make your declaration for the east-west movement, you will be able to declare whether you qualify for the waiver, in which case there is no payment and reimbursement—it's just accounting, and we would have to account for the tariff as one due but waived.

Q47 **Gareth Snell:** So with a good that is at risk, that is eligible for a tariff, you could declare beforehand that it is not your intention to move it over the border between Northern Ireland and the Republic of Ireland. Therefore, the Government would never collect the tariff in the first place to require a refund to be granted. My final point that I asked you was: who is going to monitor that those at-risk goods have not actually gone over the border into the Republic of Ireland?

Jim Harra: It is not envisaged that anyone will track individual consignments of goods. The aim of what we have agreed is that at the point at which goods move east-west, you declare whether these are goods at risk of moving into the EU against the set of conditions that we will have agreed with the EU in the joint committee. Our aim and the EU's aim in this is that your compliance is settled at the point of importation. No one will subsequently check whether a particular consignment did or did not go into the EU. Having said that, we have agreed with the EU that we will both monitor how this is working and that we will exchange information and intelligence so that we can satisfy ourselves it is working



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in the way that was intended. It might well be that we adjust some of the conditions in the event that we find it is not working as intended but, operationally, the intention is not that we will be trying to track individual consignments, nor that if they move over the border into the Republic, something would happen, because once those goods have been cleared into Northern Ireland, they are in free circulation within the EU—they are entitled to move across the Irish border into the EU.

Chair: A last quick one.

- Q48 **Gareth Snell:** Not seeking to do that would suggest to me that the opportunity for nefarious folk to do smuggling becomes quite opportune. What I want to understand—again, I am afraid it is hypothetical—is, if I move a good from GB to Northern Ireland that is not tariff-free and actually the tariff is applied, because the good is considered to be at risk of going into the EU, but if it then doesn't go into the EU, as someone who might have taken this over the border, what would I be expected to provide to HMRC to prove that it hadn't gone over the border into the Republic in order to claim back that tariff? How would you expect this individual to prove that they hadn't taken something into the Republic?

Jim Harra: The ability for the UK to waive or reimburse tariffs is not dependent on whether the goods do or do not move. Some conditions are set around the limit of what the UK will be able to do, but that would not be based on that criterion. That is my view of how this will develop. It all needs to be worked out with the joint committee, so today it is the case that I cannot give people certainty about how that would work. The aim as much as possible—I know from discussing this with the EU that this is their aim as well—is that the decision point for whether a tariff was due and, if so, whether the UK wished to waive it or not, would be at the point of importation and not further down the track.

- Q49 **Nigel Mills:** What happens west-east, Mr Harra?

Jim Harra: For goods moving west-east from Northern Ireland into Great Britain, there will be certain export procedures that the EU will expect us to carry out. That depends, to some extent, on what kind of safety and security agreement the EU and the UK might have in the future. From the UK's perspective, there is nothing in the agreement that requires us or prevents us from putting any movements in west-east. Obviously, the Government has a commitment to unfettered access to Great Britain for Northern Irish goods, and it will take that into account when deciding what, if any, west-east controls it wanted to put in place in terms of paperwork and everything. All that the agreement obliges the UK to do is to manage some of the EU's own international obligations that would have to be discharged by some paperwork on that west-east movement.

- Q50 **Nigel Mills:** I am trying to understand the revenue flows here. If I sail something from China into Dublin with the intention of selling it in Northern Ireland, who collects the tariff that is due in that situation? Is that transited through the Republic and then it comes into our customs area, or do the EU get to keep the money in that situation?



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Jim Harra: I think it will depend on which procedure they choose to use. First of all, any tariffs collected by the UK in relation to goods moving into Northern Ireland, whether from the rest of the world or whether, exceptionally, from Great Britain, are UK resources. They do not get passed to the EU. As far as goods going into Northern Ireland via the EU are concerned, I think that would depend on where the importer chose to clear customs.

If they clear customs in Dublin, they will pay customs duties to the Irish revenue commissioners and that will belong to Ireland and the EU. Under the terms of this agreement, the goods are then free to move over the border into Northern Ireland. Alternatively, they could use a transit procedure and clear customs in Northern Ireland, in which case they would declare customs to the UK, to HMRC, and we would collect any UK tariff on those goods, and the UK would keep it.

Q51 **Chair:** So you've got quite a battle between the Republic and the UK.

Jim Harra: There is quite a bit of detail to be worked out, but the fact is that both the EU and the UK have agreed that that land border is not a customs border, and goods can move in free circulation between the EU and Northern Ireland, and Northern Ireland and the EU.

Q52 **Nigel Mills:** When did you first have any discussions about this sort of arrangement? Was this something that was thrown at you late last Tuesday, or had it been around for quite a while as an option?

Jim Harra: Features of it had been around for quite some time. The UK initially proposed what was called a new customs partnership, which was a rather more complicated model but had some of the features of this. I think it is an iteration of proposals that we have made and discussed over time.

Q53 **Nigel Mills:** Just one clarification: I think the Secretary of State for DExEU told the House of Lords Committee this morning that every good moving from Northern Ireland to the mainland would need some export documentation to be prepared. Are you agreeing with that, or are you saying that maybe for certain goods we might not even need to do that? Or do you think that for everything there will have to be something done?

Jim Harra: My expectation is that for everything there will have to be some paperwork.

Nigel Mills: Paperwork or—

Jim Harra: Sorry, an export declaration. For many of them, that will have no impact on the movement of the goods because we will just clear that instantly to move, but those declarations will enable us to ensure that the EU's international obligations, which have to be discharged at that point, are discharged. They may also be relevant for safety and security purposes. So yes, my expectation is that there will be a declaration for all movements, but the vast majority of them will be able then just to flow into Great Britain.



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Chair: These are going to be interesting times—that is one way of summing that up. I am going to bring in Sir Geoffrey Clifton-Brown to mop up a couple of points on this—understandably, we have spent some time dealing with these issues, as there are just a few days before we may end up leaving the European Union, or not. We will then move on to the main session. We will need to be a bit sharper in questions and answers, if I may say so.

Sir Geoffrey Clifton-Brown: Very sharp questions, still on the Northern Ireland/southern Ireland issue. I am now confused. For goods coming from southern Ireland to Northern Ireland, in terms of VAT, tariffs and duties, what is the expectation as to who will collect them: the southern Irish or the Northern Irish?

Jim Harra: There will be no customs duty due on goods moving into Northern Ireland from the Republic of Ireland, so no one will be collecting anything. There will be excise duty and VAT due in Northern Ireland. The general rule will be that, for example, the businesses in the Republic of Ireland would zero rate the movement of the goods and the businesses in Northern Ireland would then account for the VAT. That is already the case in relation to VAT-registered businesses—that is how it works now. That is not how it works in relation, necessarily, to consumers and small businesses, therefore there will be some changes to the procedures required to make that happen, but there are already tried-and-tested ways of doing that for goods from the rest of the world, for example.

Q54 **Sir Geoffrey Clifton-Brown:** A further clarification: if no customs duties are payable on goods coming from southern Ireland to Northern Ireland, they will be payable when they go from Northern Ireland to the mainland, so we will be collecting them and reimbursing the EU. Is that correct?

Jim Harra: No, that is not correct. As I said, what, if anything, the UK decides to put in in relation to west-east movements is a matter for the UK. The Government is committed to unfettered access to Great Britain for Northern Ireland goods. There is nothing in the withdrawal agreement that would require the UK to collect any customs duty on goods moving west-east from Northern Ireland to GB.

