



House of Commons  
Committee of Public Accounts

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# HM Revenue & Customs performance in 2015–16

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**Twenty-ninth Report of Session 2016–17**

*Report, together with formal minutes relating  
to the report*

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## Summary

Our examination of HM Revenue & Customs' (HMRC's) performance has identified a number of matters of concern, some of which we have raised before. HMRC is relying on new digital services to transform its business and reduce demand on its call centres. Making a success of this is vital to safeguarding tax revenues and ensuring an acceptable level of customer service. It is therefore essential that HMRC avoids repeating the mistakes it made two years ago when it reduced the number of staff in its personal tax service prematurely, resulting in a disastrous decline in customer service. We remain concerned that HMRC does not scrutinise effectively whether tax reliefs are being used as intended or provide Parliament with sufficient information on the costs of tax reliefs and their effectiveness. HMRC's contract with Concentrix to investigate cases of potential fraud and error has been a complete failure. Concentrix's actions have resulted in many tax credit claimants being wrongly accused of fraudulent claims and so losing their payments causing unnecessary distress and hardship. HMRC must ensure that lessons are learned from how this contract was designed and managed to make sure that such an unacceptable breakdown in service is not repeated. We welcome the introduction of country by country reporting of the activities of multinational companies, but this will not provide the much needed transparency over their tax affairs as the information will be supplied to HMRC on a confidential basis.

## Introduction

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HMRC collected £536.8 billion from UK taxpayers in 2015–16, some £19.1 billion more than in 2014–15. While HMRC's running costs increased over the same period from £3.1 billion to £3.2 billion, the cost of collection fell from 0.58 pence per £1 of revenue in 2014–15 to 0.55 pence per £1 in 2015–16. HMRC estimates it achieved a compliance yield (from tackling those who seek to avoid or evade their tax liabilities) of £26.6 billion in 2015–16 against a target of £26.3 billion. In 2015–16, HMRC reduced tax losses (mainly the amount of tax written off because there is no practical way to collect it) but saw the balance of tax debt (tax that is due but not yet received at the end of the year) rise to £26.7 billion (from £26.0 billion in 2014–15).

## Conclusions and recommendations

1. **The way HMRC measures the tax gap and the impact of its efforts to close it remain unclear.** There has been a downward trend in the difference between the amount of tax that should, in theory, be collected by HMRC, and what is actually collected (the tax gap) over the last 10 years. While HMRC's tax gap estimates fluctuate year to year the figure has fallen from 8.3% in 2005–06 to 6.5% (£36 billion) in 2014–15. But we are concerned that HMRC may be painting too rosy a picture of its success in reducing the tax gap. HMRC's Annual Report does not set out clearly what impact its compliance work (tackling those who seek to avoid or evade their tax liabilities), which yielded an estimated £26.6 billion in 2015–16, has on reducing the tax gap. HMRC's measure of compliance yield also contains a high degree of estimation and projection and it is not clear whether these estimates are realised in terms of extra tax being collected.

**Recommendation:** *HMRC should report each year on the effect its work to generate compliance yield is having on its efforts to reduce the tax gap. As part of this, HMRC should assess how accurate its compliance estimates turn out to be in practice.*

2. **Despite our repeated recommendations, HMRC still does not make tax reliefs sufficiently visible to support parliamentary scrutiny and public debate about areas where the UK chooses not to collect tax.** We welcome HMRC's agreement to improve the accessibility of the information it currently publishes on tax reliefs, which is scattered over a number of different publications but not included in its annual report. However, HMRC needs to do more. It should monitor whether the use and cost of tax reliefs is in line with Parliament's intentions when the reliefs were enacted. While HMRC publishes cost data for 180 tax reliefs, more than many other countries, this only accounts for some 15% of existing UK tax reliefs. HMRC does publish cost data where it has them, but it is not clear how it decides which reliefs to collect data on from taxpayers through their tax returns. HMRC still does not provide sufficient information to explain the impact that tax reliefs are having on behaviour. The need to review the impact of tax reliefs was illustrated by the National Audit Office's analysis of entrepreneurs' relief which showed that this was costing three times more than expected.

**Recommendation:** *HMRC should include an analysis of tax reliefs and their costs in its annual report to improve accountability about the areas where government has chosen not to collect tax. HMRC should make clear why it has decided to collect data only for a small minority of tax reliefs.*

3. **HMRC is staking a great deal on the success of its plans to digitise the tax system, but once again it lacks an adequate plan if demand for its call centres does not reduce as quickly as it hopes.** HMRC faces an enormous challenge to maintain services, while delivering spending cuts, restructuring its business, replacing the Aspire contract (through which it has procured almost all its IT), at the same time as re-locating almost all its staff and dealing with the implications of Brexit. HMRC has lost its Chief Digital and Information Officer as a result of market pressures and losing further key staff would damage HMRC's capability to deliver transformation and manage the risks when its IT contract ends. HMRC has committed to reducing

staff in its personal tax service by a third in the next three years. When HMRC made some 5,600 staff reductions in 2014–15 customer service for personal taxpayers collapsed and HMRC had to recruit 2,400 additional staff in the following year to stabilise services. We note HMRC’s assurances that it will seek additional resources if digital services do not reduce demand for personal tax services in line with its expectations, but we are concerned that it has not agreed a contingency plan for this eventuality with HM Treasury.

