HOUSE OF COMMONS

Treasury Committee

Oral evidence: HM Revenue and Customs Annual Report and Accounts, HC 236

Tuesday 22 October 2019

Ordered by the House of Commons to be published on 22 October 2019.

Watch the meeting

Members present: Catherine McKinnell (Chair); Rushanara Ali; Alison McGovern; Alison Thewliss.

Questions 264 - 343

Witnesses

I: Jim Harra, Interim Chief Executive, HM Revenue and Customs; Penny Ciniewicz, Director General, Customer Compliance, HM Revenue and Customs; Ruth Stanier, Director General, Customer Strategy and Tax Design, HM Revenue and Customs.

Examination of witnesses

Witnesses: Jim Harra, Penny Ciniewicz and Ruth Stanier.

Q264 **Chair:** Welcome today to the Treasury Committee's evidence session with HMRC on its annual report and accounts. We are very grateful to you for coming here today. We know that you were in Parliament yesterday as well, so we will do our best to take the questions forward from where you left off yesterday. We are also grateful for you coming because we know it has been a very busy time at HMRC, which is why we are having this meeting a week later than anticipated. Would you please introduce yourselves to the Committee and to the public watching?

Jim Harra: Thank you, Chair. I would like to express my gratitude for you deferring the hearing for me. My name is Jim Harra and I am the interim chief executive and permanent secretary at HMRC.

Penny Ciniewicz: I am Penny Ciniewicz, and I am the director general for customer compliance.

Ruth Stanier: I am Ruth Stanier. I am the director general for customer strategy and tax design.

Q265 **Chair:** Thank you. There is no avoiding the biggest issue facing us today, which is the Brexit proposal that has been scheduled for debate today in the Chamber. The Brexit Secretary confirmed to the House yesterday afternoon that, under the Government's proposals, Northern Irish businesses would have to complete export declaration paperwork to trade with Great Britain. He did not say whether this would apply to goods travelling from Great Britain to Northern Ireland. To clarify, is that to be the case and, if so, would the border between Great Britain and Northern Ireland resemble a commercial border?

Jim Harra: If I start with goods moving from Great Britain to Northern Ireland, so from east to west, there the UK and the EU have agreed that Northern Ireland will be aligned with the EU for regulatory purposes, which means that any goods going into Northern Ireland from Great Britain will have to comply with EU regulatory standards, so that they can then circulate freely within the EU over the Irish border.

We have also agreed to ensure that if goods move into Northern Ireland, either from Great Britain or from the rest of the world, that are deemed at risk of moving on to the EU, the UK will make sure that a tariff equivalent to the EU tariff is applied to such goods. That will necessitate declarations being made for goods moving from Great Britain to Northern Ireland to give effect to that, both to ensure that regulatory standards are being met and to ensure that, if those goods are deemed to be at risk of going on to the EU, the correct tariff is charged.

I should say that does not mean Northern Ireland is part of the EU's customs territory. Those controls will be administered by HMRC and, if there are any tariffs to be collected on goods that are deemed to be going on to the EU, while they will be charged at the rate that the EU sets its tariff, they will be UK resources, so the UK Government will keep those to the extent that they do not choose to waive or reimburse them. It does mean administrative procedures, including a declaration, will be required for movements from Great Britain to Northern Ireland.

Going the other way, from Northern Ireland to Great Britain, it is a different process. First of all, the withdrawal agreement explicitly provides that the UK can ensure unfettered access for goods moving from Northern Ireland into Great Britain, so that is unfettered access for Northern Ireland goods into the UK's internal market. Article 6 of the agreement provides that the only prohibitions and restrictions that will apply on goods moving from Northern Ireland to Great Britain, so west to east, are those required to fulfil international obligations. That means there will be some administrative process, an electronic form, which will apply to goods moving from Northern Ireland to Great Britain to prevent, for example, trade in endangered species, but there is no question of any customs control applying to those, in the sense that there could be no tariff for goods moving from Northern Ireland into Great Britain.

In the coming months, we need to work both within the UK and together with the EU to understand precisely what those administrative processes will be, how we can streamline them, and in the future, after the implementation period, how we can minimise them as far as possible. To be clear, whatever administrative process is put in place, it is purely to implement prohibitions and restrictions under international law. If they are not at stake, those goods will be instantaneously cleared to move, and there will be no question of any checks being carried out on goods other than those that might, for example, have endangered species in them.

Q266 **Chair:** In terms of that trade in both directions, how easy is it to trace whether goods are bound for the EU, if they are going from Great Britain to Northern Ireland or, indeed, if they are coming from the EU to Northern Ireland?

Jim Harra: If I take the latter first, goods coming from Northern Ireland into Great Britain, some of which might have come from the EU, nothing in the withdrawal agreement requires the UK to put, or prevents the UK from putting, any controls and checks on those. The UK is free to decide for itself the extent to which it wants to control that.

Q267 **Chair:** The question was how easy is it to trace. How will you know?

Jim Harra: There is no intention really to put a tracing mechanism in place.

Q268 **Chair:** We will not know whether goods are coming from the EU to the UK.

Jim Harra: For goods coming from the EU to the UK, as I say, there are no plans, but it would be open to the UK to do whatever it wished. At this stage, because of the commitment to unfettered access, there are no plans. There are plans for goods moving from Great Britain to Northern Ireland.

Q269 **Chair:** There are no plans to know. There are no plans to trace.

Jim Harra: That is the case at the moment. It will be for the UK Government to decide what, if anything, they want to do. For goods moving from Great Britain to Northern Ireland, that is different. We have had to agree in this withdrawal agreement with the EU that we will put in place procedures to ensure that, if goods are deemed at risk of moving into the EU, an EU tariff will be payable on them if there is one.

We do not envisage that that will work, however, by tracing individual consignments of goods. What the agreement provides for is that, during the implementation period, the UK and the EU will agree a set of conditions that will apply to consignments moving from Great Britain to Northern Ireland, to determine whether at the point of movement they are deemed at risk of moving to the EU, in which case, if there is a tariff on such goods, it could be chargeable. Otherwise, we would not plan to trace the onward movement of those goods once they have entered Northern Ireland. They are in free circulation into the EU if they wish, but the practical details of that, including the conditions that would apply to determine whether goods are deemed at risk of moving into the EU, all have to be worked out with the EU during the implementation period.

I should add that, if goods are deemed at risk of moving to the EU, so that the UK is obliged to charge a tariff, the withdrawal agreement further provides that the UK can, of its own volition, waive or reimburse that tariff, subject to certain conditions. There is a cascade, if you like. First of all, lots of goods will have zero tariffs on them anyway, so there is no question of a tariff. Others will be deemed not at risk of moving into the EU, so there is no question of a tariff. To the extent that they are deemed to be at risk of moving into the EU, subject to conditions, the UK could, nevertheless, decide to reimburse or simply waive the payment of that tariff.

Q270 **Chair:** In practical terms for a GB business exporting to Northern Ireland, the checks that will be required will feel like a commercial border. That was my initial question.

Jim Harra: Yes, there will be declarations, which will feel like a customs declaration, because they will contain information that is used for regulatory purposes and for the purposes of determining whether a tariff is due under that rule that I have just described. We do not envisage that there will be a significant level of physical checks of goods, but that could be required, for example to give effect to EU regulatory standards.

Q271 **Chair:** Are businesses up to speed with those requirements?

Jim Harra: Businesses could not be up to speed with them at this stage, because we have to work them out in the joint committee with the EU. As far as the declaration is concerned, businesses would already be familiar with the kind of declaration that is required for imports from the rest of the world under the Union customs code, which I imagine will be our starting point with the EU, but in those discussions with the EU we will be looking to simplify that as much as possible.

