Jim Harra
Chief Executive and First Permanent Secretary

Mel Stride MP
Chair
Treasury Select Committee
House of Commons
London
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Room 2/75
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Dear Mr Stride,

Thank you for your letter dated 15 April 2020 following my appearance in front of the Committee.

Breach of Net Cash Requirement

1. We understand that the breach of the Net Cash Requirement was due to incorrect treatment of net working capital which meant that the net cash requirement requested in the Supplementary Estimate was too low. Though we understand that this has no implications for the taxpayer, it does mean that the Net Cash Requirement voted by Parliament in Supplementary Estimates was incorrect. Please can you let us know what processes you have now put in place to ensure that such errors do not happen again?

The department either has introduced, or will shortly be introducing, the following improvements to our existing processes to ensure that there is no repeat of the errors that occurred during the preparation of the 2019/20 Supplementary Estimates:

a) implementing a new template for the preparation of the Net Cash Requirement which classifies and separates items identified as voted and non-voted payables and receivables;

b) carrying out additional analytical review on supporting datasets prior to calculating the NCRand additional validation exercises following the production of the net cash requirement (NCR);

c) strengthening our sign-off process with supporting guidance which clarifies roles, responsibilities and accountabilities of the reviewing officer/s, with clear delegated authorities;

d) updating HMRC's internal Estimate and Supplementary guidance notes to include the checks and validation exercises carried out for the working capital balances and non-voted balances.

Contingency Fund Act 2020 and the 2020-21 Budget

2. The Contingencies Fund Act has given the Government the capacity to draw down 50% of the previous year's cash spend (£266bn), when, in normal times, the Government is able to draw down just 2%. Of that amount how much will HMRC draw down?

HMRC currently expects to draw down up to £52 billion from the Contingencies Fund. These amounts are consistent with the OBR reference scenario, and what has been included in the 2020/21 HMRC Main Estimate.

£42 billion has already been drawn down from the fund for the Coronavirus Job Retention Scheme, to facilitate payments due to employers who have furloughed staff. As the amount was requested during Parliamentary recess it was not possible to lay a Written Ministerial Statement (WMS) in advance. The WMS was published on 27 April: https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2020-04-27/HCWS201/

An application will be made to request additional advances for the Self-Employment Income Support Scheme in due course.

3. In the oral evidence session on 8 April, you told the Treasury Committee that you will be needing additional funding from the Treasury this year due to the coronavirus package. When will HMRC be able to provide an estimate of the additional amounts needed?

As a lead department delivering some of the largest interventions on behalf of the Government, HMRC has a significant proportion of its workforce engaged on coronavirus-related activity and will also incur significant IT costs in designing and building the Coronavirus Job Retention Scheme, the Self-Employment Income Support Scheme and the Statutory Sick Pay rebate scheme portals. We are currently reviewing our core activities to understand whether any need to be paused, descoped or altered to enable us to respond to the coronavirus. This may result in some naturally occurring savings that could be diverted to fund HMRC's coronavirus activity. Until this work has completed, we are unable to provide an accurate estimate of the additional funding required; however, we don't currently expect the additional DEL cost to be more than £25m. We will be able to engage with HMT on this issue during May 2020.

4. Will HMRC have to employ additional staff in order to administer schemes such as the Coronavirus Job Retention Scheme? If so, how many?

To date, HMRC has not had to employ extra staff to administer the new schemes.

HMRC has trained 10,200 staff to work on the Job Retention Scheme, drawing together people from across different parts of the organisation. The Job Retention Scheme has been prioritised above HMRC's other telephony support services to ensure we have the right people available.

HMRC is constantly monitoring the performance of the Job Retention Scheme helpline and webchat to ensure there is sufficient resource deployed to meet urgent demand.