Q55 **Sir Geoffrey Clifton-Brown:** On the old chestnut of CDS and CHIEF, the Report tends to indicate that progress on CDS has been put on hold while you are dealing with everything else. Is that true?

Jim Harra: The development of the functionality of CDS has carried on apace and is now largely complete, so CDS is now able to handle all declaration types for imports and exports. It is therefore a fully functioning customs system. What we have not been doing is migrating traders to it at the rate that we had previously anticipated that we would. That is in part because the community system providers and the software developers have been working on adapting their systems for a no-deal exit from the EU and, therefore, have not been able to migrate at the speed that we would like.



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It is our plan to migrate all traders on to CDS by September 2020. That is obviously something that we are now discussing with traders, but that is the aim that we would like to hit. That is because we have two systems running, and while we are perfectly capable of running those two systems, it costs us—costs Justin, really—two lots of money. The sooner that we can get traders off CHIEF, the sooner we can switch it off and save the state money. We want to make that migration happen as fast as we can reasonably make it happen.

Q56 Sir Geoffrey Clifton-Brown: On personnel, you needed an additional 1,000 personnel. You had recruited 500. How are you getting on recruiting the additional 500?

Jim Harra: I think that may be Border Force personnel that you are talking about.

Sir Geoffrey Clifton-Brown: Yes.

Jim Harra: In HMRC's case, we expect, for a no-deal exit, to require about 7,100 additional staff over and above our baseline requirement. We currently have about 6,100 of them in place and we will have the remainder in place before they are required. They are mainly—

Q57 Chair: Before they are required, so in 10 days' time.

Jim Harra: They won't all be needed straightaway. We have 6,100 in place. In fact, we have more trained than we actually need, so if we meet unexpected demand, we have the ability to flex resources.

Angela MacDonald: Obviously, we have had to make an assessment of exactly how customers will behave. You mentioned earlier about whether small businesses have taken action. The numbers that have not taken action mean that you will therefore, potentially, have a larger and larger compression of people needing to take action at the last minute. I have a set of plans with resourcing for what we think might happen. I then have a set of contingency plans for what might happen if it goes wrong, and another set of contingency plans for what might happen after that. But we are heavily driven by the action and the behaviour of the customers and whether they do things in a timely fashion or they are, effectively, in the lorry on the way down saying, "I need my paperwork this afternoon". I have various scenarios but, as you can imagine, we have never done this whole thing in actuality before, therefore they are scenarios, which is why I have quite so many contingency layers underneath in case the customers do not behave as our proposals think that they might.

Q58 Sir Geoffrey Clifton-Brown: In a sense, that is the looming problem here. I accept what all of you have been saying, that you are not going to need them all on day one, but you may need them on day 30. Is there a problem that you will not have enough resources in place at the right time?

Angela MacDonald: Bear in mind that not all the actions that happen, happen on 31 October. Day one no deal is the day, but if we leave without a deal, we have a sustained environment of altered customer servicing,



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processing and compliance activity. Not all the things that would happen to those traders would happen on the very first day; some of those processes happen in the following 30 or 60 days. If we recruit everybody too early, knowledge fade is a real challenge. Colleagues need to be able to do the work and then be able to do it in action, so we try to recruit close enough that the training is still fresh, there are cases to be able to practise on and you can keep moving. I have a clear resourcing plan, which we are well in the middle of, and which has landed enough colleagues for the action that we think will happen immediately, with my contingencies, and the rest will be arriving on an ongoing basis as the processes happen subsequently.

Chair: We are going to move on to the main Report now; can I just urge that quick answers and quick questions would be helpful? We all know the subject, so I will ask Nigel Mills to set an example and lead us off.

- Q59 **Nigel Mills:** We are only an hour in, and now we get to the main bit. Mr Harra, it looked like quite a good year for you. You got more money in; was that in line with what you were expecting?

Jim Harra: Yes; HMRC does celebrate when we bring in lots of revenue, but I am afraid we cannot take the credit for it all. Sometimes it is because the economy is motoring or because our customers are very good at paying their tax, so we must give credit where credit is due. With the EU exit on top of everything else, my view is that we are a Department acting at our full capacity, and that we have done a good job in balancing bringing in those revenues, providing the service, addressing non-compliance and getting ready for EU exit at the same time.

- Q60 **Nigel Mills:** You don't set a target for how much you think you will collect, do you? It is just too variable.

Jim Harra: If you were going to target us, I don't think it should be on the amount that we collect, because, as I say, tax policy and the economy affect that. The key thing for us is whether we are collecting all the tax that is due, so a key measure for us is the tax gap. Ideally, you would target me on managing the tax gap, but the problem is that in operational terms there is quite a lag in measuring that, so we have to use some proxies to do that. The key figure that I watch in a trend over time is the tax gap.

- Q61 **Nigel Mills:** I like this idea of a target on the tax gap. What would be a reasonable target? I think in the last publication you had said that about 5.6% of tax was not collected. Could you get that down below 5%?

Jim Harra: I would dearly love to. We have brought it down from 7.2% in 2005-06 to 5.6% in 2017-18—

- Q62 **Nigel Mills:** You are carefully choosing your years, because it drifted up a bit towards the end of 2008.

Jim Harra: Yes; I think I would say that in recent years it has been bobbing along. Having brought it down, in recent years we have seen a kind of maintenance, when in fact we need to take it lower. Some of the



strategy for doing that, as well as getting ever better at responding to non-compliance, is changing our systems to remove the opportunities to get things wrong. Making Tax Digital, which we have been implementing in this spending review, is a key example of that, where we are removing the opportunity for people to make errors in their VAT returns. Strategically, that is the kind of thing that the Department needs to build on, so that people are automatically getting their tax right and the opportunities to get it wrong shrink, and then we can deploy our people on managing that.

- Q63 Nigel Mills:** It is a slightly strange picture, because you say you must be maintaining rather than improving, yet we have not been short of new measures in Finance Bills to try to tackle this. I guess that must imply that you are running to stand still, or something—that the more you do, the more there is, and you just cannot go anywhere.

Jim Harra: To some extent, we have been; there are countervailing trends the other way. A key example of that would be the growth in self-employment. When people are in employment, pay as you earn is a very secure way of collecting their tax, with a very low tax gap. As people move from employment into self-employment, that is one of our leakier areas of the tax system, so the tax gap tends to grow as you see that. The move to a gig economy, for example, is a key challenge for HMRC in terms of coming up with a strategic response that ensures the right tax is paid but fits with how people want to work and lead their lives.

- Q64 Nigel Mills:** So that's how you square what looked like a slightly strange circle of your thinking; you are increasing your compliance and the tax gap is going up, which implies there must be more being lost somehow. That is what you are saying: there would be a bigger increase in the tax gap if it was not for all your compliance activity.

Jim Harra: And the measures. In some measures—for example, in the avoidance sphere—it's a constant chasing the ball, frankly. With some of these guys, you close loopholes and they go for the next one. I am not sure there is ever an end in sight. There are some underlying trends that would otherwise tend to push the tax gap up. The key one, really, is the growth in self-employment by reference to employment, and there is therefore a need for us to put in place means of collecting tax from the self-employed that help them to get things right and avoid opportunities for mistakes.

- Q65 Nigel Mills:** We slightly glossed over what sort of target for a tax gap you think we should task you with, in your own words. Is a 5% target for the tax gap in three years' time realistic?