Q272 **Chair:** The businesses impacted by this are not necessarily familiar with those at all. If they have only ever exported to the EU, they will not be familiar with any of those procedures. How long do you anticipate it will take businesses to get up to speed with these new processes?

Jim Harra: You are correct: at the moment, for goods moving from GB to NI, those documentary requirements do not exist. We will be working between now and 1 January 2021 to make sure both that we have the systems in place and that businesses have the guidance they need to comply with whatever the new requirements are.

Q273 **Chair:** The question I asked is how long you anticipate it will take businesses to get up to speed?

Jim Harra: We will aim for that to happen by 1 January 2021. That is what we will work up plans to do. From our point of view, with internal systems we feel confident about that, but we now need to engage with businesses to make sure we understand their ability to get ready.

Chair: I want to come back to the cost associated with all of that, but I will come back to that, because I know Alison needs to leave the Committee early, unfortunately.

Q274 **Alison McGovern:** My apologies for having to leave the Committee early. I am sure you will understand we are in strange times here in Parliament today. Thanks for coming to this Committee straightaway after coming to PAC. It is really appreciated. I wanted to ask a few questions about EORI numbers; I hope I said that correctly. Perhaps I might start off raising a point that relates to your comments yesterday at PAC.

I understand that you mentioned 3,000 high-value businesses and, in particular, 20% of them perhaps not being as ready as we might like or expect. Could you say a little more about that, particularly reflecting on and making clear where the issues are? They are not inside HMRC necessarily, but in the understanding and position of businesses themselves. What is it about that particular sector of businesses that means they are not as ready as we might like?

Jim Harra: As well as doing a general information and awareness campaign to help businesses get ready, we have segmented businesses based on the data we hold to try to understand which the key ones to reach with key messages are. We have identified a group of businesses that we know export to the EU and do not currently import or export with the rest of the world, and, therefore, may have no familiarity with customs procedures. It will be important, when their goods move into the

EU, that those goods are ready to get through, say, French customs if they go the Dover-Calais route.

We have targeted just over 3,000 high-value exporters to the EU that we know currently do not use customs but will need to be ready to get their goods through French customs in the future. We have contacted each of them to check their state of readiness and whether they need any additional support from us in order to be ready—that is for a no-deal exit on 1 November.We identified that about 80% of them are either ready or know what they are doing and are taking the necessary steps, but we found that about 20% were not as ready as we thought they needed to be. Therefore, we are now going through some intensive engagement with them to make sure they are ready and are managing their supply chain, so that whoever needs to make a declaration to French customs has all the information and understanding they need to get those goods to move through Calais port and out into the EU.

Q275 **Alison McGovern:** When you say high value, give us a ballpark.

Jim Harra: From memory, it is exports of more than £250,000 a year to the EU.

Q276 **Alison McGovern:** That is great, thank you. Is it possible for you to give us a summation of where we are, in whatever way makes sense—how many firms, with what proportion of exports by value, now have an EORI number?

Jim Harra: We are talking here about a no-deal exit on 1 November and not the deal. We estimate that about 250,000 businesses will need to use customs for the first time. About 150,000 of those are VAT-registered and therefore we can identify them. We know who they are. We estimate there are probably about 100,000 microbusinesses below the VAT threshold that we cannot identify directly, but that will need to get ready to comply with customs.

They will not all need an EORI number in order to move their goods, because some of them may choose to use a parcel operator, such as DHL or FedEx, which uses its own EORI number to move its customers' goods, so it is impossible to precisely determine how many of those estimated 250,000 need an EORI. At the moment we have issued 170,000 EORI numbers to traders. We have issued them to the full VAT-registered population and about a further 20,000 to the non-VAT-registered population.

Q277 **Alison McGovern:** That is 20,000 of the 100,000.

Jim Harra: That is of an estimated 100,000.

Q278 **Alison McGovern:** For the other 80,000, or thereabouts because it is an estimation, what is the plan?

Jim Harra: For the other 80,000, as I say, some may well use DHL and FedEx, and they will not need an EORI. Some of them may well need an

EORI, but they may not need it on day one, because they may only move goods one or two times a year, so they may not need it straightaway. Otherwise, we are trying to reach them through our publicity campaign, encouraging them to go online and register. It is a five to 10-minute online process. In the event that someone imports goods on 1 November, they do not have an EORI and we detect that, our approach will simply be to educate them on what they need to do to become compliant and encourage that final take-up after 1 November.

Q279 **Alison McGovern:** As a last question on the communications point, can I ask you about the recent confusion over the guidance on whether companies need two EORI numbers? On 23 August, HMRC tweeted a thread to clear up any confusion about whether companies needed two numbers. Can you talk us through the cause of that confusion?

Jim Harra: Yes. You need a UK EORI number to be an international trader after EU exit from the UK's point of view, to comply with UK customs. Someone will need to make an import declaration to, say, French customs, so they will need an EU EORI number. It is quite complex determining who that person is, because it depends on the nature of the contract that people have entered into.

There are certain circumstances in which a UK exporter, if it has entered into a certain type of contract, would have to have an EU EORI, so it would need two, but the most common commercial arrangement is that the EU importer needs the EU EORI number. That is why some confusion arose and we issued some guidance to clarify that: "Look at the terms of the contract you have for moving your goods and that will tell you who needs the second EORI number. To make sure your goods can get through French customs, make sure they have done that and they can make an import declaration".

Q280 **Chair:** That sounds like a recipe for quite a lot of bureaucracy for the businesses that have to undertake those checks and check the contracts. You will acknowledge that is quite a lot of additional red tape for businesses to have to handle.

Jim Harra: Yes, absolutely. In my experience, once you are familiar with customs, it works very slickly and smoothly. The vast majority of people moving goods in from the rest of the world get cleared within minutes and move out of the port without any delay, but you have to be familiar with what you are doing and very often people use agents to assist them with that. We are talking here about a new population of businesses that have not had to get to grips with that before having to do so, potentially on 1 November, but in any event at the end of the implementation period, when the withdrawal agreement comes into effect.

Q281 **Chair:** That brings me to where I was coming to, in terms of the costs of all this additional bureaucracy. HMRC's risk assessment on the EU (Withdrawal Agreement) Bill says that declarations on imports from GB to Northern Ireland will cost £15 to £56 per declaration. It would be helpful to understand why there is such a wide variation in the cost. What impact does HMRC expect that to have on businesses? Is that time cost or is it physical charges?

Jim Harra: It covers both. We have published quite extensive information, mainly in relation to no deal, about how we arrive at the assessment of the impact on businesses arising from the additional costs of having to make customs declarations. They cost, as you say, between £15 and £56 to make, depending on the complexity of the declaration you have to make and the nature of the arrangement you use to make it. Some people do it in house; some people outsource it to an agent. That is the range of costs that people will bear, either of their own time in doing it or of paying someone to do it for them.

If you look at our impact assessment, you can see quite a bit of information about the methodology we have used to arrive at that and how, when totting up the total costs, we segment the goods movements according to the different types of declaration that are used. The simplest ones, from memory, are those where you use fast parcel operators—they do high volumes of low-value goods and their declarations are usually the cheapest—right through to a single consignment, where you may have to fill in a lot of boxes on the form and an agent might charge you as much as £56 for that declaration.

Ruth Stanier: That range was derived by surveying a range of different business types and then looking at the likely scale of costs for different types of businesses.

Q282 **Chair:** I am trying to get a sense of what this means in practical terms. For example, say someone in Newcastle wanted to sell a pair of shoes on eBay and the winning bidder happened to be from Northern Ireland. Is that likely to require export paperwork?

Jim Harra: That is a sale to consumers and there are different rules there. By and large, consumers will be excluded. There is a specific provision in the withdrawal agreement that provides that UK residents can move their goods around the UK without incurring any liabilities. We will be looking to put in place basically no paperwork for that.