**Recommendation:** *By March 2017, HMRC should demonstrate to the Committee that it has a credible plan to make savings without damaging customer service, and that it has agreed a contingency plan with HM Treasury should its projections prove to be inaccurate in practice.*

4. **HMRC receives too many complaints and the vast majority of those referred to the tax adjudicator are upheld in part or in full.** Our recent report on quality of service to personal taxpayers highlighted that taxpayers spent more than 4 million hours waiting for HMRC to answer the telephone in 2015–16.<sup>1</sup> We welcome HMRC’s statement that it has reduced average call waiting time to less than five minutes and that it aims to get it below three minutes. However, while the speed of telephone answering appears to have improved, the number of complaints has increased. In 2015–16, HMRC received 80,400 customer complaints, compared to 74,400 in 2014–15. Furthermore, 85% of the 1,808 complaints referred to the tax adjudicator in 2014–15 were upheld in part or in full. HMRC accepts that there is something wrong with the way it currently handles complaints and is reviewing its procedures.

**Recommendation:** *HMRC should review the complaints it receives, to identify what action it can take to reduce the number raised, and its complaints procedures to minimise the number referred to and upheld by the tax adjudicator.*

5. **The poor quality of service received by tax credit claimants under the Concentrix contract resulted in unnecessary hardship and suffering.** In 2014, HMRC signed a contract with Concentrix to provide additional capacity to tackle fraud and error in the tax credit system on a payments-by-results basis. We raised concerns about the contract and the treatment of claimants in June 2016 and were given assurances by HMRC in July that things were improving. However, in August 2016 customer service levels for tax credit claimants collapsed. HMRC told us that Concentrix had failed to cope with an increase in call numbers following a letter it had sent to a large number of claimants about their claims. For example, in the third week of August the basic levels of customer service provided by Concentrix deteriorated to the point that less than 10% of phone calls were being answered within five minutes. HMRC considered that such an increase in call volumes had been entirely predictable. HMRC told us that it would not renew the contract and was dealing with all claimants directly. Subsequently HMRC announced that it had cancelled the contract, cleared all of the 181,000 incomplete cases that it took over from Concentrix and had completed around 28,500 of the roughly 32,500 requests for review of Concentrix decisions (known as mandatory reconsiderations). HMRC also noted that as a result of the contract ending, around 250 Concentrix staff had

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1 Committee of Public Accounts, [Quality of service to personal taxpayers and replacing the Aspire contract](#), Thirteenth Report of Session 2016–17, HC 78, July 2016, Part 1, paragraph 13

transferred to HMRC. We expect to return to this subject in the New Year when the results of an investigation into this matter being undertaken by the National Audit Office are available.

**Recommendation:** *HMRC must ensure it has clear customer service standards whether a service is delivered by HMRC or one of its contractors. HMRC should identify quickly the lessons to be learned from this episode and act upon them, particularly given the concerns raised months before HMRC chose to act.*

6. **HMRC and HM Treasury need to make the tax affairs of large multinational companies more transparent to increase the pressure on them to pay their fair share of tax.** This Committee has repeatedly called for the tax affairs of multinational companies to be made more transparent. We therefore welcome the fact that HMRC will soon receive automatically information on the global activities of large multinational companies that do business in the UK (through what is known as country-by-country reports). However, these country-by-country reports will be supplied on a confidential basis and will thus not contribute to increasing transparency over the tax affairs of these companies. We also welcome the cross-party consensus that now exists on the need for public country-by-country reporting, which will require international agreement to make a reality. The power to require public country-by-country reporting was set out in UK law following work by members of the Committee to promote an amendment to the Finance Bill 2016.

**Recommendation:** *HMRC and HM Treasury should lead the global debate for public country-by-country reporting and push for international agreement on its introduction.*

# 1 Improving performance reporting

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from HM Revenue & Customs (HMRC) on its performance in 2015–16.<sup>2</sup> HMRC collected £536.8 billion of tax revenues in 2015–16, some £19.1 billion more (3.7%) than in 2014–15, and paid out £40 billion in benefits. While HMRC’s running costs increased from £3.1 billion in 2014–15 to £3.2 billion in 2015–16, the cost of collection fell from 0.58 pence per £1 revenue to 0.55 pence in 2015–16.<sup>3</sup> HMRC is introducing major changes to how it works to make greater use of digital services and reduce its costs. Its stated vision is to have “one of the most digitally advanced tax administrations in the world”.<sup>4</sup>

2. HMRC estimates that it achieved a compliance yield (from tackling those who seek to avoid or evade their tax liabilities) of £26.6 billion in 2015–16 against a target of £26.3 billion.<sup>5</sup> The compliance yield calculation draws on a range of different measures of revenue generated or losses prevented, all of which involve a degree of estimation and uncertainty.<sup>6</sup> HMRC’s latest estimate is that the tax gap (the difference between the amount of tax that should in theory be collected and what is actually collected) in 2014–15 was some £36 billion.<sup>7</sup> While there has been a downward trend in the tax gap over the last 10 years from 8.3% in 2005–06 to 6.5% in 2014–15, it has levelled out in recent years.

3. We asked HMRC about the revisions it makes to its estimates of the tax gap for previous years. HMRC told us that revisions to prior year data were made to reflect new information becoming available to refine the assumptions behind some of the calculations. HMRC noted that it only used tax gap estimates to consider long term trends and did not assign much importance to year on year movements.<sup>8</sup> HMRC also told us that it used the tax gap data to inform its “strategic picture of risk”, which helps determine the type of compliance work the Department should undertake.<sup>9</sup> HMRC also referred to options under consideration, such as reporting tax gap estimates with a range of uncertainty around the central estimates, to improve the usefulness of the measure.<sup>10</sup>

4. We asked HMRC how far it could realistically reduce the size of the tax gap. HMRC told us that a zero tax gap was unattainable as there were factors, such as businesses going bankrupt before tax due is collected and certain elements of the hidden economy, which it could never hope to eliminate. HMRC does not set itself any tax gap targets to meet as it treats the tax gap as a backward-looking measure of how it has performed. However, HMRC agreed to consider what minimum level for the tax gap might be achievable.<sup>11</sup>