Jim Harra: I would dearly love to achieve that. It would set the Government quite an investment challenge for us. Having brought it down, we are finding it tough to get it down again. It is very difficult to get a benchmark with the rest of the world, because we are the only country that does a comprehensive measure. The main benchmark we have is on VAT. You have lots of countries with a very similar system, and all of them measure it in a broadly similar way. You can see that we have performed pretty well. In the EU, for example, we are at the median. You can also



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see how some countries have been putting measures in place that mean they are making very rapid and accelerating improvement through things such as e-invoicing, fiscal tills and withholding taxes. Those are the kinds of areas that the UK would have to move into if it wanted to see that further shift in the tax gap.

- Q66 **Nigel Mills:** Does our upcoming exit from the EU give you any particular challenges? Do you look at that and think that any tax revenues will go up or down, or is it not something that you can predict quite so easily?

Jim Harra: There is a risk that we will lose access to certain data and collaboration in how you manage non-compliance, which we currently benefit from as members of the EU. We have substitute ways of replacing that, and we need to ensure that we do it. There are some risks around that. Otherwise, in terms of cross-border fiscal risks, I don't immediately see any big challenges arising.

- Q67 **Nigel Mills:** You've not got a list of measures that we had to take to comply with EU fundamental freedoms and that weaken some of our anti-avoidance code. Are you saying to the Chancellor, "Look, on day one there are all these things that we would quite like to reintroduce to collect tax when things move out of the country"? Have you got a plan in place for the advantages that there might be?

Jim Harra: There certainly have been instances in recent years where attempts to protect our tax base come up against, for example, freedom of establishment rules in the EU, which have meant that we have not been able to do things in the way we might otherwise have done them. I cannot prejudge what will be in the UK's future free trade agreement with the EU. To the extent that we have freedom to do things in different ways in the future, we will obviously advise Ministers accordingly.

- Q68 **Nigel Mills:** I guess the biggest risk is to the gig economy. That is clearly the biggest area where tax compliance might be going the wrong way rather than the right way, just because of the numbers involved.

Jim Harra: There are a number of issues. First, for customers, managing their tax affairs becomes more complex as they move into the gig economy. We have to find ways of making it easier for them. Our traditional approach to the self-employed has been pretty resource-intensive. They self-assess, and we have very little referential information to check whether what they are telling us is right. We then risk assess and, if necessary, investigate. Increasingly, we have to break out of that as the way we manage small business tax risk, and we have to get into ways where their accounting systems talk to us, which is what Making Tax Digital does. Or we have to find new ways for third parties who work with gig workers to give us information or even to withhold tax. I think, to make a big downward shift in the tax gap, given that countervailing pressure, that is the kind of thing that the UK would need to think about in future.

- Q69 **Sir Geoffrey Clifton-Brown:** Mr Harra, the Report makes clear that it takes about four times the amount of resources to deal with self-



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employed taxpayers as it does PAYE taxpayers, and the self-employed group is growing considerably. Do you have enough resources to handle the self-employed group?

Jim Harra: Penny described the resources she has deployed on that, and what we achieved from that. As I said, if that group was to grow significantly in the future, strategically I would not particularly want to ask for more resources to do things in the traditional way. I would want to find strategic ways of addressing the risks in a different way, which involves less resource being put into tax inspectors in HMRC but also means that you have got a more friction-free way for the gig workers and the self-employed to get their tax right.

Q70 **Chair:** An HMRC app or something.

Jim Harra: Yes, Making Tax Digital for VAT is an example of that, where that will reduce the VAT gap without us having to employ—

Chair: We will come back to that. I know Mr Mills wants to come in on it. Ms Ciniewicz.

Penny Ciniewicz: I think, when we look at individuals, there are clearly a large proportion of individuals, and we are definitely looking at how we can use upstream methods of compliance—prompting, nudging, encouraging people, educating people to comply; because the ratio of people to taxpayers, certainly in HMRC to the taxpayers out there, is not one where we would want to be investigating everyone. That wouldn't be a good customer experience for everyone. I think we really are looking to expand the ways in which we can do one-to-many work and encourage people into tax compliance as our first port of call. Upstream certainly grew last year, so our upstream yield, as we call it, from promoting, and preventing non-compliance, grew by £2 billion last year. That is, I think, a product of us thinking about "How do we grow those upstream compliance measures?"

Q71 **Sir Geoffrey Clifton-Brown:** On your self-assessment I think the Report makes clear that about 40% use tax agents of one sort or another, or accountants or whatever. Now you are growing the digital—people who are filing online. Is there something more you can do to make the self-assessment form simpler, so that people don't need to use agents and do file it on time and correctly?

Angela MacDonald: Yes. We have a significantly high volume of customers who now file digitally online and what we are working on is "How do we make it easier for those processes to be completed?" For instance, for this year you might have noticed we have started pre-populating some of the data that we know into the self-assessment for you, so it is sitting there waiting for you when you log on. We have also started to take some of the information out—for instance, bank and building society information. We are now getting that directly from the financial providers, again removing the risk of you forgetting it, getting it wrong—working out where the correct place is to put it. So we are constantly now seeking to get the data at source—the best we possibly



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can—in order to be able to support the customers, as well as increasing the amount of communication and education that we offer, because, to be honest, the filling in of the form is only really more complicated because many customers may only be in there for one thing and they are just not entirely sure where to start: so an increased focus on education, but also really focusing on trying to take the personal effort out of being a self-assessment taxpayer if we possibly can.

Sir Geoffrey Clifton-Brown: Actually, as somebody who uses self-assessment, that is all very helpful.

Angela MacDonald: Did you notice?

Sir Geoffrey Clifton-Brown: I did notice, and it is very helpful.

Chair: We are all mystery shoppers.

- Q72 **Sir Geoffrey Clifton-Brown:** So what is your aim in terms of getting the amount of people who fill in a self-assessment form to do it online, and is the trend that more and more people have to use tax agents, or are you aiming that these simplified measures should increase the amount online and increase the number of people who do it themselves?

Angela MacDonald: We are already at quite a significant level of online; more than 93% of customers are already online. One question we are currently investigating is just how far that can go, because we have to offer a service to all customers. We have the digitally excluded—we cannot get to 100%—and we know that lots of vulnerable taxpayers find themselves in the self-assessment environment. We are currently exploring just how much of the 7% would be pushed into doing it online if we changed processes, communicated more or were a little more assertive, as well as exploring the barriers that mean that people do not want to do that, while being very mindful that we must have a service that deals with 100% of customers. I am not aiming for a 100% piece, no matter how simple we might make it, because that is not right for 100% of citizens.

- Q73 **Sir Geoffrey Clifton-Brown:** Given what you said—that most self-assessment tax returns only deal with one, two or three aspects, rather than whatever number the total could come to—is the trend that more and more people are having to use tax agents, and is it your aim that they should be able to do it themselves?

Angela MacDonald: It is not our experience that more and more people are using tax agents. Actually, of the increase of people into self-assessment, some of it is self-employed, but some is about income from properties or high-income child benefit charge—relatively straightforward, one-off topics that push them into self-assessment. Naturally, with some support from us, either through webinars or online information, many customers can actually help themselves, or can ring us and we can help them to do it; lots of people ring us and then go back to doing it online once we have explained to them exactly how to make it happen.



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We are not seeing an increase in tax agent usage matching the increase in customers who are in self-assessment. If we found that, we would need to do something about it. Our aim is to simplify and to take as many people out of self-assessment as we can. Obviously, simple assessment is a thing that we continue to drive forward on.