Q283 **Chair:** Some people operate quite substantial business interests on online platforms. Where is the line going to be drawn between an individual buying and selling arrangement and it being a business?

Jim Harra: For goods moving within the UK, for example to consumers in Northern Ireland, we will want there to be as little paperwork as possible, and hopefully none. The kinds of costs that Ruth mentioned are mainly costs for businesses moving to other businesses—for example, if a company in Newcastle was selling shoes to a shoe shop in Northern Ireland.

Q284 **Chair:** You must know that that is not how modern small businesses often work. They often work on a relatively small scale, but that is a business, and that is an income to them, to sell their products around the UK and potentially to the rest of the EU. I totally understand the situation you find yourselves in, but it sounds like you do not know what the impacts are going to be. You are saying "hopefully", but you do not know.

Jim Harra: That is correct, because during the implementation period we have to go through a process with the EU to agree what these procedures are, what movements they apply to and what movements they do not apply to, so at this stage, as you will see in the impact assessment on the withdrawal Bill, it is impossible to be definitive. We know that we have agreed some principles in the withdrawal agreement that will inform that work with the EU, which will be intended to keep the paperwork as light as possible, while addressing the obligations that we have agreed with the EU that we will meet in terms of protecting its market.

Q285 **Chair:** At this stage, it is a wish list rather than a deliverable reality.

Jim Harra: It is more than a wish list, because there are principles set out in the withdrawal agreement that guide the work that the EU and the UK will do, but it does mean I cannot say definitively to people, "At the end of the implementation period when this agreement comes into force, this is precisely how it will work."

Q286 **Chair:** The lack of information is the big concern to Members of Parliament and the public we represent, because we had a figure given by HMRC in a previous evidence session that the costs of moving to WTO terms would be in the region of £20 billion, in terms of additional costs of trading, yet we have been given a figure in the impact assessment for the EU (Withdrawal Agreement) Bill of £200 million, which I presume is this cost of declarations. I do not know what the £200 million accounts for. There seems to be a huge void of information about what the impact will be and the costs to individuals and to the UK economy of these new trading arrangements. Are you able to shed any light?

Jim Harra: I do not recognise either of the figures you have given. The most recent impact assessment that HMRC published in relation to no deal estimated the additional costs arising from the additional customs declarations that would be required to be £15 billion, about half of that in the UK and about half in the EU. That is the total additional cost on UK-EU trade, which comes from the prices per declaration that Ruth described, together with our estimate of the total number of additional declarations that will be required, which is about 270 million.

That is based on a static picture of trade in 2017. We expect that there would be some behavioural change in the patterns of trade. To some extent, that would be dependent on what tariffs were charged, which again is something we cannot say for certain. Whereas at the moment, with no bureaucracy, people may choose to move lots of small consignments, in the future they may choose to move a smaller number of larger consignments, so you would expect commercial operators to adjust their behaviour. We have not built in any behavioural effect in those estimates. It is purely on a static basis.

Q287 **Chair:** The Bill is only 115 pages, but it implements a 541-page agreement, which in turn relates to hundreds of UK and EU pieces of legislation. HMRC has great experience in trade. How long do you think it will take to understand the full trade implications of this proposal?

Jim Harra: I would hope that we will get working with the EU straightaway when the withdrawal agreement has been ratified, and get the clarity we need as soon as possible during the implementation period. When it comes to the kind of paperwork that will be required, in my view, that could be arrived at pretty quickly, or at least a basic understanding, although I am pretty sure, beyond that, we will want to keep talking about how we can streamline it, streamline it and streamline it. I want to get to a point where, as soon as possible during the implementation period, we are communicating to businesses what we expect they will have to operate from the end of the implementation period.

Q288 **Chair:** We are not going to understand the implications of this agreement until it is already being implemented.

Jim Harra: We certainly will not know the detail of the practical operational procedures.

Q289 **Chair:** We will not know the cost, therefore.

Jim Harra: We have given the best views we can of the costs of completing customs declarations, for example. Something similar to that is going to be required for GB-NI movements and we have done the best we can to spell out what those kinds of costs would look like. They could be less than that if the UK and the EU can agree a simpler documentary requirement, but if we agreed something equivalent to a customs declaration we have published information on how much that would cost.

Q290 **Chair:** Is it the lack of time that is causing the lack of information and clarity? If we had more time to consider the implications of this agreement, would we be in a position to decide on its implications before implementing it?

Jim Harra: There is a bit of a chicken and egg there, in that to get the detailed understanding of the operational procedures we need to get into that detailed discussion with the EU about precisely how we are going to operate this thing.

Q291 **Chair:** Are we not able to have those conversations until we have agreed to implement this agreement or, if we had more time, could we make those agreements, understand the implications, have a clear view on the cost and then decide to go forward with the plan?

Jim Harra: As things stand, in order to get that process under way we have to get the withdrawal agreement ratified and be in the implementation period. The agreement envisages that, when we are in the implementation period, we will set up the joint committee between the UK and the EU and that committee will thrash out all the operational details. As things stand, if we took more time in ratifying the agreement, that would just delay the time when that gets started.

Q292 **Chair:** The Government expect the new arrangements to be in place by the end of 2020. Is that credible? What happens if we do not have everything in place by that deadline?

Jim Harra: We certainly are proceeding on the basis that that is when we will have it in place. We believe that is credible for two reasons. First, in terms of the system changes we have to make at HMRC, we have a good idea of what they would be and the length of time it would take us to introduce them. Secondly, particularly for GB-EU, a lot of the work that we have done preparing for a no-deal exit on 1 November will stand us in good stead and get us going on the implementation. For example, those 170,000 UK EORI numbers that we have issued are what we will use on 1 January 2021 for that trade.

The key issue will be how long it will take businesses to get ready, and that is something we need to explore with them in detail before we can come up with firm implementation plans. There is provision in the withdrawal agreement for the implementation period to take longer if that proved necessary, but our current plans are that we need to be ready for 1 January 2021 and, in outline terms, we think we can be.

Q293 **Chair:** Will HMRC not be swamped by trying to prepare the UK for its arrangements with the rest of the EU, while trying to design bespoke arrangements for Northern Ireland and our relationship with Northern Ireland? Is it not trying to prepare for two different and entirely new international trading relationships, effectively, at the same time?

Jim Harra: Yes, the new unique element in all of this is putting something in place for GB-NI movements. The closer that is modelled on the existing declaration, the more straightforward it is for us, and, I believe, businesses and external software providers, to implement, because you will be able to use existing systems that are already there and adapt them for that purpose. The more that becomes bespoke, the more challenging it will become to deliver in that timeframe, but at the moment, if you assume that the kinds of declarations that will be required for GB-NI are, broadly speaking, the single administrative document that we use today with the relevant boxes to be completed, that could be implemented in system terms, I believe, in the timeframe that we have.

Q294 **Chair:** One other factor is where goods are provided with a service in addition. How do you foresee that working, because I note there are going to be two separate arrangements for services and for goods?

Jim Harra: For customs purposes it is irrelevant, because customs only applies to goods in any event. Therefore, for example, for goods coming in from the rest of the world, we already know how to operate that.

Q295 **Chair:** It is relevant for VAT.

Jim Harra: Yes, correct. The issue would be in VAT, where the withdrawal agreement provides that, in relation to goods, with certain exceptions Northern Ireland would stay aligned with the EU's VAT rules. That means it will be important to understand, if there is a bundled supply of goods and services, how that works. The bundling of goods and services is already a thoroughly aired area of VAT law, and there has been quite a bit of litigation and court precedent about how you deal with that, so I am confident that we can come up with guidance based on what we currently do on goods and services to make that work. You are right: if there was divergence in the future between the services and goods rules for VAT, it would become more important than it currently is to make sure those rules are being applied correctly.