5. HMRC told us that, while there should be some consistency between its reported compliance yield and the size of the tax gap over a period of time, it was not possible to quantify the relationship between the two measures.<sup>12</sup> We questioned whether HMRC’s

2 C&AG’s Report, [HM Revenue and Customs 2015–16 Accounts](#), Session 2016–17, HC 338, 12 July 2016

3 [C&AG’s Report](#), Figure 4 and HM Revenue & Customs, [Annual Report and Accounts 2015–16](#), HC 338, 12 July 2016, page 49

4 HM Revenue & Customs, [Single Departmental Plan 2015–2020](#)

5 [C&AG’s Report](#), paragraph 1.26

6 [C&AG’s Report](#), Figure 9

7 HM Revenue & Customs, [Measuring tax gaps 2016 edition](#), 20 October 2016

8 [Qq 44, 46](#)

9 [Qq 48–49](#)

10 [Q 45](#)

11 [Q 47](#)

12 [Qq 47, 52, 62](#)

compliance yield targets were stretching given that it had exceeded its targets for the past two years.<sup>13</sup> HMRC's compliance yield targets are agreed with HM Treasury on an annual basis.<sup>14</sup> The Department recognised that its compliance yield measure was not an exact science and was based on a number of estimates. HMRC accepted that it should retrospectively evaluate the accuracy of its estimates based on the outcomes achieved.<sup>15</sup>

6. We asked HMRC about the impact expected from the new requirement for multinational companies to provide information on their activities on a country-by-country basis which came into force earlier this year.<sup>16</sup> HMRC noted that country-by-country reporting would provide it with better data on where multinationals were raising their revenues.<sup>17</sup> The data would also inform HMRC's risk assessment and selection of cases for investigation.<sup>18</sup> The Department told us that if country-by-country reporting data indicated that businesses had not paid the correct amount of tax it would investigate. HMRC estimated that the introduction of country-by-country reporting would result in about £45 million of additional tax yield.<sup>19</sup>

7. The country-by-country reporting that has been agreed is for information to be supplied on a confidential basis, as this was the only basis on which some countries would agree to adopt the new initiative. The Finance Act 2016 gave the Government the additional power to introduce a public country-by-country reporting requirement for large multinational companies.<sup>20</sup> This power was adopted after work by members of the Committee to promote an amendment to the Finance Bill on the issue.<sup>21</sup> The Government supports the view that country-by-country reporting should be public but believes that it should be implemented on an international basis or, failing that, on a multilateral basis. The Government is committed to working with international partners to reach agreements on a multilateral basis.<sup>22</sup> Ideally, the Department would like to see public country-by-country reporting agreed internationally as a global standard.<sup>23</sup>

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13 [Qq 50, 52](#)

14 [Q 52](#)

15 [Qq 59, 62](#)

16 [Qq 69–71](#)

17 [Q 71](#)

18 [Q 72](#)

19 [Qq 72–74](#)

20 [Finance Act 2016](#), section 161 and Schedule 19, paragraph 17 (6)

21 [Amendment 145 to consideration of Finance Bill 2016 \(Report Stage\)](#), 5 September 2016

22 [Q 74](#)

23 [Q 75](#)

## 2 Plans to improve tax services

8. HMRC (the Department) needs to transform its whole organisation to achieve its aim of becoming one of the most digitally advanced tax administrations in the world, while also making significant changes in parallel. By 2021, it expects to employ 16% fewer staff who will mostly be working in 13 regional centres. This will require a substantial rationalisation of the HMRC estate resulting in the closure of 137 of its existing locations (90%). Most of HMRC's processes will be automated, and a higher proportion of its staff will undertake specialist work to challenge those taxpayers who seek to avoid or evade their tax liabilities.<sup>24</sup> HMRC expects its digitisation of the tax system to promote and enable better compliance, which in due course will be reflected in a reduction in the size of the tax gap.<sup>25</sup>

9. Under its spending review settlement, HMRC is committed to realising £98 million of savings through a reduction by approximately a third in the number of those staff that deal with customer services.<sup>26</sup> HMRC expects that, as it introduces more online services, a channel shift will occur resulting in a reduction in the demand for phone calls as more people will be able to meet their needs through online services. We pointed out that in the past customer services had suffered when HMRC had cut staff before any significant reduction in the number of telephone calls had been realised. The Department recognised this risk.<sup>27</sup> It told us that 6.2 million people had opened a personal tax account and were able to interact to some degree with HMRC online. However HMRC accepted that it was possible that being more transparent, and providing more information to taxpayers in a digital way, would stimulate more demand for HMRC services, including those provided by phone.<sup>28</sup>

10. When HMRC made some 5,600 staff reductions in 2014–15 customer service for personal taxpayers collapsed and HMRC had to recruit 2,400 additional staff in the following year to stabilise services.<sup>29</sup> We asked HMRC about its contingency plans to ensure customer service levels did not deteriorate, as they had in the past, if its assumptions about reductions in demand for telephone services proved to be unrealistic.<sup>30</sup> We also raised a number of factors that could damage HMRC's capability to deliver its transformation programme and manage the risks when its Aspire contract ends. HMRC's Chief Digital and Information Officer recently left the Department to join the private sector.<sup>31</sup> The prospect of Brexit also increases the level of uncertainty and challenge that HMRC faces in managing its change programme. HMRC told us that it expected Brexit to have an impact on: customs and excise duties; social security; administration of the VAT regime, state aid; information exchange with other EU countries; ongoing litigation; and

24 [C&AG Report](#), para 2.3

25 [Qq 62–65](#)

26 [Qq 112, 114](#)

27 [Qq 112, 115–117, 144](#)

28 [Q 117](#)