Jim Harra: We do not have an aim to reduce the usage of agents. Obviously a very high proportion of self-assessment taxpayers who use them are self-employed, and they actually use them to calculate the self-employed profit. However, we want us and our customers to get more value from agents in the tax system. It is a bit of a shame that a lot of self-employed people use a tax agent, yet such a high proportion of self-employed filings are not correct. One of our aims is to drive agents up the value chain and to help us and their clients to get things right more often than they currently do.

Chair: That point will have hit home with the profession, I am sure; *Tax Agent Weekly* will be picking that up.

- Q74 **Nigel Mills:** Are you inclined to achieve that by encouraging agents to get better, or are you tempted just to say that those individuals are such useless agents that you will not let them file on behalf of clients anymore, because they are just not up to it?

Jim Harra: Our experience is that most agents involved in the tax system do more to help us than to hinder us. Nevertheless, it is our experience that a high proportion of the returns filed by agents, if we investigate them, turn out not to be correct. We want to take the grunt work, if you like, out of an agent preparing a filing, because we want that to happen through the accounting software, for example, as routinely as possible, therefore enabling agents to offer a different, more value-added service to their customers.

If you take Making Tax Digital for VAT, the task of collating things, adding them up and getting them on to a VAT return is largely removed by the fact that that accounting software speaks directly to our VAT system. The agents are still in there, and we want them to offer a more value-added service that ensures that, from our point of view, the VAT return is correct and also gives more value-added service to the businessperson.

- Q75 **Nigel Mills:** You are not inclined towards an agent quality mark or some kind of quality threshold that they have to hit?

Jim Harra: Obviously, we have a completely unregulated tax agent market in the UK, in the sense that a large number of agents are members of professional bodies that regulate their professional standards and conduct, but others are not a member of any body at all. At the worst end, we have agents in, for example, the avoidance space, such as promoters of tax avoidance schemes, who we are increasingly regulating and are trying to regulate out of business, frankly. It is quite a mixed picture, but at the moment it is a largely unregulated market, and we rely on the membership bodies to maintain standards.



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Q76 **Nigel Mills:** That was a kind of no. You are not inclined to have a quality mark or something so that you could say: "This person can have a tick, because we think they are a good agent", and some others might not be.

Jim Harra: Personally, I think there is a need for better transparency in the market that enables taxpayers to choose their agent. We have done a lot of research in the past about how people pick a tax agent. The main thing is: "Well, my mate recommended this one". There is not a lot of transparency in that market that enables you to choose one based on their professional standards.

Q77 **Nigel Mills:** Do you risk profile? Do you think: "This agent, when we have done investigations, generally gets things wrong" so you push their clients up the list, whether they get selected or not?

Penny Ciniewicz: I probably shouldn't give away all the secrets about how we do risk profiling. We want to understand the behaviour of agents as well as the behaviour of taxpayers, where we can. That may be an indicator. We also investigate tax agents, depending on how they are dealing with the tax affairs of their clients. Particularly in cases of serious non-compliance, that will be something that we would pursue.

Q78 **Chair:** If everyone puts in an online return and you name your tax agent at the bottom of the document, if you have one, can you search for a named tax agent?

Penny Ciniewicz: It is not as straightforward. As you are aware, we have many IT systems. Sometimes pulling together all the information from those IT systems can be tricky. We do, obviously, pull together lots of different datasets in our risking work and, where we find it helpful to involve agents in that and we have the data available, we will do so.

Jim Harra: I should add that if Penny's people find misconduct or poor professional standards by an agent who is a member of a professional body, we will report that agent to the body and invite them to take action, either to improve that agent's standards or a misconduct action. Ultimately, we reserve the right to refuse to deal with an agent if we believe their standards are below an acceptable level.

Q79 **Chair:** That is interesting. If someone were to use a tax agent that you had refused to work with, they would not know that until you got their tax return and saw a name, presumably?

Penny Ciniewicz: Yes, I think that is right.

Q80 **Chair:** That's quite a blow. You've met the deadline to get your tax return in and you think it is all fine. You think your tax agent has done a good job and it is all sorted, then you get a little letter or call from HMRC to say, sorry, what?

Penny Ciniewicz: That we're not dealing with that particular tax agent.

Q81 **Chair:** So you will just deal with the taxpayer direct?

Penny Ciniewicz: Yes, absolutely.



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Q82 Nigel Mills: But you'll block their access to the IT system, so that they could not physically—virtually—submit their return?

Penny Ciniewicz: Yes, but it would depend on the circumstances in which we were dealing with that particular agent.

Q83 Nigel Mills: Perhaps we could move on to a slightly different topic. Mr Holliday, we have not heard much from you. We would not want you to have had a wasted trip. Can you talk us through why the level of tax that you do not think you will recover is increasing quite sizeably each year?

Justin Holliday: It is worth starting with the overall position—around 90% of the tax that is paid is paid before it is overdue. About another 90% is then paid within the next couple of months. The increase in the debt is largely about the increase in the total amount due. As a proportion of what we are getting in, the debt balance is staying more or less stable. The thing that I look for is the maintenance of those ratios, so the maintenance of those two 90 per cents. If they start to shift, I would start worrying.

Q84 Nigel Mills: You are broadly happy with that number of, I think, £7.9 billion that you cannot collect. Is that a reasonable estimate?

Justin Holliday: We are never happy with not being able to collect money. The debt balance is broadly stable as a proportion of what we are bringing in. The amount that we write off every year has consistently been between £3 billion and £5 billion. I think that is an acceptable level. We would like it to be lower. If it shifted significantly up again, we would look at why that would be and what we could do about it.

Q85 Nigel Mills: That all sounds plausible. I am not sure the numbers quite work. Isn't it an increase of £1 billion in the amount you are not sure you are going to collect, whereas the actual overall tax take has gone up by £30 billion. I think you have gone from £7 billion to £8 billion, in terms of tax you cannot collect, which is a 14% increase, but you have not collected 14% more tax have you?

Justin Holliday: Sorry, I thought you were talking about write-off. You are talking about the provision against doubtful debt. The doubtful debt provision does move around. It is calculated on the basis partly of a formula and partly of matching against particular debts. To be honest with you, the thing that I look at is the amount that we end up writing off, rather than the provision that we are making, because my experience is that the provision has bounced around a bit over time. The decision to ultimately write off is the point when you are definitively saying you are not going to be able to collect that.

Q86 Nigel Mills: You're never going to get it. Okay, we have laboured that one as far as we can. Mr Harra, tax reliefs are a favourite topic for the Committee, and I think we tasked you last time with setting out an approach by April of this year. I think we do have an approach, don't we? But perhaps you could give us an update. We may have more than an approach; we may have some actual progress in terms of how well you can manage and measure tax reliefs and how much money you are



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sending out the door in relation to them.

Jim Harra: Yes. I know that the Committee has a strong interest in this and I think we expect a hearing specifically on the topic.

Chair: Mr Mills is just warming up.

Jim Harra: This is a warm-up for that. What we have been keen to do, obviously, is to make progress on implementing the recommendations of the Committee and of the National Audit Office that we have agreed—in particular, coming up with a definitive list of the tax reliefs and, as far as we possibly can, publishing costings for those reliefs, and also making sure that internally we are taking the steps to manage the tax reliefs effectively. Earlier this month, we published a list of 593 non-structural tax reliefs. These reliefs are not created simply to create the structural basis of the tax, but are reliefs that you could decide to have or not have in the tax. You can debate whether a relief should be in there or not in there, because many of them have the characteristics of both structural and non-structural. But those are the decisions that we have taken in terms of coming up with the definitive list that we all hanker for.