Q296 **Alison Thewliss:** On a slightly different subject, I want to talk a bit about culture at HMRC, so I have some questions for Penny Ciniewicz. It says in the annual report that HMRC is working hard to make HMRC a great place to work. You also describe HMRC as customer-centric and shaped around customer needs and circumstances. Whether it is comments in the adjudicator's report about a reluctance within HMRC to engage with its feedback about systemic or cultural issues when dealing with the public, or the worrying revelations about widespread bullying and harassment in Laura Whyte's *Respect at Work* report, there seems to be significant divergence between HMRC's published values and the reality of life for employees within the Department. Do you accept there are serious cultural problems with HMRC that need to be addressed?

Jim Harra: I will ask Ruth to pick up in a moment on customer-centricity if Penny and I can just cover the culture in the organisation. I acknowledge that the culture within our organisation is not in accordance with our values and the way that we want to be That is why we asked Laura Whyte to carry out the *Respect at Work* review for us and why we are taking forward a number of steps to implement the findings of that review.

I really want HMRC to be a great place to work, so that we can attract and retain the best possible skills and everyone who comes to work can be themselves and give their most. We found in the feedback from the *Respect at Work* review that there are lots of behaviours throughout the organisation that are not the behaviours that we want to see and, therefore, colleagues at work sometimes have experiences that we do not want to tolerate. We are taking very seriously implementing that review. I will pass over to Penny to fill in.

Penny Ciniewicz: I completely agree. The senior team in HMRC takes Laura's report incredibly seriously. We sought her to do the review and we accepted all the recommendations she made. Laura came back to check up on progress earlier this summer and was encouraged by what she saw, but we are really focused on making sure we implement her recommendations.

One of the areas Laura identified was having a clear shared understanding of behavioural standards in the organisation. We have been engaged over the summer in a conversation with our people. Around 17,000 people have engaged in that discussion about what our behavioural standards ought to be, and we are bringing that conversation to a conclusion. That will result in a new shared set of standards that everyone can live by, in addition to our values.

The other part of our focus in the early stages of implementing the review is the policies and processes, particularly for people who want to raise a concern, and making sure that they are as straightforward as possible and that we can act in response as quickly as we would like to. We have also been looking at providing more advice and support for people who want to raise concerns, including increasing the number of mediators in the organisation and training more than 1,000 of our people so far in micro-behaviours awareness—being aware of how behaviours can affect others, which you might otherwise not be aware of yourself.

There is a big programme of work to do that. I will let Ruth pick up on the customer piece, but I do want to say, not least in the context of the discussion we had around the Committee’s evidence when we were here last time, we take customer experience incredibly seriously in compliance and we are working very closely with a range of stakeholders to look at the experience of particular groups of customers, whether that is unrepresented or vulnerable customers, customers who need extra help, or, indeed, the broad sweep of people who might engage with us on a compliance intervention, to make sure we are responsive to their needs. We have a programme of work around all of that at the moment.

Ruth Stanier: I would like to start by mentioning the adjudicator’s report this year, which you referred to. It raised a series of concerns about our approach, which we are taking very seriously and seeking to address. We really welcome the challenge from her that we need to get much better at learning from complaints and taking those opportunities to drive improvements to our processes and to the way we are interacting with customers.

Since the report, we have put in place a new service level agreement with the adjudicator to improve the way that we are interacting with her office and handling those complaints. I have been meeting personally with the adjudicator quarterly to review progress and things are getting significantly better, which is good.

At the same time, the Financial Secretary to the Treasury in his written ministerial statement about powers and safeguards in July set out a commitment that we will be publishing our own response to the adjudicator, setting out how we are addressing her concerns. We are working to publish that by the end of this calendar year.

More broadly on customer experience, the work we have shared with the Committee on the health of the tax system and how we define that going forward, with a particular focus on customer experience and ease, is really helping us within HMRC strategically to make sure we give the right priority to this work. We also have in place a new customer experience committee, where we are working with external experts from the private sector and with others, with the adjudicator in attendance, to really challenge us on driving work in this area.

Q297 **Alison Thewliss:** The adjudicator report said, "There is also little engagement in any feedback we give that relates to systemic or cultural issues", so could I ask about how you see what is happening in the chain of command within HMRC? Do you rely on staff whistleblowing or people coming forward with grievances, or do you look for other indications of things not being quite as they should be, to gauge exactly what is wrong?

Ruth Stanier: We look at a whole range of different evidence and insight, including complaints. In direct response to the adjudicator's report, we have put in place a new complaints insight board within HMRC, which brings together at director level all the key people who can work together to look at the evidence around complaints and resolve them. That is making a significant difference. In my most recent meeting with the adjudicator, she confirmed that there is an emerging sense that we are gripping this area better now.

Q298 **Alison Thewliss:** Do you seek feedback from teams when assessing a manager's performance? Do you look for any indicators in terms of pay or promotions that could indicate discrimination, favouritism or inappropriate relationships within those terms?

Ruth Stanier: It sounds as though we are probably moving back on to the more cultural issues.

Jim Harra: We have quite an extensive use of 360 degree feedback within the organisation, which gives managers and jobholders the ability to understand what their subordinates, team members and other colleagues think about their performance and their behaviours. We use that mainly as a tool for personal development rather than for appraisal, but that is built into that.

Beyond that, in terms of monitoring outcomes on promotions and everything, there is an ability for people to raise concerns, but beyond that our HR department is able to monitor trends. We have probably two main controls over that. One is a process for governing, for example, promotions, which would normally have several people being involved in the decision, but also an ability for anyone to raise a concern if they think something has not been done correctly.

Q299 **Alison Thewliss:** Are you taking a more proactive approach to dealing with poor leadership, rather than just putting in place alternative ways to raise concerns?

Jim Harra: We have quite an extensive programme of leadership and management development going on. One of the findings of the *Respect at*

Work review is that we are seeing behaviours, some of which are by managers, but many of which are within teams, where managers have not felt confident about how they should tackle that. I have been to several of the workshops during the summer that Penny mentioned, where that was one of the constant themes back from managers: "I would like to have better development, so I feel more confident about addressing behavioural concerns that I acknowledge are in my team, but I do not necessarily feel very confident and competent to address." Part of the response to *Respect at Work* is about equipping our leaders with the ability to confidently do that. We have an extensive campaign of that under way.

Penny Ciniewicz: Part of the work we have been doing over the last year is understanding managers' experience, as well as understanding that of individuals and teams. We have done a deep dive into managers' experience in the organisation to try to make sure that we really understand what things would help them to feel more confident and to be better equipped to lead and manage their people more effectively.

Alison Thewliss: One of the things I struggle to understand from constituent cases that are raised with me is the heavy-handed behaviour by HMRC in pursuing penalties. I wonder if it is to do with staffing, pressures or internal targets. I have a number of examples in my constituency where companies have entered into a repayment plan or a CVA; they have kept pace with the agreement but companies are then finding that there is some sort of arbitrary reneging on that decision at a moment's notice, which plunges the company into a degree of chaos, because they cannot deal with that, since it has been such a short notice decision. I am curious about the chain of command in the decision making, where companies feel as though they have a relationship with somebody at HMRC and then all of a sudden the rug is pulled from under them. Can you explain why that might arise?