29 Committee of Public Accounts, [Quality of service to personal taxpayers and replacing the Aspire contract](#), Thirteenth Report of Session 2016–17, HC 78, July 2016, Conclusions and Recommendations, paragraph 2

30 [Q 144–145](#)

31 [Qq 149–151](#)

on businesses and their relationship with the Department.<sup>32</sup> HMRC noted that if demand did not reduce in the way it expected it would have to ensure that adequate levels of staff were in place to meet taxpayers' needs.<sup>33</sup>

11. In the last Parliament, HMRC had made over-optimistic assumptions about how much change it could make all at once, which led to significant deterioration in the quality of its customer services for some 18 months.<sup>34</sup> Our recent report highlighted that taxpayers spent more than 4 million hours waiting for HMRC to answer the telephone in 2015–16.<sup>35</sup> We challenged the Department as to whether it had enough evidence, particularly estimates of the cost to individual taxpayers interacting with the tax system, to support its assumptions as it pushes on with its planned changes.<sup>36</sup> HMRC told us that it did not yet have an estimate of the costs to individual taxpayers of complying with their tax requirements. It only had estimates of the impact on businesses, currently estimated to be £11.5 billion a year, with the Department committed to a target to reduce it by £400 million a year by the end of this Parliament.<sup>37</sup>

12. HMRC acknowledged that customer time was not a free good. It said it would look at whether it could quantify the cost of customer time.<sup>38</sup> The Department considered that it should focus on providing customers with a “good basic level of service” and with further options for how they could interact with HMRC “in a simple and transparent way”.<sup>39</sup> The Department told us that it had reduced average waiting times to below five minutes and aimed to get the average to below three minutes.<sup>40</sup> HMRC explained that a key indicator it used to gauge customers' experiences was their level of satisfaction with the services HMRC provides, rather than monitoring the direct financial costs incurred by customers. In the case of digital accounts the monitoring of satisfaction levels takes place in real time as there is an exit survey as customers leave.<sup>41</sup>

13. In 2015–16, HMRC received 80,400 customer complaints, compared to 74,400 in 2014–15.<sup>42</sup> We asked why the number of complaints had increased, particularly as the Department for Work and Pensions, which is also telephony based, had managed to reduce its number of complaints.<sup>43</sup> HMRC could not explain the increase and accepted that it may have some lessons to learn from DWP's approach.<sup>44</sup> We expressed our concern that 85.3% of the 1,808 complaints that were escalated to the Adjudicator's Office in 2014–15 were subsequently upheld in full or in part. HMRC acknowledged that its handling of complaints was not good enough noting that there was something wrong with the system if complaints could go through two different processes in HMRC and yet HMRC's decisions were being overturned by the tax adjudicator.<sup>45</sup>

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32 [Qq 91, 93, 102](#)

33 [Qq 145–147](#)

34 [Q 109](#); C&AG Report, para 2.19

35 Committee of Public Accounts, [Quality of service to personal taxpayers and replacing the Aspire contract](#), Thirteenth Report of the Session 2016–17, HC 78, incorporating HC 79, 27 July 2016

36 [Qq 104, 107](#)

37 [Qq 104–106, 110](#)

38 [Q 119](#)

39 [Q 118](#)

40 [Qq 112, 121, 144](#)

41 [Q 120](#)

42 HM Revenue & Customs, [Annual Report and Accounts 2015–16](#), HC 338, July 2016

43 [Q 124](#); Department for Work & Pensions, [Annual Report and Accounts 2015–16](#), HC 331, July 2016

44 [Q 124](#)

45 [Qq 125–132](#) and HM Revenue & Customs, [Annual Report and Accounts 2015–16](#), HC 338, July 2016, Fig. 13

14. In 2014, HMRC signed a contract with Concentrix, a private sector company, to provide additional capacity to tackle fraud and error in the tax credit system on a payments-by-results basis. We raised concerns about the contract and the treatment of claimants in June 2016 and were given assurances by HMRC in July that things were improving.<sup>46</sup> In September 2016 HMRC announced that it would not renew its contract with Concentrix.<sup>47</sup> In November 2016 HMRC announced the contract had been terminated early.<sup>48</sup> The operation of this contract has caused unnecessary distress and hardship to HMRC’s tax credit customers.<sup>49</sup> HMRC told us that in the third week of August the basic levels of customer service provided by Concentrix “deteriorated significantly” to the point where less than 10% of phone calls were being answered within five minutes. From mid-August onwards there had been a “fundamental failure of basic customer service”.<sup>50</sup> HMRC told us that Concentrix simply had not put enough people on the phones to cope with the high volume of calls it received after it had written to a large number of claimants about their claims.<sup>51</sup> HMRC told us that this increase in call volumes had been entirely predictable.<sup>52</sup> HMRC told us that it was now dealing with all claimants directly.

15. HMRC considered that there were a number of lessons to be learnt from this experience concerning: the sensitivity and prioritisation of customers in the delivery of public services; the need for more thorough assurance about contingency planning; a question about the speed of escalation, so that people know how quickly issues get to decision makers who can resolve them; a question about whether third parties can fully understand the subtleties of delivering a public service; and whether an incentive contract was the right kind of mechanism in this case.<sup>53</sup>

16. Subsequently HMRC announced that, as of 13 November 2016, it had cleared all of the 181,000 incomplete cases that it took over from Concentrix and had completed around 28,500 of the roughly 32,500 requests for review of Concentrix decisions (known as mandatory reconsiderations). HMRC also noted that as a result of the contract ending, around 250 Concentrix staff had transferred to HMRC.<sup>54</sup> We expect to return to this subject in the New Year when the results of an investigation into this matter being undertaken by the National Audit Office are available.