A key challenge for us, when reliefs are being introduced or reformed, is that, together with the Treasury, we make an effective forecast of the take-up of the reliefs—because it is on that basis that Ministers and Parliament will make decisions about whether to introduce them—and that we then track that forecast and, if the out-turn varies from it, that we understand why that is. Unlike public expenditure, we can't really control the take-up of reliefs, in that if people are entitled to them, they are entitled to them whatever the size. To some extent, if the take-up of reliefs exceeds expectations, that might be a good thing, because it might point to, for example, investment in the economy.

Q87 **Chair:** Things like behavioural change are part of this; it's not just about tax.

Jim Harra: Correct. So the basic task, from HMRC's point of view, is to make sure that we understand that the people who are entitled to the reliefs get them and the people who are not entitled to them don't; and, where we see variances from the forecast, that should trigger us to review whether there is a risk in there that we are not aware of. One of the balances that Penny's people have to strike is between maintaining the security of the reliefs and making sure that people who are entitled to them can access them and use them for the purposes for which they are intended. But also, where the out-turn varies from the forecast, we need to understand whether that means we need to do more research in terms of going back and giving policy advice to Ministers about what's going on and whether—

Q88 **Nigel Mills:** And that's your job, is it? If the out-turn is higher than forecast, that is not a Treasury job?

Jim Harra: It is HMRC that measures that and reports it. In terms of deciding whether policy action needs to be taken, it is actually a joint



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responsibility of HMRC and the Treasury to advise Ministers; we are in a policy partnership together. I guess the prime responsibility, in terms of whether the policy is being achieved in value-for-money ways, really lies with the Treasury, but it's a joint endeavour on our part. We tend to focus more on knowing what is going on, whether the behavioural effects are being achieved and whether there is non-compliance that we need to worry about. The Treasury tends to think more about whether the objectives are being achieved and whether it is a value-for-money way of achieving the objectives.

Nigel Mills: We can come back to that one, as you say, at another session.

Chair: We will have a whole separate session on tax reliefs.

Q89 **Nigel Mills:** Another favourite topic of ours is customer service performance. We have touched on this a few times, haven't we? I suppose, having given you some credit at the start for things where this has been a good year, this is an area where it has not been quite so good, has it? The speed of answering calls and things have gone the wrong way. What has gone wrong there? Is it purely Brexit? Is that the excuse we get?

Angela MacDonald: We marginally missed the targets at the end of the year, but if you have been looking at our performance statistics as they have moved into this financial year, you will see that we have had some particular challenges with delivering customer service. Two things, really, are going on there. One is that we had some recruitment challenges as we came up to the fourth quarter this year, January to March. We are also heavily challenged by the resource and planning that is occurring in order to support and stand up three lots of day one no deal.

Our challenge is not only about financials. We have had the conversations with the Treasury about money, but as you can imagine, with recruitment, training, redesign of processes, IT and locations, there is an immense amount of effort involved in standing up the capacity for day one no deal. We have faced some challenges in maintaining what is already a very complicated operational landscape for HMRC with the addition of the multiple scenarios we've had to run to support day one no deal.

Q90 **Nigel Mills:** I kind of thought you would be saying, "We redeployed some people who had been answering the phone to go and do some Brexit stuff," or something, but you have not quite said that. You said it is a recruitment challenge. Have you just had people leaving and not been able to replace them?

Angela MacDonald: In any very large service organisation, turnover is a feature. I have more than 23,000 colleagues: they retire or move on, and new people come in. There is a constant need to recruit in order to simply stand still, to run your business-as-usual environment. We got a little bit behind with that in business-as-usual terms, which we would probably have been able to absorb if, as well as that, we were not needing to

marginally increase the overall number to be able to stand up extra colleagues for day one no deal.

Q91 Nigel Mills: Why did you get behind?

Angela MacDonald: We have had a number of inefficiencies and some ineffectiveness in our recruitment processes. We have subsequently done quite a lot to re-engineer those, but our processes were just not being driven hard and fast enough to keep pace with the overall volume of colleagues that we needed. As I said, in a normal business-as-usual environment, that shortfall would have been absorbable or far less noticeable. However, I needed to marginally add an extra group of colleagues on top. The combo of the two things together meant, of course, that day one no deal was the priority. I moved people out of business as usual to make sure that, come what may, we could support day one no deal, so that was the place that struggled a little bit; that was where we hit.

I am pleased to say we changed an enormous amount on the recruitment. A significant volume of new colleagues have arrived subsequently and have gone through their training, so while we have had some service issues—as we can see in the stats, that manifested itself in our service performance in the first quarter—as I sit here right now in October, we are delivering target performance.

Q92 Nigel Mills: It sounds like you needed to have a new scorecard of performance measures, which, luckily, you promised us last time. How are you getting on with that?

Angela MacDonald: I did, and we are doing fantastically. As you know, we do not publish performance until the annual report and accounts come out, so we started publishing in August.

If you look into the quarterly stats, you will see that we have some experimental data tabs on there. We have put out quite a lot of additional data, starting to look at not just timeliness, which is what we have usually measured, but the effective outcome—so, trying to infer, “Did you ring us back? If you rang us today, did you ring us back within seven days? If you dropped out of the ITA,” which is the automated telephony system, “did you ring us back the same day?” We are using that as a prop to try to get a proxy for, “Did you get the thing you wanted from us?”

Experimental data is out. There is more to come, so when we do the third quarter stats, an additional slab of experimental data will go in. Then, we will assess, by the time we get to the end of the year, what will have been a quite a significant extra amount of data put out and then we will be consulting with Ministers and Treasury colleagues how much of that is useful. We then embed that into next year’s targets versus “It was intellectually interesting, but it hasn’t helped us,” in which case we can go at it from there. There is quite a lot of extra information in line with the promises we have made.

Q93 Nigel Mills: When will you set next year’s targets?



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Jim Harra: For 2020-21, we were expecting that to be the first year of a new spending review in which we would have had a more strategic review of what it is we are here to achieve and how you measure that. Instead, we have had a one-year spending round where we have had our finances sorted out. There will be a question about the extent to which we adjust our service measures next year to take account of that.

Q94 **Chair:** Wouldn't you be driving them downwards?

Jim Harra: I definitely don't want to do that. What we want to do is get a set of measures—even if, in shadow, we are continuing to be transparent against the old measures—that better reflect what we are here to try and achieve for our customers. Ultimately and strategically for us, giving a good customer experience is important because there is lots of international research that shows that the better the experience you give your customers, the more they will voluntarily comply with their obligations and the more they will regard you as a competent, trusted organisation that they want to engage with on your terms. So there is a strategic advantage to us doing that. As Angela says, whether you answer the call in five minutes or five minutes fifteen seconds is relevant, but it is less relevant if this is one of five phone calls I have had to make in the past three days to get this matter dealt with.

Q95 **Nigel Mills:** We look forward to your new measures, I suppose.

Jim Harra: Can we just add that we traditionally focus on phones and post, but key for us is our digital services? The volume of phone and post contact is going down all the time and digital services are going up. We are performing well in terms of satisfaction levels.

Q96 **Nigel Mills:** I will segue neatly on to Making Tax Digital. You have said that if you produce nice systems that people like, they will voluntarily comply better. I note in this Report that you say that thousands of people are voluntarily doing your Making Tax Digital for VAT. Can you tell us roughly how many of those thousands are doing so?