Jim Harra: That certainly should not arise and I would be happy personally to review any case where you see that happening. In the case of debt collection, we are very proud of our time-to-pay arrangements. At the end of the last financial year, we had just shy of 800,000 taxpayers in those arrangements, worth about £2 billion. We have a very high compliance rate with them—people stick to about 90% of those arrangements and the instalment payments we agree under them. In our view, they work very well as a means of managing debt and getting people back into the situation they need to be in, but people do need to stick to them. If there was any circumstance where someone was unable to make a payment in line with their instalment offer or was going to get into continuing arrears with ongoing liabilities, that could trigger us to look again at that arrangement and stop it.

If anyone cannot make an instalment payment or cannot make a payment of their ongoing tax liabilities, they should get in touch with us rather than go into default, because from where we sit, if someone goes into default, it is impossible for us to tell whether they are in trouble and they need support or they are simply not paying because they are prioritising something else and we need to take enforcement action. That is one of our challenges, whether it is debt or whether it is penalising people for not doing things on time. Without dialogue with the customer, it is very difficult for us to distinguish the different types of behaviour that might be driving that and the different types of response that the customer might need.

Q300 **Alison Thewliss:** One of the difficulties that people who have come to me looking for assistance have found is that they cannot get to a person. Getting to an actual person who they can sit down and discuss something with is incredibly difficult. That is part of the whole closure of tax offices and all those kinds of things that have happened up until now. They can get maybe somebody on an email, but they are not even sure that it is a real person at the end of it.

They are not able to sit there and have that discussion, and it should not be that people have to come to me to try to get to that point. Would you perhaps understand my constituents' concerns that that kind of relationship, where you cannot sit down with a person, really puts at risk the whole idea of having trust in the tax system and trust in the people you are dealing with, if you cannot see anybody?

Jim Harra: I would dearly love us to be able to sit down with every customer who wanted to speak to us, but our resources simply do not enable that. Face-to-face service in particular, which is quite expensive for us to provide, has to be restricted to people who need extra support or have problems with their compliance that we need to sort out in that way. Otherwise, telephone is the main means by which people engage with us.

For example, on debt we have a business payment support service, which we encourage people to get in touch with before they get into debt. Otherwise, they will get our normal debt recovery actions, which will not necessarily address their particular needs. I definitely want us to be accessible, but by and large, for 40 million people, that access has to be in a cost-effective way for us. If anyone writes to us or phones us, they are not getting a robot at the other end. I assure you they are getting a person.

For face to face, we have an extra support service, where we identify people whose needs are such that they require a face-to-face service, in which case we will go out to them, either to their home or to any neutral place to meet. What we do not have any more is a network of inquiry centres that people can just pop into. Over the years, having to reduce our costs has meant those have had to go.

Ruth Stanier: We also have quite a lot of evidence from our customer insight that, for many matters, people would much prefer to be able to interact with us online. For example, we had quite a lot of complaints about needing to phone to check tax codes. We took 400,000 of those calls last year. Acting on that feedback, we have changed our app, so that people can do that much more quickly and easily through the app. That has been used 2 million times now. I understand there are some cases when people do want to speak to somebody directly, which is why we also have the services Jim described.

Jim Harra: I should add that we do grant fund some voluntary organisations, such as Tax Help for Older People. We encourage people, for example if they are in difficulty paying their tax, to get in touch with our business payment support service, because our feedback is that, when you deal with our people, they are human and they are supportive. If anyone is scared to do that, we grant fund other bodies that may be better placed, from that person's point of view, to deal with their problems.

Q301 **Alison Thewliss:** Finally, do you see any links between the reported systemic poor behaviour towards colleagues and an aggressive and dismissive attitude to members of the public and businesses when they are being dealt with?

Jim Harra: We do not have evidence of a direct link. Generally speaking, as I say, when our people deal with our customers, the feedback we get on that experience is that it is positive, and in practice customers find dealing with a person at HMRC rather better than dealing with some of our procedures and our systems. Our people put the human touch on to that. I do not rule out that the kind of cultural issues that we have to address, which we have seen in terms of internal relationships, might well be playing out, but we have not seen direct evidence of it.

Q302 **Chair:** To follow up on some of Alison's questions, the staff survey results continue to show ongoing dissatisfaction with pay and benefits, and low levels of employee engagement. What action are you taking to improve those results?

Penny Ciniewicz: On pay particularly, you are right. Our score for satisfaction with pay and benefits is the lowest in Whitehall. We recognise that our staff have not had a pay increase of any significance for a long time. A lot of our people are on the bottom of the pay scale relevant to their particular role, and those who have been at the top end of the pay scale have received very small increases over the last 10 years. In response to that, we have put a business case into Treasury and the Cabinet Office for significant pay reform, because we do not want to be in that position. The only way we can fix those problems and the structural problems we have with our pay system is to implement pay reform, and we are committed to doing that.

Q303 **Chair:** It has been reported that Department for Exiting the European Union staff will receive an average 7.6% pay rise, while the reports show that HMRC will receive an increase between 1.84% and 2.08%, depending on whether they are at the bottom or the top of their pay band. You have said that you have asked for extra funding, but presumably that would have to be dealt with as a one-off request.

I make the point because the funding settlement for HMRC for 2020-21 of £3.8 billion announced in the spending review is an inflation-only increase. Some other Departments have received substantial real-terms increases in their resource budgets. Is that what was asked for? Is there a shortfall in what is being asked for? Do you not think it is strange for one of the Departments on the absolute frontline of dealing with Brexit? You have already outlined some of the huge complexities that are now being placed upon HMRC to make Brexit work. I say this not only for the staff who have to deliver on this enormous change in terms of our function, but for the businesses up and down the country that will be impacted if HMRC is not able to deliver on it.

Jim Harra: I agree. It is important that I have a pay and conditions system that enables me to attract and retain the right skills and make sure that our people are engaged. What you find is that our people are very engaged with their work, but are very, very dissatisfied with their pay, and they have left us in no doubt about that.

We face three key issues with our pay system, which I regard as a crisis, really. First, people have not had real-terms pay increases for many years and, in fact, when you take pension and national insurance contribution changes into account, have had cuts. Secondly, there is an in-built unfairness in our pay system, whereby two people doing exactly the same job side by side will be being paid very different rates, because we have been unable to progress people through the pay scales. The third challenge we face is that, from next year, increasing numbers of our core administrative grade will face the national living wage. I will have to increasingly put my pay flexibility into meeting that statutory obligation to pay the national living wage, which is not a position as an employer that I want to be in at all.

We also have to bear in mind that it is about 15 years since we modernised the conditions of our workforce in terms of the ways that they work. If we can get our business case signed off within Government, there is a case for opening up both the pay and the terms and conditions of our people, in order to get the maximum flexibility to give decent pay rises.

I will give you an example. We are now giving our people an estate to work in that I am proud of. I have not always been proud of the HMRC offices that I have been able to offer people. However, we pay for that estate 24/7. The vast majority of our work is done 9.00 am to 5.00 pm Monday to Friday and, in fact, increasingly Monday to Thursday, so we have a set of working conditions that make inefficient use of our estate. If we can negotiate more efficient working conditions, I can make a saving on estates and I can recycle that saving into a pay increase for our people. That is the dialogue that we want to get into very quickly.

Q304 **Rushanara Ali:** I have a couple of supplementary questions to earlier questions, and then I will come on to loan charges. Picking up on Alison's points about debt collection, can you tell us if HMRC uses bailiffs?

Jim Harra: We do not use any external bailiffs. We do use external debt collection agencies through a debt management integrator, but that does not involve any bailiff activities at all.

Q305 **Rushanara Ali:** They follow ethical standards that you oversee.

Jim Harra: Yes. They operate entirely under our control. As you would expect with a tax authority, we are one of the biggest debt collection organisations in the country and we pride ourselves on following the best practice in relation to debt management and debt recovery. I assure you that we do not use bailiff services at all.