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46 Public Accounts Committee Oral evidence: Quality of Service to Personal Taxpayers, HC 78 of Session 2016–17, 13 June 2016, [Qq116, 117](#), [Correspondence from the Permanent Secretary of HM Revenue and Customs relating to customer service and Concentrix](#), dated 26 July 2016, published on 8 September 2016

47 [Qq 3–4, 7](#)

48 [Update on HM Revenue and Customs’ contract with Concentrix: Written statement](#), Financial Secretary to the Treasury, HCWS251, 14 November 2016

49 [Q6](#) and [Correspondence from Jon Thompson to Frank Field MP regarding Concentrix](#), 24 October 2016, published on Work and Pensions Select Committee website 28 October

50 [Q 5](#)

51 [Qq 6, 18, 21–22, 24](#)

52 [Q 6](#)

53 [Q 39](#)

54 [Update on HM Revenue and Customs’ contract with Concentrix: Written statement](#), Financial Secretary to the Treasury, HCWS251, 14 November 2016

### 3 Tax reliefs

17. Tax reliefs are integral to the tax system and an important tool for public policy. There are more than 1,100 tax reliefs and several different types.<sup>55</sup> We asked HMRC (the Department) what assurance it could provide that it was monitoring tax reliefs to ensure they were delivering the intended policy objectives.<sup>56</sup> The Department told us that it had two main responsibilities in relation to tax reliefs: managing their administration and monitoring and reporting the costs involved.<sup>57</sup> HMRC noted that it would be for Ministers to decide whether “a wholesale review of tax reliefs” was required and said that it was committed to publishing cost information in cases where it has the relevant data.<sup>58</sup>

18. HMRC’s organisational structure is based around customer groups (such as small businesses, large businesses, wealthy taxpayers and organised criminals) and specific behaviour types (such as tax avoidance, tax evasion and the hidden economy), rather than specific tax reliefs.<sup>59</sup> Nevertheless, each area of tax has a product owner who has the expertise in that tax to give policy advice on what needs to change. Responsibility for administering tax reliefs, including monitoring the cost of the reliefs, lies with the relevant product owner.<sup>60</sup> In 2015, we made a number of recommendations to HMRC to improve how it monitors and reports on tax reliefs.<sup>61</sup> In September 2015, HMRC, in response to our recommendations, issued good practice principles for governing and administering tax reliefs.<sup>62</sup> The Department told us that it was too early to evaluate the impact of these guidelines on formal product plans as the product owners have not had time to adjust their plans in response.<sup>63</sup>

19. In 2015, we also recommended that HMRC should identify which reliefs it considers require monitoring and evaluation, and that it should publish this information to enable Parliament to decide which reliefs may require further scrutiny or legislative change.<sup>64</sup> The Department recognised it has to be able to explain why it has decided to obtain data for some tax reliefs but not others, to address any perception that the information HMRC currently holds is based on arbitrary criteria.<sup>65</sup>

20. HMRC told us that as a matter of routine it monitored the costs associated with tax reliefs wherever it could. But it emphasised that it had to be conscious of the trade-off between getting the data required to monitor costs and making sure undue burdens were not imposed on businesses. In some cases HMRC may decide it is so important to have the data that it justifies the burden on the economy to collect them. The Department told us that, in addition to its routine monitoring of the costs associated with tax reliefs, it carried out periodic monitoring of certain tax reliefs, particularly if ministers were interested in reforming a particular area.<sup>66</sup>

55 [C&AG Report](#), para 3.1

56 [Qq 78, 98–99](#)

57 [Q 78](#)

58 [Q 102](#)

59 [Q 78](#)

60 [Qq 79–80](#); [C&AG Report](#), paras 3.7–3.9

61 Committee of Public Accounts, [The effective management of tax reliefs](#), HC 892, 26 March 2015

62 [Q 81](#); [C&AG Report](#), paras 3.10–3.13

63 [Q 81](#); [C&AG Report](#), para 3.14

64 Committee of Public Accounts, [HM Revenue & Customs performance in 2014–15](#), HC 393, 4 November 2015

65 [Q 103](#)

66 [Qq 83–84](#)

21. We questioned whether there was sufficient information available to policy makers and analysts to enable them to assess the effectiveness of tax reliefs, citing the fact that it was only because the National Audit Office highlighted that entrepreneurs' relief was costing the taxpayer three times more than intended that HMRC and HM Treasury reviewed the relief and changed how it worked. HMRC told us that every December it publishes the costs of about 180 tax reliefs, including entrepreneurs' relief, out of a total of 400 reliefs that it recognises.<sup>67</sup> HMRC noted that, by international standards, 180 was "a very high number" to be able to report costs on and said that it was part of its new guidelines for managing tax reliefs that variances in the costs must be monitored and the reasons for those variances understood.<sup>68</sup>

22. HMRC acknowledged that its published data on tax reliefs were scattered over a number of different publications, which had an adverse impact on the accessibility of the information.<sup>69</sup> The Department agreed to consider collating and publishing all its data on tax reliefs in its annual report.<sup>70</sup>

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67 [Qq 81–82, 85–86](#); Office of Tax Simplification, [Full list of tax reliefs](#). HMRC does not recognise all of the 1,156 reliefs identified by the Office of Tax Simplification (OTS) as being, in practice, a relief. For example, OTS classifies the exemption given to air crew from air passenger duty as a tax relief whereas, in HMRC's view, the exemption is just part of the definition of the tax base for air passenger duty

68 [Q 85, 87](#)

69 [Q 88](#); [C&AG Report](#), para 23

70 [Qq 88–91](#)

# Formal Minutes

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**Wednesday 29 November 2016**

Members present:

Meg Hillier, in the Chair

Mr Richard Bacon	Kwasi Kwarteng
Philip Boswell	Nigel Mills
Charlie Elphicke	Bridget Phillipson
Chris Evans	John Pugh
Caroline Flint	

Draft Report (*HM Revenue & Customs performance in 2015–16*), proposed by the Chair, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 22 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

*Resolved*, That the Report be the Twenty-ninth of the Committee to the House.