Jim Harra: From memory, there are a couple of hundred thousand. The mandate for Making Tax Digital relates to VAT-registered traders whose turnover is over the VAT registration threshold, which is just about 1.1 million out of 2 million registered businesses. We currently are heading towards 1.3 million businesses using MTD and somewhere between 200,000 and 300,000 of those are people who have decided voluntarily to join MTD despite not being mandated to do so. That is very encouraging from our point of view. I suspect there are a number of reasons for that. First of all, some of them will be highly digitally enabled people who like to use business accounting software to do it. Some of them will be people who deal with an agent who has said to them, "I only deal with people who do things this way," and who therefore has chivvied them into it. It does show that, on a voluntary basis, as with self-assessment, people will move towards a digital way of dealing with it.

Q97 **Nigel Mills:** I was just slightly intrigued when I looked at your quite glossy report and your objective 2, "Transforming tax and payments for



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our customers". You give us a nice status of how many projects are on track, how many have got a risk and how many are not on track. For this, you had zero not on track, yet Making Tax Digital is nowhere near on track to having the same number of taxes in it as it used to. We are supposed to be rolling it out to income tax and other things, which you are not doing anymore. How come you are not reporting this as not on track?

Jim Harra: To a large extent, those are political decisions. We are on track to deliver what the Government and Parliament have asked us to do. Whereas our original strategy for this back when we were negotiating the 2015 spending review would have been to start with income tax, actually we have started with VAT. The Government will need to decide what it wants to do next. In terms of rolling it out for VAT, in my opinion, it has been very smooth. I do not say the Department should claim all the credit for that. Credit must go to our customers, agents and the software industry, who have stepped up and made that happen. It has been a colossal change achieved in a pretty smooth way to date.

Q98 **Nigel Mills:** Are the costs still £1.8 billion, or will it now be costing less than you originally thought?

Jim Harra: The costs of MTD in the 2015 spending review were £186 million.

Q99 **Nigel Mills:** Your whole transformation programme?

Jim Harra: Sorry, we will keep our transformation programme within that cost. Obviously more money has been given to us since then in return for doing extra things, but in terms of that baseline transformation programme we will stay within that cost.

Q100 **Nigel Mills:** Can I go back to this red/amber/green thing? Elsewhere in the report, you have a project at red because the Government have slowed down the managed migration to universal credit, so you save money. That is not on the timetable. Because the Government have slowed down the introduction here, it disappears out of the red/amber/green and you leave it to green presumably, or something. That seems strange. Are you still committed to it?

Jim Harra: It is certainly something we are committed to. Going back to what I said before about looking internationally at countries making the biggest accelerated difference in changing their tax gap, they are being considerably more ambitious and going considerably faster than the UK in transforming their tax systems, particularly in using digital solutions but also in other innovative solutions. One of our challenges will be to consider how we get acceptance in Government and in Parliament, amongst our stakeholders, to be more ambitious in transforming the tax system if we wanted to target bringing down the tax gap, for example.

Q101 **Nigel Mills:** How much revenue are we not getting because we have slowed all this down? How much are we losing?



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Jim Harra: I cannot quite recall our original forecast for MTD. It is all coming in a year later, obviously, so the benefits have moved one year to the right. I would need to let you know the precise figure in terms of deferred benefits.

Chair: As to having a lot of staff helping on this, presumably Making Tax Digital would mean you need fewer people because it would be easier.

Angela MacDonald: It will eventually, when everybody is on.

Q102 **Chair:** Has it had an impact on your recruitment plans? Earlier, you talked to Mr Mills about the number of people you needed and the “recruitment challenge”, which was your phrase. Was that partly because Making Tax Digital is being pushed to the right?

Angela MacDonald: There is obviously the challenge of simultaneously doing Making Tax Digital and handling the day one no-deal preparations. Certainly, we had some challenges on service delivery for Making Tax Digital in that spring period, as we did with everything else. The benefit is that overall this is still a relatively small group of colleagues. Even though I have now doubled the overall number of colleagues on this service, it still only amounts to just north of 300 people. It is quite a small service. One of the great advantages for me—once everybody is actually loaded on to Making Tax Digital—is that eventually, as we go through the next cycle next year, it will be far less labour intensive than it used to be when we were manually doing it. But it costs us more to do it this period because we have to assist all those businesses on to Making Tax Digital. There are lots of queries about their software.

Q103 **Chair:** Just to be clear, is that having an impact? Had it gone faster, would you have had to have fewer people handling it now? Or is it because you are going through the transition? It is not making any difference today?

Jim Harra: No, the benefits of Making Tax Digital for business are in additional tax revenues, not really in efficiencies in HMRC.

Justin Holliday: In terms of the comparison we are making in the accounts, we are comparing what we set out to do in the single departmental plan with what has happened. Some of the things we are talking about now are things that have been discussed that we might want to do, but never made it into the single departmental plan.

Q104 **Nigel Mills:** Recently, the MTD plan was clearly to do more taxes than just VAT.

Jim Harra: Yes, we set out an SR15—a sort of road map—for how we envisaged the implementation of MTD for business. As a result of political decisions and other things, we are doing it in a different way than originally envisaged. In particular, starting with VAT and income tax, no formal decisions have been taken but I would expect HMRC to push that we want to do it, and that will come on later.

Q105 **Chair:** Just to be clear, you have Brexit preparedness, and you are at the



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forefront of a lot of those issues. Brexit is the main one. You have other issues around the staffing on that, and you have the spending round rather than the spending review—sophistry at its best in Westminster. So basically, there is no certainty about funding for the future. Is there a risk to the funding of the Making Tax Digital programme?

Jim Harra: Yes. No political decisions have been taken about what the next steps of MTD are. We have a clear strategy of what we would like to achieve with it, which will be—

Q106 **Chair:** So there is a danger that it gets knocked off because of these other pressures.

Jim Harra: There is no certainty.

Q107 **Nigel Mills:** But your message will be: it is working well in its first six months; people are voluntarily signing up because it is so easy and attractive; and the benefits of doing it digitally are so great that people are doing it voluntarily, so there is no reason why you would not want to roll it out so that everyone can experience those benefits.

Jim Harra: Almost 1.3 million businesses are using it. Over 1.7 million VAT returns have been made through it. More than 90% of the people who were mandated to use it in the first stagger—that August return—are now signed up for the service. That is a pretty smooth implementation so far.

Q108 **Nigel Mills:** May I turn to the letter that you sent us on 24 September, Mr Harra, about corporation tax statistics? It takes a bit of getting our head around, because it appears that in 2018-19 you somehow managed to misreport £4 billion on the public sector net borrowing. Can you talk us through what happened here? That sounds like quite a large number, which you might have been expected to notice.

Jim Harra: Yes, it is.

Chair: And you're the ones who are good at maths.

Jim Harra: Some of our people are. You might expect that more are than is actually the case. Yes—obviously we made an error in the reporting of the statistics. I must say that it is an error in statistics; it does not affect the tax that we have collected or the tax that is due. We had two things: a data misfeed, which meant that some data did not feed through to the statistics that should have, and a miscommunication internally between our finance people and our statistics people about the adjustments that needed to be made to certain figures. Therefore, adjustments were made that were not made on the correct basis. Once we discovered that, we were duty bound to go back and restate the statistics.

Q109 **Nigel Mills:** How did you discover it?

Justin Holliday: It was discovered by reviewing the quality of the data and finding that it was wrong. A bit of background: the first thing is that corporation tax reliefs are a thing that we try to report on in real time as to what is happening, but taxpayers do not have to tell us, because of the nature of those reliefs, until 18 months to two years after the year of the



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account, so there is a lag between what we know for certain and what we are estimating. The second thing is that the take-up of these reliefs has been increasing; that is a product of the policy. To some degree, the fact that the numbers had risen faster than is correct was being masked by the fact that we were expecting them to rise anyway.