Q306 **Rushanara Ali:** Are there lessons that local authorities and others can learn from what you are doing? Do you share practice? As you know, lots of local authorities, including my own local authority, despite my attempts to persuade it otherwise, use bailiffs. They are not regulated. They employ outrageous tactics. I have had constituents who come to see me having appalling experiences. Should Government be encouraging or requiring public agencies to take more ethical approaches to debt collection?

Jim Harra: We certainly share best practice across Government, including with local government. All I can say is that, from my point of view as a major debt management organisation, I want to follow the absolute best practices and it is not our policy to use bailiffs. I do not pretend to be able to say what other people should do, but that is a choice that we have made and, in my opinion, we manage debt very successfully as an organisation without relying on that.

Q307 **Rushanara Ali:** Thank you very much. Going back to Brexit briefly and picking up on the numbers in a no-deal scenario, the £15 billion, at the end of the transition period with this current agreement, if that was agreed and we end up in a no-deal situation, can you confirm that that will be the cost for trading with the EU and vice versa? Then there is the Northern Ireland-GB dimension, which you discussed extensively.

Jim Harra: I would expect so. That is based on a set of trading patterns in 2017. We would have by then more up-to-date data, but the basic premise of that impact assessment would remain the same.

Q308 **Rushanara Ali:** You would anticipate that, if we do not move from a transition deal to an FTA at the end of that period, it will cost British taxpayers £7 billion a year and EU member states another £7 billion a year as thing stand, based on that assessment.

Jim Harra: That is a static estimate based on 2017 trading patterns. If you did not have a free trade agreement, you would have a set of tariffs applying between the UK and the EU, which might well create behavioural changes in relation to that trade. As I said before, our impact assessment does not take account of any such behavioural changes.

Q309 **Rushanara Ali:** When might you do that? You will be doing some of that over the coming year, assuming the agreement goes through, so we will expect to see more updates as we go forward.

Jim Harra: Yes. Assuming the withdrawal agreement is ratified, our main focus will be on making sure that we are able to implement it at the end of the implementation period, taking advantage of whatever free trade agreement the UK and the EU agree.

I cannot say what kind of contingency planning the Government might decide to do during that period, because I have not been involved in any discussions on that, but with a free trade agreement you would envisage that there would be fairly standard customs procedures applying to the movement of goods between the UK and the EU, regardless of what tariff is charged. Clearly, we would want to streamline that as far as possible, and get the maximum co-operation and sharing of authorisations and simplifications, but by and large you would expect that to be a recognisable standard customs procedure.

Q310 **Chair:** Can I follow up on the question Rushanara asked? It would be helpful to understand this. We know or we have a rough idea of what a no-deal arrangement would add in terms of cost to the economy. What we do not know is how much these arrangements that we are being asked to vote on today are going to cost; we do not have that figure. I double-checked the impact assessment, and you are right to say that you do not recognise that figure, because it does not exist. There is no figure for what the additional costs would be. Could you just confirm that is correct and that we do not know what the additional costs are going to be of these arrangements? What information do we have at this stage?

Jim Harra: We have not provided any impact assessment. In relation to procedures that still have to be worked out in detail between the UK and the EU, I am not in a position to do that. We have published what information we think we can that will assist, and that is basically the cost of operating customs declarations that apply UK to EU. If you assumed that, at the end of the implementation period, the arrangements that apply between GB and the EU were broadly similar to those in terms of the kinds of declarations that would be made, subject to behavioural changes, the same kinds of things would apply.

Q311 **Chair:** So we are not able to even put a ballpark figure on what the additional costs are going to be under these new arrangements for both the UK and the European Union, or make a summary of what the additional costs in Northern Ireland, as opposed to GB, would be.

Jim Harra: I am not in a position today to do that.

Q312 **Chair:** How long would it take to be able to give us that?

Jim Harra: Particularly in relation to the arrangements between Northern Ireland and Great Britain, we have yet to hammer those out with the EU. We will be aiming to make them as light as we possibly can. The EU will, I am sure, assist in that, subject to making sure they are sufficient to safeguard its market. We have to reach the point when those are agreed before I can measure accurately what the impact will be.

Q313 **Chair:** You must have a range of assumptions. When we were considering the previous withdrawal agreement, we had an economic analysis of what leaving with no agreement would cost, what leaving with an average free trade agreement would cost, what leaving with the agreement would cost and what no deal would be. There was an ability to work out along those lines the potential implications for each scenario.

We have now been told by the Chancellor that previous assessments do not correspond, in his words. They do not apply. Therefore, we now have an assessment of what leaving with no deal would cost, but we have no indication whatsoever of even the assumptions that are being worked from under these new arrangements, because there has been so little time to assess that. Are you working from assumptions? Do you have any cost analysis based on assumptions that you are working from?

Jim Harra: I have no cost analysis that I am able to share with you that would cast any more light on that. Obviously, from my Department's point of view, it would not be an economic assessment; it would be an assessment of administrative costs. We have published, I believe, extensive information about the costs of complying with customs procedures. What I cannot do is give you an indicative impact assessment based on that.

Q314 **Chair:** Okay, so the assumption we can make is that the information is there in terms of your current analysis of what the potential outcomes may cost, administratively, but that is not something the Government are currently willing to share.

Jim Harra: I am certainly not holding anything back from publication. I have shared what we have available to publish, and that was the impact assessment for no deal. In that, there is a lot of information that explains the methodology of how that is arrived at, which I suspect is useful in analysing what the outcomes of the withdrawal agreement might be, but I do not have a revised impact assessment that I am sitting on and not publishing, I assure you.

Rushanara Ali: When you have one, please do share it with us.

On to loan charges: in response to the Treasury Sub-Committee report on 10 October, HMRC said that around 50,000 taxpayers are involved in disguised remuneration tax avoidance schemes, while 28,000 have expressed an interest in settling. I have some questions. Obviously, there has been a lot of interest; over 200 Members of Parliament have written to the Government and there is an inquiry under way. We were told recently that you have sent calculations to 99% of the people who have expressed an interest in settling in their use of loan schemes and sent you the information you asked for. How many of those do you expect to settle with you before the loan charge becomes payable in January 2020? Perhaps, Ms Ciniewicz, you might want to answer.

Penny Ciniewicz: To date, around 8,000 people of those 19,000 have settled, with a total of around £2 billion in that settlement calculation. At the moment, we are not projecting forward to how many of those other individuals and businesses that have not settled will settle with us. We are still encouraging people to settle. Obviously, with the review ongoing, we recognise that some people may not want to do so and may want to await the outcome of the review. We have made it clear to people that anyone who sent us the information by 5 April will not be disadvantaged if they choose to wait for the outcome of that review. We will still be available to continue the settlement process with them before the loan charge comes into force.

Q315 **Rushanara Ali:** As you know, a number of colleagues argued that people should not be pursued while the review is going on. What is your view on that? We have had a number of reports of suicide—six, according to the Loan Charge Action Group. We are particularly interested in those who are vulnerable. If there are clear cases of abuse of the system and tax avoidance, that is a different matter. You have been going after institutions and you have been pretty successful, but that is not the group that we have concerns about; it is the individuals and our constituents who have found themselves in that position. What is your view on that?

Penny Ciniewicz: The loan charge remains in force. We are giving people information about how it will work, so they have a reduced level of uncertainty about that process. That is important. As I have said, we are still keeping the door open for people who wish to settle with us during the review process. If people want to wait beyond the review process, we are able to let that happen.

Q316 **Rushanara Ali:** If, following the review, the Government do not change their position, do you have everything in place to be able to reach agreement before January 2020?

Penny Ciniewicz: There are 19,000 people. If more people want to settle, I would anticipate that we will be very responsive. Those people will have had their calculations and we will be responding very swiftly.