*Ordered*, That the Chair make the Report to the House.

*Ordered*, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned till Wednesday 7 December 2016 at 2.00pm]

## Witnesses

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The following witnesses gave evidence. Transcripts can be viewed on the [inquiry publications page](#) of the Committee's website.

### Wednesday 26 October

*Question number*

**Jon Thompson**, Chief Executive and Permanent Secretary, **Edward Troup**, Executive Chair and Permanent Secretary, and **Jim Harra**, Director General, Consumer Strategy & Tax Design, HM Revenue & Customs

[Q1–181](#)

## Published written evidence

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The following written evidence was received and can be viewed on the [inquiry publications page](#) of the Committee's website.

PTT numbers are generated by the evidence processing system and so may not be complete.

- 1 Gordon Berry ([PTT0001](#))
- 2 HM Revenue and Customs ([PTT0002](#))

## List of Reports from the Committee during the current session

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All publications from the Committee are available on the [publications page](#) of the Committee's website. The reference number of the Government's response to each Report is printed in brackets after the HC printing number.

### Session 2016–17

First Report	Efficiency in the criminal justice system	HC 72 (Cm 9351)
Second Report	Personal budgets in social care	HC 74 (Cm 9351)
Third Report	Training new teachers	HC 73 (Cm 9351)
Fourth Report	Entitlement to free early education and childcare	HC 224 (Cm 9351)
Fifth Report	Capital investment in science projects	HC 126 (Cm 9351)
Sixth Report	Cities and local growth	HC 296 (Cm 9351)
Seventh Report	Confiscations orders: progress review	HC 124 (Cm 9351)
Eighth Report	BBC critical projects	HC 75 (Cm 9351)
Ninth Report	Service Family Accommodation	HC 77 (Cm 9351)
Tenth Report	NHS specialised services	HC 387 (Cm 9351)
Eleventh Report	Household energy efficiency measures	HC 125 (Cm 9351)
Twelfth Report	Discharging older people from acute hospitals	HC 76 (Cm 9351)
Thirteenth Report	Quality of service to personal taxpayers and replacing the Aspire contract	HC 78 (Cm 9351)
Fourteenth Report	Progress with preparations for High Speed 2	HC 486
Fifteenth Report	BBC World Service	HC 298
Sixteenth Report	Improving access to mental health services	HC 80
Seventeenth Report	Transforming rehabilitation	HC 484
Eighteenth Report	Better Regulation	HC 487

Nineteenth Report	The Government Balance Sheet	HC 485
Twentieth Report	Shared service centres	HC 297
Twenty-first Report	Departments' oversight of arm's-length bodies	HC 488
Twenty-second Report	Progress with the disposal of public land for new homes	HC 634
Twenty-third Report	Universal Credit and fraud and error: progress review	HC 489
Twenty-fourth Report	The sale of former Northern Rock assets	HC 632
Twenty-fifth Report	UnitingCare Partnership contract	HC 633
Twenty-sixth Report	Financial sustainability of local authorities	HC 708
Twenty-seventh Report	Managing government spending and performance	HC 710
Twenty-eighth Report	The apprenticeships programme	HC 709
First Special Report	Protecting the Public's Money: First Annual Report from Chair of Committee of Public Accounts	HC 835

# Public Accounts Committee

## Oral evidence: HMRC performance and Tax Transparency, HC 712

Wednesday 26 October 2016

Ordered by the House of Commons to be published on 26 October 2016.

[Watch the meeting](#)

Members present: Meg Hillier (Chair); Philip Boswell; Chris Evans; Caroline Flint; Bridget Phillipson; John Pugh; Karin Smyth; Mrs Anne-Marie Trevelyan.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, Steven Corbishley, Director, and Rob Prideaux, Director, National Audit Office; Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury; and Charlie Elphicke MP, were in attendance.

Questions 1-181

### Witnesses

I: Jon Thompson, Chief Executive and Permanent Secretary, Edward Troup, Executive Chair and Permanent Secretary, and Jim Harra, Director General, Consumer Strategy & Tax Design, HMRC.



## Report by the Comptroller and Auditor General HM Revenue & Customs 2015-16 Accounts

### Examination of witnesses

Witnesses: Jon Thompson, Edward Troup and Jim Harra.

**Q1 Chair:** Good afternoon, and welcome to the Public Accounts Committee. We are here today to talk to HMRC, regular visitors to this Committee, about a number of issues relating to accounts, customer service and the things we like to talk to you about very often. Our hashtag today is #hmrc.

I am also pleased to welcome to the Committee Charlie Elphicke, the hon. Member for Dover, who will be joining the Committee formally as soon as the House has passed it through. He is here to observe today. Welcome, Mr Elphicke.

I also welcome our witnesses: Jim Harra, Director General of Customer Strategy and Tax Design at HMRC; Jon Thompson, chief executive and permanent secretary at HMRC; and Edward Troup, executive chair and permanent secretary at HMRC. We won't go through those job titles again.

I gave you notice, Mr Thompson, that before we got into the main session I wanted to pick up on some of the issues around Concentrix. I know that our sister Work and Pensions Committee has spoken to your colleagues about that. By coincidence, there is also a debate in the House today and somebody—I don't know whether it is you—is appearing before the Treasury Committee tomorrow.