5. At the session on 8 April you confirmed previously published statements that 95% of self-employed workers will be able to benefit from the Self-employed Income Support scheme. Is this 95% of the self-employed that submitted a self-assessment return for 2018-19, traded in 2019-20 and intended to continue trading in 2020-21?

a) This 95% figure was estimated using HMRC's Survey of Personal Incomes (SPI) data for 2017-18. Specifically the estimation used the data underpinning published National Statistics Table 3.10 "Income of individuals with self-employment sources", available here: https://www.gov.uk/government/statistics/income-of-individuals-with-self-employment-sources-2010-to-2011.

b) The reason for using the SPI data is that it is known to be rigorous and consistent with a range of other income data sources. The SPI is the primary source of data for policy analysis and for answering Parliamentary Questions and Freedom of Information requests concerning incomes.

c) Table 3.10 presents the estimated number of people reporting self-employment to HMRC through their Self-Assessment (SA) returns. This includes those reporting any information on self-employment, including those with losses or nil trading profits. The published table confirms that 5.75 million individuals were deemed as having some form of self-employment in 2017-18.

d) The Self-Employment Income Support Scheme (SEISS) is aimed at those with trading profits making up at least half of their total income. The SPI data includes information on other incomes for these individuals (e.g. dividend, rental, employment and savings incomes) so total income for these self-employed individuals can also be established.

e) Based on the SPI, HMRC estimates that of the 5.75 million individuals deemed as having some form of self-employment in 2017-18, 1.73 million received less than half of their total income from self-employment trading profits, and therefore fall outside the ambit of the SEISS.

f) Of the 4.02 million individuals for whom trading profits made up at least half of their total incomes, 0.22 million (5% of the 4.02 million) had trading profits of at least £50,000, and therefore breach the income condition in the SEISS.

g) This leads to the conclusion that of the self-employed – i.e. those for whom trading profits made up at least half of their total income – 95% have trading profits of less than £50,000 and therefore are eligible for a grant under the scheme.

h) The 95% figure therefore relates to 2017-18, and can be considered an estimate of the proportion of the self-employed who will be eligible for SEISS. It does not include any adjustment for those who might have started or ceased self-employment since 2017/18.

i) The eligibility criteria for SEISS are more complex than a calculation based on a single year of data. HMRC will take into account up to three years of self-assessment data (2016-17 to 2018-19 inclusive) to assess eligibility.

j) The following is taken from gov.uk (https://www.gov.uk/guidance/claim-a-grant-through-the-coronavirus-covid-19-self-employment-income-support-scheme):

k) Who can claim:

You can claim if you're a self-employed individual or a member of a partnership and you:

i. have submitted your Self Assessment tax return for the tax year 2018 to 2019
ii. traded in the tax year 2019 to 2020
iii. are trading when you apply, or would be except for coronavirus
iv. intend to continue to trade in the tax year 2020 to 2021
v. have lost trading profits due to coronavirus

You will need to confirm to HMRC that your business has been adversely affected by coronavirus.
HMRC will as usual use a risk based approach to compliance.

vi. Your trading profits must also be no more than £50,000 and more than half of your total income for either:
vii. the tax year 2018 to 2019
viii. the average of the tax years 2016 to 2017, 2017 to 2018, and 2018 to 2019

l) The 95% figure quoted is based on one year of published official statistics data relating to 2017-18, and therefore is an estimate regarding the eligible population rather than a being a definitive figure.

m) Such estimation is often used for policy analysis and for published assessments of the likely impact of policy changes.

6. We have been informed that there is a possibility that your 2019-20 accounts may contain an overview of performance rather than detailed performance reporting. Can you give us more detail on how your performance reporting in 2019-20 accounts will be different from usual? What data or information would you normally publish, which you are not intending to for 2019-20?

Due to the impact of and response to the coronavirus, HM Treasury asked all departments to consider alternative options for how to proceed with the publication of 2019-20 annual reports and accounts. These options included publishing a streamlined annual report and accounts covering only essential matters. HMRC's preference was not to streamline our annual report but rather to delay publication to autumn 2020. Subsequently a decision has been taken across Whitehall to delay the publication of tannual reports and accounts until autumn. In light of this we will not streamline the performance section and can confirm that we intend to adopt largely the same format as the previous year to ensure we comply with the usual reporting standards.