Q110 Nigel Mills: Just remind me what total corporation tax yield is in a year.

Jim Harra: Hopefully Justin can find that figure in a moment. While he does, may I just say that we take this mistake seriously? We have asked Ed Humpherson from the Office for Statistics Regulation to do an independent review of the quality assurance process to make sure that we learn the lessons from this, because we pride ourselves on the statistics that we issue and we are embarrassed by this error.

Q111 Nigel Mills: About £56 billion, is it?

Justin Holliday: Yes—£54 billion.

Q112 Nigel Mills: A £4 billion error in a year, out of £56 billion, is 14%, roughly. If many of your taxpayers made a 14% error on the many tax deductions they were entitled to claim, I suspect you would not be highly amused. Do you think that that might be a level of mistake that you might have noticed when you reviewed the data the first time?

Jim Harra: Obviously, yes—ideally we would not have made the mistake in the first place and, having made it, we would have identified it sooner. We have obviously taken the action to correct this, but we also need to do a deeper lessons learned on why it happened, and whether we have the right quality assurance processes in place. I am not prejudging that review, but I suspect one of the things it will come out with is that we have got rather complex systems and linkages between the accounting side of our systems and the statistics side that require a lot of manual intervention and adjustment, which is where error creeps in. I will not be surprised, for example, if that review recommends that I need to find and spend some money on strengthening those systems.

Q113 Nigel Mills: I look forward to your allowing that defence for lots of taxpayers who claim they've got complicated systems and just didn't realise for three years that they might have been 14% out in the amount of tax they owed you.

Jim Harra: If they all come forward and put things right back to 2011-12—sorry, I am being light-hearted, but I do recognise that this was a serious mistake. As I say, it does not impact on the liabilities or on our accounts, but it does impact on the national accounts and—

Q114 Chair: It's about confidence, which is a significant issue for the body that collects our taxes. Mr Mills has made the point.

I want to come on to the issue of fraud and error, particularly regarding tax credits. We raised with your predecessor a year or so ago concerns that the fraud and error in tax remittance was not expected to reduce now that there are no new claims. This is now an orphan policy, but there



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are still a lot of people receiving tax credits. Have you reconsidered that position? If not, why not?

Jim Harra: Sorry, the position—

Chair: The position of not expecting to reduce fraud and error because there are no new claims coming through.

Jim Harra: Angela is responsible for managing this and she can give more information. We know what we would need to do to reduce fraud and error. It effectively involves deploying more resource. I believe my predecessor wrote to you on a couple of occasions, setting out the kind of investment that would be required. Ministers have decided that, among the priorities, that was not a priority in which they wished to invest resource. I do not think that at this stage of tax credits there is really a different way of managing the risk, other than just putting in more resources, if that is what we were able to do.

Q115 **Chair:** So, Ms MacDonald, a recruitment challenge. Do tax credits fall down to the bottom of the list of issues to deal with?

Angela MacDonald: I still have more than 1,000 colleagues working on this. Although it is less than it was—I did have 1,500 people—it is not as if we have abandoned activity, because 1,000 people out of my 23,000 is a material deployment of colleagues on this work. It is absolutely true to say—

Q116 **Chair:** Just to be clear, are they fixed on that or are they being pulled off from other—

Angela MacDonald: They are fixed on that because of the particular cycle of the way that you do error and fraud work. Once you start, you can't stop. It is an end-to-end process, and they are allocated to that. It is, as Mr Harra says, absolutely possible for us to deploy more colleagues to that work, if we were to have the funding, but, from my perspective, I am also concentrating very hard on trying to support customers to stop fraud and error getting into the system in the first place.

We are making stronger use of things like the pay-as-you-earn information that we already possess, because errors in reporting income is one of the key issues. We have started some nudge campaigns, writing to customers about things like what constitutes living together as partners, which is another major issue. So we have been trialling whether, if we were to proactively put communications and nudges to customers, that helps with customers being more knowledgeable and self-reporting.

Despite the fact that tax credits have been closed to new customers, it is still a very material part of the service delivery that I give. We are doing everything we can to support and encourage customers at the front, having deployed as many colleagues as I can afford at the back. As I say, 1,000 colleagues is still a material volume of people.

Q117 **Chair:** But it has been deprioritised. We said that in our Report and it was acknowledged. Have you done an assessment of the impact of that



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deprioritisation on the individuals concerned and the service that they get, and of the hardship, frankly, when there is an overpayment or similar? We have all had constituents come to see us with major overpayments. It is very scary when you are told you owe lots of money to HMRC because of some glitch in the system.

Angela MacDonald: Yes. We are always mindful that when an overpayment occurs, it can be a real issue for customers. One of the bigger challenges for customers in those circumstances is actually as cases come to a close, because those customers then move over to universal credit. As you know, that can crystallise a number of years of overpayments that perhaps the customer had not really understood as that annual benefit moved along. We are continuing to provide support on things such as time to pay. I also look after the extra support team; we make referrals for vulnerable customers to get more advice and support, and we help them from there. Our aim is to try to keep our customers' awards as correct and current as we possibly can.

Q118 **Chair:** That is for the current ones but, if you are deprioritising, it is an orphan policy. We recognise there are problems here. We asked last autumn, about a year ago, for your predecessor to set out the impact of this deprioritisation on people but, Mr Harra, we haven't actually seen that. Is that something that we are going to see?

Jim Harra: I am sorry; I wasn't aware that we owed you anything but we will follow that up.

Q119 **Chair:** We will follow that up outside the meeting, but it is having a material impact on people's lives. The transfer to universal credit, as Ms MacDonald just outlined, crystallises some of these problems. Can I just ask about the rate of transfers, because they are going to go up much more to universal credit as it rolls out further? How is the pilot on transfers going? Are they still in the current plans?

Angela MacDonald: As you know, we work closely in partnership with DWP. At the moment, we are supporting the natural migration of customers; some change of circumstances results in the flow there. Due to circumstances at the DWP end, it has taken some time to get the managed migration pilots to move. We are now working with them to learn exactly how managed migration can work as best as it can, and taking the feedback as part of that careful managed migration.

Q120 **Chair:** Can you just walk us through it? We have all seen in our surgeries the end, where the person comes to us with a problem. What is supposed to happen when somebody moves on to universal credit and you have to deal with the transfer of the tax credit part of that to the DWP? Could you explain how you do that?

Angela MacDonald: The customer's application for universal credit will then cause the DWP to tell us that they have accepted a claim for universal credit and that the tax credit claim needs to come to an end. At that point, we will take the information we have about the circumstances



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of the customer and effectively bring to an end their claim in year. As you know, tax credits work so that I project forward and do backwards.

We will then crystallise where you are at, which will be the position of your in-year award, plus whatever might have been the cumulative circumstances that you were in in prior years. We will then communicate to the customer that their tax credit claim has ended and this is where they find themselves.

Then, there is the outstanding amount. We will talk to the customer about whether they would like to repay that, but in many instances that actually goes with them to DWP, and it will then be part of the processes for universal credit about how that money is then subsequently collected as part of the universal credit award. Obviously, there are limits that DWP have about how much money can be removed from an ongoing universal credit award, just in the same way that we have limits for tax credits.

Q121 Chair: I think we recognise that, not for you but for DWP, lots of things could be conflating at the same time, with lots of money owed across the piece, which can be very worrying for people.