**Jon Thompson:** Yes, that is me. I have that joy tomorrow.

**Q2 Chair:** Never a dull moment as permanent secretary of HMRC. To recap briefly, we first raised this before your time at HMRC, Mr Thompson; in July 2015, we asked some questions about it. It was Nick Lodge who spoke for HMRC. We asked what driver you had to make correspondence fair but not aggressive and what you had in the remuneration scheme for Concentrix to prevent them from writing the sort of aggressive letters that Teresa Pearce MP had passed on to us and we were talking about. Lin Homer said then, "We are requiring them to act in the same parameters we are acting within."

We then raised concerns directly with you on 13 June this year and you said you would go away and look at it. You wrote to me on 26 July. I won't quote you but you said that basically it was all going very well, that you had succeeded in bringing their service up to an acceptable level. That is what you wrote and told me, anyway.

On 17 August, concerns were raised when a letter was written from Andy



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Farrar at HMRC to the union PCS, which raised issues about the level of customer service. On 13 September you announced that you would not be renewing the contract and, on the 15th, that all mandatory reconsiderations would go back to HMRC.

Am I right so far in my timeframes? Is all this familiar to you?

**Jon Thompson:** Yes, broadly.

Q3 **Chair:** I just think it is helpful to recap. Then you went to the Work and Pensions Committee on 13 October. Perhaps you could tell us what will happen to the service as a result of the contract cancellation that you announced in September?

**Jon Thompson:** Sorry, I missed the first bit.

Q4 **Chair:** What will happen to the service? You announced that the contract will not be renewed in May next year, so what is going to happen? Can you be absolutely clear about what is going to happen to service users? Who will they be dealing with after May next year?

**Jon Thompson:** All tax credit customers will be dealing with Her Majesty's Revenue and Customs.

Q5 **Chair:** Okay, but you seem to have been happy with Concentrix's performance when you wrote to me in July and subsequently. When did you change your mind about their level of service?

**Jon Thompson:** I don't know whether you have seen the evidence I gave the Work and Pensions Committee, but let me repeat it. Essentially, what happened in the third week of August was that basic levels of customer service deteriorated significantly. For example, we went from, on the 13 August, more than 90% of telephone calls being answered within five minutes, to fewer than 10% of calls being answered. It is perfectly reasonable for the Government to ask a benefit claimant a series of questions about their claim in order to make sure that it is right. If you are writing to benefit claimants, you can model how many of them will ring you up. That is a perfectly natural thing for them to do, and if you cannot pick up the phone, you cannot, frankly, deliver the service.

From that point on—from Monday 15 August—we had a fundamental failure of basic customer service. For the next two weeks, what happened was that the vast majority of calls were not answered within five minutes. There were various days in the second half of August when fewer than 1% of telephone calls were being answered by Concentrix. I returned in the bank holiday week to be given this information, and then began to take some action to sort it out. In the end, the benefits system is all about ensuring that benefit claimants get the right amount of benefits in an appropriate timescale.

Q6 **Chair:** At the right time, absolutely. I am sure I do not need to lay out for you—I hope I do not—that there are very desperate people out there who have had no money to pay for their daily needs. That has been very distressing for a lot of people, and my colleagues—MPs across the



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House—have had a lot of casework on this issue.

You are saying that in two weeks the service deteriorated from when you wrote to me saying it was all going well, to mid-August when it suddenly deteriorated. What do you ascribe that deterioration to, and was it anything to do with HMRC?

**Jon Thompson:** No, it was relatively straightforward in my opinion. You can very clearly model, if you send out a certain number of letters, how many responses you are going to get to those letters—how many phone calls you are going to get. We use that modelling for our own service.

What happened here was that a significant number of letters went out from Concentrix, then, naturally, a number of customers rang, and they did not have enough people on the phone. You can do these equations. We have talked about this previously in a hearing about queuing theory. You can model this out and we do it all the time. What happened here was that—I have got all the data in front of me—they simply did not have enough people on the telephone, and therefore that naturally led to the fact that customers could not get through.

I have got every single day in August in front of me and can pick any day you want. On 16 August, fewer than 1% of telephone calls were answered in five minutes. There are stories of people having to ring 60 or 70 times and spending 45 minutes on the phone.

**Q7 Chair:** We know those stories, and hopefully you agree with us that that is unacceptable.

**Jon Thompson:** I do. I totally believe it is unacceptable. My view was that we had to step in and try to sort this out because it is all about customers here, right?

**Q8 Chair:** Was that when you took on the mandatory reconsiderations? I think you announced on 15 September that all those would go back into HMRC.

**Jon Thompson:** Our first reaction was to ask whether it would help if we eased the targets about the number of telephone calls that needed to be answered. Concentrix said that that would help, so we did that on 17 August. On the 20th it was apparent that that was not making any difference. We racked up our own intervention with them to a daily conversation about their performance on 24 August. I got involved on 5 September. We deployed 50 HMRC staff on mandatory reconsiderations on 7 September—

**Q9 Chair:** I am sorry—did they go to Concentrix or did they stay in HMRC? Did they go to the Concentrix building? How did that work?

**Jon Thompson:** No, it is possible to divert to our Glasgow operation.

**Q10 Chair:** Fine, that is all right. One of the other things that has been raised is that Concentrix announced on 30 September that it will be dismissing 150 staff as a consequence of the non-renewal of the contract. Does that mean that customer service will go still further downhill between now and



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May? Given that that is something they are doing, have you had conversations with them about the staffing levels they are going to maintain?

**Jon Thompson:** It won't, because they are not handling any cases any more. We are handling all the cases. We took over all mandatory reconsiderations and now we have stopped giving new cases to Concentrix. We have taken back all incomplete cases—

Q11 **Chair:** Right, so you are not renewing the contract in May but, to be clear, anyone ringing up from now with a tax credit problem is dealing with HMRC directly and not Concentrix. Have I understood you right?