7. Supplementary Estimates

Following publication of the Department's Supplementary Estimates for 2019-20, the Committee has considered the expenditure plans they contain. Please provide a response to the committee by two weeks to the following questions:

a) **Resource DEL: Your department requested an additional £180m to provide additional funds to support the EU exit. Can you give further details on how these funds have been spent, and what additional spending is now planned on EU Exit for 2020-21?**

HMRC's initial 2019/20 allocation was sufficient for a Deal scenario, had one been reached very early in the financial year. Additional funds were required as during the first nine months of 2019/20 HMRC balanced the uncertainty around the outcome of the withdrawal negotiations against its duty to plan and prepare for all eventualities, including preparing repeatedly for a No Deal exit. In the final quarter of the year switched focus to delivering the Withdrawal Agreement and Northern Ireland Protocol, which were very different from the Deal scenario envisaged at the start of the year. In doing this, over the course of the year HMRC:

i. carried out extensive scenario planning, provided support to the withdrawal negotiations and advised Ministers on the policy, legal, IT and operational implications of leaving the EU;
ii. developed a range of modelled solutions to support EU Exit and allow the UK to take advantage of the opportunities available once we exited the EU;
iii. undertook extensive preparations for delivering new customs, excise and VAT regimes;
iv. delivered trader readiness communications, helplines and engagement campaigns;
v. acquired new transit sites to increase capacity of transit movements;
vi. upgraded IT systems to support the flow of trade and control at the border; and
vii. increased the number of frontline staff to support our customer service and compliance activities.

Our EU Transition budget for 2020/21 at Main Estimates is £382m (including the cross-Whitehall Borders Delivery Group). This is our initial 2019/20 budget of £375m plus an allowance for inflation. We will discuss any requests for additional funding for this year with HMT where and when necessary, as negotiations with the European Union progress and delivery confidence matures. We continue planning, prioritisation, and mitigation work to ensure our readiness for the end of the Transition Period.

b) **Resource AME: 20% of the Lifetime ISA budget was surrendered in the supplementary estimate (£67.4m) due to a lower than expected take-up. Is it expected that demand will increase in future years, or is HMRC reprofiling these funds to reflect performance in 2019-20?**

The government announced the introduction of the Lifetime ISA at Budget 2016. The Lifetime ISA allows savers between the ages of 18 and 40 to invest up to £4,000 a year and receive a 25 per cent top-up from government. When the scheme was announced, the costing was subject to a high level of uncertainty, in particular the numbers of savers who would choose to open an account and the amounts they would save. As is standard with all HMRC policies, estimates are routinely reviewed and updated using new information and certified by the Office for Budget Responsibility (OBR) as reasonable and central.

The OBR made an adjustment to the Lifetime ISA forecast at Spring Statement 2019 to reflect the latest data available at that time. This revision reflected slightly lower take up to date than had been previously expected. The latest forecast reflects the expectation that demand for Lifetime ISAs will continue to grow in future years.

c) **Non-voted Resource AME: A 58% increase in the Other Reliefs and Allowances budget was requested (£7,114.5m), due to a higher than expected demand for Research and Development Relief for both large and small companies. Does HMRC anticipate this trend to continue in future years?**

On an annual basis, as part of the process for estimating current year reliefs, our Knowledge, Analysis & Intelligence team revisits all prior year estimates they have previously provided for tax reliefs and provides adjusted values. They do this for all prior years until they become 'stable' i.e. the level of fluctuation is insignificant. Current accounting policy is only to recognise these adjusted values once they have become stable, which is in practice after 5 years, which we do by reflecting the adjusted amount in the expenditure for the current year.

Whilst Research and Development reliefs are increasing, the actual underlying growth rate is lower than the numbers presented in the Estimate.

Yours sincerely

JHarra

JIM HARRA
CHIEF EXECUTIVE AND FIRST PERMANENT SECRETARY