You have got to pass this debt over to DWP, and £6.8 billion is quite a lot of uncollected debt. Are you content that any of it is collectable? Some of it must be. Have you got a figure for how much you think is collectable? Because when they are making the calculation about what they take off, they must be taking some advice from you on this.

Angela MacDonald: You have two routes once DWP take over the debt. One is where there is a claim in payment, so while universal credit is in payment there is an ongoing relationship with DWP and, therefore, they can collect that at a suitable rate.

The other part is debt where there is not an ongoing relationship with DWP, as in the universal credit position. We have done some transfers of debt to DWP, with a view that they might have a go at doing attachment of earnings to people who are employed to go there. I apologise that I don't have the collectable rates to hand; I can happily share that with you. We are sending over debt in both circumstances.

Q122 Chair: How much of that debt do you think is down to the Concentrix debacle? Have you done an assessment? Maybe Mr Harra will have looked at that. There were problems with Concentrix; they were well documented, so we won't go through all that. How much of the debt goes back to that? Have you done any analysis in-house?

Jim Harra: I am not aware that we have, but I will check. Obviously the vast bulk of this debt simply arises through the routine processing of tax credits. It is not from error and fraud investigations, either by Concentrix or indeed by HMRC, which form only a very small proportion of it. Obviously once we closed the Concentrix contract, we did rework cases and made sure that we were satisfied with the outcomes.

Q123 Chair: It is a very concerning area. It is not all down to you, but Mr Harra, as the man in charge, what have you got to say about the fact



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that we are worrying about the lack of effort to reduce fraud and error?

Jim Harra: First, in terms of what we have deprioritised, we have not in any way deprioritised services to tax credit claimants. We have the same service standards in terms of answering the phones and answering the—

Chair: That is all very well, but when you have got an overpayment it does not particularly help when the phone is answered quickly.

Jim Harra: And indeed the error and fraud figure is the figure of overpayments inherent in the system that we have not identified and tried to recover from these people. Ideally, as with tax, I would like that figure to be as low as I can possibly make it. I have to deploy my resources in the best possible way across all the risks we manage. We have acknowledged that this is an area that does not have a long-term future for us. If we had more investment—in particular, if we had been able to keep the funding for the Concentrix contract—we could have kept the error and fraud figure lower than it currently is, but those were the prioritisation choices—

Q124 **Chair:** So it is partly Brexit, then—Brexit preparedness.

Jim Harra: It is not that internally we transferred resources. When the Concentrix contract ended, the Department's funding for that contract ended. You could have said to the Department, "Keep that funding and deploy your own additional resources", but that is not what was done.

Q125 **Chair:** I am going to turn to Angela MacDonald. The last time we were here, Sir Jon did a bit of an advert for improving PAYE—or attacking PAYE; you could look at it either way. The level of underpayments and overpayments in PAYE has remained fairly consistent since about 2012. We are now in 2019. What factors are preventing HMRC from improving the accuracy of PAYE? What are the issues? Is there anything that needs to change at policy level? We are not a policy Committee, but it is helpful to know what is going wrong.

Angela MacDonald: Bearing in mind that we are dealing with about 60 million employments that go through pay-as-you-earn, overall the compliance from employers is just north of 95%. We do have a small amount where we have a challenge with what we call late or missing information. It is rarely the same employers, because you get quite a turnover. There are issues about education and knowledge—think about small businesses that become employers for the first time. There are particular issues where employers change their payroll software, which can cause an interruption in data. There are also challenges with some of the larger employers, where what you have is enormous volumes of colleagues and you can end up with duplicate records and the like.

I have a team who work in partnership with the compliance group, where we are constantly looking at what is falling into that late or missing information group and either provide support, when it is an education support issue, or, where there is a compliance problem and the employer



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is not doing what we want them to be doing, Ms Ciniewicz would join in with me at that point—

Q126 Chair: Is there a pattern of behaviour? Sir Jon made quite a pitch last time —we remember it all—about how, if only they could get their job better, you would get the tax in and life would be easier. Of course, I am paraphrasing massively—but he is not here to object. But there is a serious point: if PAYE providers are not doing their job properly—anyone in any organisation has probably had a problem with payroll—and it is consistently a problem, what can you actually do to them? Do you have any powers?

Jim Harra: Yes. First, just to explain how pay-as-you-earn is performing, we do quality checks at the start of the year about the extent to which the coding notices that we issue match the information we hold. They are 99% accurate. At the end of the year, we do the reconciliation and we find that, in about 85% of cases, people have had the right amount deducted during the year. But the other 15% have had an underpayment or overpayment. Some of that is, I think, inherent in the way pay-as-you-earn works, because it is a deduction at source.

We absolutely have powers to ensure that employers provide information on time and provide accurate information. As Angela mentioned, timeliness is not really an issue for us—

Q127 Chair: Real-time information and the software have surely ironed that bit out, so where is the problem? Do you need more powers?

Jim Harra: One of the problems we have is that employers provide information but, when we go along and audit them, we find that there should have been a different figure on their return than the one they made. That might be in relation to salary, but obviously because of the way payroll works, that is fairly unusual. It is more likely to be bonus payments and benefits in kind where we are not getting the data accurately and in time. There are a number of areas that we could potentially work on. The reality is that pay-as-you-earn is a pretty efficient way of bringing in tax and is pretty—

Q128 Chair: As we heard earlier, it is much cheaper. You are not making the same pitch as your predecessor, which is interesting. I am offering you an open goal here. Are there any powers that you need to make PAYE better?

Jim Harra: I am not aware that it is powers that we need. It is a question of whether we think it is a priority to deploy the powers we have on lifting the game of employers, and what kind of return we would get on that compared with putting our efforts elsewhere. For us and for UC, we want that information to be as accurate as we can possibly get, because UC was one of the key reasons for doing RTI in the first place. We need to constantly stay on top of that.

Q129 Chair: I think you have hit the nail on the head. The impact of universal credit will be great. I have one last question on the Laura Whyte review,



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which is a big issue on your desk at the moment, Mr Harra. What progress has been made on tackling the serious issues in HMRC that she set out?

Jim Harra: We have had a huge exercise since Laura made her report, first to go back to our people and then to engage on the findings of it and what we need to do about them. Obviously, there are two broad areas in relation to the report. One is that we need to reform our HR policies. That is something that we are doing and we are on track, in this calendar year, to make significant changes to those policies. The other is to work with our managers and our workforce on the behaviours in the organisation.

We did a huge exercise about three years ago with about 50,000 people from our organisation to set out what our values are. What Laura's review finds is that, in a lot of areas—in a number of areas—we are not meeting the standards you would expect in relation to those. We have recently done an engagement exercise with about 17,000 of our people to go through the standards that we expect, and also to increase the capabilities of our managers to manage behaviours to those standards. Some of the policy changes we have been making will be around how people raise concerns and how those are managed much faster and in a way that satisfies people that they are being addressed, but also around some of our other policies around bullying and harassment and how they are tackled.

Q130 **Chair:** How long is it going to take?

Jim Harra: I think it will take years for us to get the culture the way we want it. The policy changes will be faster. Laura came back recently to do a review of how we are doing and reported that she was pleased with the progress we are making. I want her to stay involved with that. For me, it is a top commitment that the way management behave towards our people and the way our people behave towards each other and towards customers is right.

Chair: I thank you all very much indeed for your time. The uncorrected transcript will be up on the website in the next couple of days. Our report, depending on what happens in Parliament, will be out by Christmas.