Q317 **Rushanara Ali:** You mentioned 8,000. You think it is possible for everybody to settle by January 2020.

Penny Ciniewicz: We are not putting a projection on the number of people who will want to settle. We would very much like people to settle. The door remains open to those 19,000 people, if they gave us that information before 5 April. I understand that people may not want to settle while there is that uncertainty, but we will certainly want to settle with people who want to settle with us in that period of time, post the review coming into force. We would be sympathetic to people who are serious about settling with us and who demonstrate that by engaging with us on that process.

Jim Harra: The support for people is ongoing. I mentioned earlier, in relation to our services to people, that we have an extra support service. We have not in the past traditionally operated that in Penny's area of the Department; we have operated it in the area where we provide customer service. But we have taken a couple of key actions, which we have shared. First of all, we are now going to extend that extra support service throughout our customer compliance group to anyone who is experiencing an investigation from HMRC. In addition, in the counter-avoidance directorate specifically, we have set up an additional customer support programme.

Q318 **Rushanara Ali:** When did you start that? When did you expand it?

Penny Ciniewicz: We first put in support from November 2017. We expanded that again in August 2018 and we have built on it in April this year across the whole of the counter-avoidance directorate. We are continuing to layer support upon support. We take our responsibility to customers who experience large tax bills very seriously. We recognise that can be very stressful and we train our people to recognise the signs of that, to provide support wherever possible, and to take time to interact with those customers to support them.

Q319 **Rushanara Ali:** You will appreciate the level of concern there is, particularly in relation to the reported suicides. Some of the responses from Ministers have been, frankly, shockingly callous, such as when the former Chancellor started arguing about the number of suicides that were relatable to this particular issue. It raises a broader question about people's circumstances and whether you feel you are taking enough of the correct measures to prevent further tragedies.

Leaving aside the whys and wherefores, the fact is that people are finding themselves in such a situation that they take their own lives. Are there other cases like that across HMRC? Is anyone doing any impact assessment on, as you rightly point out, whether the treatment is appropriate, whether you are seeing the signs and whether people are being pushed over the edge because of this aggressive pursuit of bills they are meant to pay?

Jim Harra: First, we clearly do not want anyone to harm themselves. We do not want anyone to feel mental anguish. As Penny said, we recognise that, if you are experiencing an investigation into your tax affairs or if you experience a very large tax bill, that can be a stressful situation. I offer my condolences to anyone who has a family member who has taken their own life for this reason or any other reason.

We have some clear policies in place in relation to any customer who experiences signs of distress. We train our frontline staff to recognise those signs. We have taken extra steps in the counter-avoidance directorate to do that, including putting in place a network of support specialists across the directorate who can give extra help to the frontline staff if they detect that. We give the frontline staff the ability to refer those cases where they have concerns. The key thing we can do is to put those processes in place. We very much encourage anyone who is feeling distressed about their tax affairs to get in touch with us. As I have said before, it is not always apparent to us from the limited engagement we may have with people.

As far as the numbers are concerned, different numbers have been mentioned. HMRC has been notified of four cases where people involved in disguised remuneration schemes have taken their lives. We have referred ourselves, in each of those four cases, to the Independent Office for Police Conduct or the relevant body in Northern Ireland or Scotland, because we come under their ambit as an enforcement organisation. In two of those cases, the IOPC has decided that no further action is required; in two of them, it has asked us to carry out further work internally to make sure we did everything correctly. Within my organisation, a senior director who is independent of the compliance group is taking those forward. We have now reached the point where we have concluded our internal investigation and we now want to engage with the families of the people concerned to make sure we have got this right. We certainly take it very seriously, and it is distressing for us that that would happen.

Q320 **Rushanara Ali:** Do you do something similar for other cases? Is there a wider systematic response to referrals where you think certain actions—not related to loan charges but other actions—might have triggered suicide?

Jim Harra: Yes, the same policies apply right across the tax system. As I said, frontline staff who have been trained are right across the tax system. The obligation on us to refer ourselves to—

Q321 **Rushanara Ali:** Have you had cases like this in relation to other matters? Let us take the four cases you mentioned.

Penny Ciniewicz: I can say that in the last year, since September 2018, there have been nine cases that we are aware of.

Q322 **Rushanara Ali:** Were those non-loan charge related?

Penny Ciniewicz: That is in total, including the four.

Q323 **Rushanara Ali:** There have been five others in relation to other matters.

Penny Ciniewicz: There have been five others, and we are aware of one other customer who attempted to take their own life. All those cases are referred to the IOPC.

Jim Harra: We are notified when someone takes their own life after they have had an engagement with the tax system. It is for a coroner to determine what the causes of that were, but we take that extremely seriously.

Q324 **Rushanara Ali:** Thank you. You said that HMRC would not make anyone bankrupt or sell their home if they took up the settlement opportunity in the past. Does that also apply to people who did not take up the settlement opportunity but cannot afford to pay the loan in one go?

Penny Ciniewicz: Yes, and we will continue to apply the opportunities in terms of time to pay. The time-to-pay arrangements that are open to customers in terms of their ability to pay are to arrange with our debt management colleagues an appropriate time to pay that is affordable for them.

Q325 **Rushanara Ali:** Can you talk me through what you would deem appropriate in terms of time to pay? What is the maximum length?

Penny Ciniewicz: There is no maximum length. Our debt management colleagues would engage—

Q326 **Rushanara Ali:** It could be five years, 10 years, 20 years?

Penny Ciniewicz: It could be longer, if necessary. It would be a discussion between the individual customer and the debt management team about their means, to understand their discretionary income and what would be a manageable sum for them to pay.

Jim Harra: In fact, the experience we have with people who seek time to pay, which is why we need to be slightly cautious about people having automatic access to it, is that customers tend to underestimate how long they will need to pay back their tax debts. Very often at the end of our engagement with them we end up with an instalment plan that goes over a longer period than they initially offered.

Q327 **Rushanara Ali:** The problem with all of this is that there is a lack of transparency, which I have raised in the past. The parallel example I would give you is major works programmes for housing. If a housing arm's length organisation starts work and it has to recover costs from leaseholders, most local authorities make clear how many years is the maximum period that people can seek in order to pay that cost. For elderly and more vulnerable customers, those who cannot afford it, they can get a maximum of 10 or 15 years in some cases, or it can be taken out of sale of a property. It does not seem like you have that kind of transparency here, so we do not know what our constituents can expect.

Some of the feedback coming to us through individual cases is that people are being steered towards paying as quickly as possible or immediately, and so on. I understand that is a cultural instinct within HMRC; you are in the business of collecting tax.

Jim Harra: First, we want people to pay the most that they can afford towards their debt but no more. The key indicator that I track is the success rate of our time-to-pay arrangements. The success rate is about

90%, which means that a taxpayer has completed the arrangements we have agreed with them. That, to me, is an indicator that we are agreeing arrangements that people find affordable.

Q328 **Rushanara Ali:** What about the 10%? It is the 10% that is causing the worry for us.

Jim Harra: In the 10%, people tend to find that they cannot keep up with the instalments or that, while they may be able to keep up with the instalments, they cannot keep up with paying their ongoing tax liabilities. Clearly, we cannot agree instalment arrangements that allow people over time to build up an ever-increasing amount of arrears.

Q329 **Rushanara Ali:** I have seen cases where constituents' circumstances have changed and they are being asked—required—to pay thousands of pounds. It is not a dialogue; it is an instruction. There are lots of cases like that. I have had quite a few cases. It seems to me that, at the senior level, there is a lot of understanding, but the question is whether institutionally there is a culture of a much harder sledgehammer approach. There are so many complaints about what is going on. We have seen them directly, some of these cases.

Jim Harra: I do not believe so in relation to our debt management service. I would be happy to look at any case.

Q330 **Rushanara Ali:** I have written about a number of cases, as have other colleagues.

Jim Harra: It is the case that, if we are unaware of the reasons why someone is not paying their debt, we will take our standard recovery action. If someone gets in touch and says, "I cannot afford to pay this debt," provided their circumstances are such that they should be able to get back on to an even keel, we will put an instalment arrangement in place. Unfortunately, there are cases where it is clear that a person is never going to be able to even pay their ongoing tax liabilities. There are some people, for example, whose businesses are only operating because they do not pay their tax, in effect.

Q331 **Rushanara Ali:** Those are not the kinds of people I am talking about; those are not the kinds of cases we are dealing with.

Jim Harra: I am quite happy to look at any case you show me personally.

Q332 **Rushanara Ali:** As I said, I have written a number of times, as have others have written. That is why there is a major campaign. That is why 200 MPs have raised concerns about the whole system and the retrospective dimension to all of this, which has put people in a very difficult position.

Jim Harra: I understand the wider concerns about the loan charge, and the Government have announced an independent review of whether the loan charge is the right way to go about tackling this type of avoidance.

In terms of the arrangements we put in place to collect people's settlements, I believe that we act reasonably in agreeing instalment arrangements. I would be happy to look at any case where you feel that is not the case.

Q333 **Rushanara Ali:** There have been a number of cases where people have lost their homes and people have faced bankruptcy. We have been given assurances that that would not be the case. These are complex issues—I appreciate that—because there are lots of dimensions to bankruptcy.

Jim Harra: I can state with confidence that HMRC has not required anyone to sell their home to pay one of these debts.

Q334 **Rushanara Ali:** With respect, you might not directly require anybody to sell anything or go bankrupt but your actions may contribute to bankruptcy. Has anyone looked at the indirect implications of the actions that HMRC takes in some of these cases?

Jim Harra: As far as bankruptcy is concerned, we sometimes have to make taxpayers bankrupt, so there is no categorical guarantee that we do not. However, we take that action in two scenarios. One is where, as I said, it is clear that people are going to build up ever-increasing arrears. I am afraid that we have to stop that. The other is where we see people taking steps to deliberately evade—

Q335 **Rushanara Ali:** How many people do you anticipate being in that situation? There are just over 20,000 people who have not shown an interest in settling. Out of the overall number, how many potentially, for the reasons you have provided and so on, might face bankruptcy or losing their home?

Jim Harra: I do not believe we have any estimate of that. One challenge for us, if people do not engage with us, is that we will take recovery action against them, because we will have no way of knowing whether they can afford to pay but will not or whether they cannot pay.

Q336 **Rushanara Ali:** Is it about 20,000 or so who have not engaged with you? Is that right?

Jim Harra: Of the 50,000 people we believe are within the loan charge, about 28,000 people expressed an interest in settling; about 19,000 provided all the information we needed to settle and about 8,000 of those have settled. That leaves about 11,000 people who could potentially settle, because we have all the information we need. The remainder of the 50,000 face the loan charge unless they repaid their loan by 5 April.

Q337 **Rushanara Ali:** What steps are you going to take to make them pay? How are you going to deal with that?

Jim Harra: This is all subject to the outcome of the independent review and any action that Ministers might wish to take in response to it. As things stand, the loan charge is in force. Anyone who has not repaid their loan by 5 April 2019 and has not entered into a settlement with us will be liable to pay the loan charge on 31 January 2020. They will be obliged to self-assess that liability and make that payment. If they cannot afford to make the payment, as Penny mentioned, the instalment arrangements and our normal debt management process would apply.

Q338 **Rushanara Ali:** So they need to come forward if they have not already.

Jim Harra: They do.

Q339 **Rushanara Ali:** You can provide those assurances that you have already provided to them.

I have one final question, which is about intermediaries. The reason why, in part, we have ended up in this mess is because there have been organisations promoting these schemes. In other cases, people were not given much of a choice—if they were freelancers, agency workers and so on. As an institution, are you spotting emerging cases where new types of promotions are being urged upon unsuspecting citizens, who might sign up to equivalent or similar things or even more sophisticated schemes?

What responsibilities do you have to pre-empt these things and make sure they do not happen? What should the Government do? Should they be looking at either enforcement action or further regulation to prevent that sort of activity? One of the problems is that people ending up signing up to things and then, years later, this happens. There are certainly cases where that has happened. I recognise that some people would have known what they were doing and took their chances, but in our caseloads we have come across public sector workers—we have had cases of nurses and so on—who have been told, "This is the way to do it," and have not had much choice. Are you on top of all of that?

Penny Ciniewicz: This year, we are doubling the resources that we have involved in tackling promoters. We have over 100 investigations into promoters at the moment, and we are keeping a very close eye on the market for avoidance. We are spotting schemes as they emerge, and we are tackling promoters. One of the problems is that, if a scheme is not disclosed by a promoter, we do not know it exists. We have to find ways of understanding how we can contact individuals who might be attracted to that kind of scheme.

One of the things we are piloting at the moment is taking a look at what we can see in PAYE or real-time information that might indicate that people are getting involved in avoidance. We are piloting direct contact with customers to nudge them on that and to try to steer them away from avoidance, if we think they might be getting into that space. That is a new approach that we are trialling. I do not know quite what the results of that will be.

Q340 **Rushanara Ali:** How do you do that? Do you write to them or do you have advertising campaigns? Banks are now doing lots of stuff on push payments, for instance.

Penny Ciniewicz: We are now looking at how we better publicise the details around avoidance schemes. We put out a spotlight in March. We put out paid-for advertising around that, which highlighted some aspects of avoidance schemes, and we saw a 700% increase in the number of people who opened that and looked at it. We are very aware of the need to increase the amount of awareness in the population of the dangers of getting involved in avoidance. The message remains that, if it looks too good to be true, it probably is.

We are working our socks off to tackle promoters who are selling avoidance schemes. Of the 16 schemes that were disclosed last year under DOTAS, only five were proactively disclosed. We forced the disclosure of the others by promoters. We are intent on making the UK an uncomfortable place to be an avoidance promoter.

Q341 **Chair:** I have one final question. I cannot remember the term you used, but I know you referenced greater efficiencies and flexibility in the way you use your existing estate in order to deliver on HMRC's priorities. I guess this is your opportunity to, via us, put in a bid. Do you believe that an inflation-only settlement is sufficient for HMRC to deliver critical Brexit systems, digital transformation and keep up with a fast-moving and transforming economy, in order to make sure we get that balance right and you can achieve that aim of making the UK an uncomfortable place for tax avoiders to do business?

Jim Harra: I am satisfied that the settlement we have for 2021 is sufficient to enable us to deliver what that we have been tasked with delivering, with one caveat. There is still considerable uncertainty about what has to be delivered in relation to EU exit, so it is entirely possible that there would have to be an adjustment to that budget for that.

We can always do more with more. We are unique in the public sector, in that we bring in money rather than spend money. We constantly make business cases for how we can bring in more revenues in return for more investment. We were ready for a new spending review, for which we would have had a big investment bid. We will look for other means of trying to get that investment.

Q342 **Chair:** Are you confident that you can deliver frictionless trade both from GB to Northern Ireland and from the United Kingdom to the rest of the European Union and the world?

Jim Harra: I am confident that we can implement the withdrawal agreement, including ensuring—

Q343 **Chair:** What about frictionless trade?

Jim Harra: I am not going to promise frictionless trade. First of all, I am not sure what the definition of it is. Secondly, it is clear that, in administrative terms, there are going to be new administrative procedures for people to comply with that were not there before.

Chair: Okay, I would say that is a no, then. That brings our session with HMRC to an end today. Thank you very much for your time.