**Jon Thompson:** Yes, that is correct. We have taken back all incomplete cases, and I can give you the numbers on incomplete cases and where we are with that. We are in the late stages—it is best for me to put it like that—of legal conversation about how this contract, essentially, finishes.

Q12 **Chair:** So when you say you are not going to renew it in May, you may actually be cutting it sooner than that.

**Jon Thompson:** I am expecting that we will have something to announce in the next few working days about this contract finishing.

Q13 **Chair:** Okay. That is interesting news. What about the customer service level for people who are ringing HMRC to get support for their tax credits? How quickly are you responding to telephone calls?

**Jon Thompson:** We previously had a hearing about customer services and answering the telephone.

Q14 **Chair:** Which we are going to get on to in more detail.

**Jon Thompson:** Undoubtedly you are.

**Chair:** Don't worry—you are not going to get away with it.

**Jon Thompson:** That is totally fine. We are currently averaging under five minutes—four minutes, 54 seconds last month. But so far—

Q15 **Chair:** For these tax credit calls.

**Jon Thompson:** Yes. The average speed of answering them is under five minutes.

Q16 **Chair:** So you are saying to people out there who are worried about their tax credits that they can ring in now and they will be getting a good service from HMRC.

**Jon Thompson:** Yes. I have all that data and we can make it all transparent, but there are two areas where customers' concerns are. There is a series of incomplete cases; there were 181,000 incomplete cases with Concentrix. We have taken those back and we have cleared 178,000 of the 181,000. The remaining 3,000 require us to exchange various correspondence with customers, so the vast majority—more than 98%—of cases that were with Concentrix have, we believe, been resolved,



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but there is still a small number. There is then the question of mandatory reconsiderations.

Q17 **Chair:** How did it go so badly wrong? Was it the contract or the contractor that failed? We had had problems before. There was a previous contractor, Transactis—they all have “is” or “ix” at the end. We have been raising concerns about it since July last year.

**Jon Thompson:** Yes.

Q18 **Chair:** HMRC does not have a great track record on passing out this work to other contractors. Was the contract that you let wrong or did the contractor fail to deliver?

**Jon Thompson:** I think I have answered this question, but it is my view that what happened here is that they simply did not put enough people on the work. But there are more lessons to be learned from this—

Q19 **Chair:** There are certainly lessons to be learned. It is worth flagging up, of course, that the NAO is doing an investigation on this, which we will come back to. You say that they did not have enough staff on the job, but your organisation—HMRC—let the contract. Surely you want some assurances from a contractor that they have the resources in place to deliver what they promise. Who was doing the assurance on that contract at HMRC?

**Jon Thompson:** If you let a contract—

**Chair:** Who was doing the assurance? Was it at permanent secretary level or was it a bit lower down? I am assuming that it was a bit lower down.

**Jon Thompson:** It is clearly not at permanent secretary level. There is a process for quality control, for various baskets of performance indicators—

Q20 **Chair:** So there was a named person in HMRC monitoring this contract.

**Jon Thompson:** Yes. I have all that information, which will undoubtedly be gone through by the National Audit Office. If a contractor says that they are going to put 114 people on the telephone and they do not, people are not going to get through. If you say you plan to do something and you don't do it, something is going to go wrong, isn't it?

Q21 **Chair:** Yes. So you are squarely blaming Concentrix.

**Jon Thompson:** I am saying there are a number of lessons to be learned. One of those is clearly that they did not put enough people on, in my opinion. There are a number of other lessons, in my opinion, which I gave to the Work and Pensions—

Q22 **Chair:** In your opinion—but did the contract set out how many people they were supposed to put on it? In the contract discussions, did they say what resource they were going to put in?

**Jon Thompson:** The contract per se does not do that. It says that you need to plan together appropriate service and staffing levels. The contract



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has a number of KPIs about customer service standards, and they are required to give us a plan about how they are going to meet those standards.

So if we go back a step, as I said, if you send out 50,000 letters, you can reasonably expect that 10,000 people will give you a phone call, and therefore you need 150 people on the phones. It is that kind of relationship. If you have a plan that says, "50,000 letters, 10,000 phone calls, 150 people on the phone," and then you only put 110 people on the phone, you are going to get a queue on the phone and fail to deliver basic customer services, and that is going to lead to the situation.

It seems to me that my responsibility was to take action quickly for customers, and that is, I think, what I did, but you will undoubtedly want to go through that timescale.

- Q23 Chair:** In evidence to the Work and Pensions Committee on 13 October, Philip Cassidy from Concentrix read out a series of emails containing effusive praise. I am not sure who it was from in HMRC, but one said: "I wanted to formalise my thanks to you for the efforts and commitment that you have shown to the EFAC contract over the summer." Another one on 7 September said: "You and your team are absolute stars. Thank you very much for getting this to me within the time that you have managed to. Please pass on my sincere thanks to all who have contributed."

That is effusive praise on 7 September, while you tell us the service level was abysmal, as we know from examples. Is there not a bit of confusion within HMRC about whether it was going well or not?

**Jon Thompson:** Mr Cassidy did not inform the Committee who those emails were from. We have asked who they were from, but they were clearly wrong.

**Chair:** I am glad you acknowledged that.

- Q24 Bridget Phillipson:** You said that there were not enough people on the phones, but we also heard about the increase in volume driving the need for people to get in touch. What were the factors underpinning that increase? Was it just that there were not enough people on the phones, or were there changing reasons as to why people needed to get in touch?

**Jon Thompson:** Yes, it is to do with volumes. The tax renewal cycle completes at the end of July, so you run towards a peak. Part of the work necessary to reduce fraud and error is to get involved in what are called high-risk renewals, and there are a number of factors about what is a high-risk renewal.

In the summer, there is traditionally a peak of this kind of work, because you have received everyone's updated annual claim. You have more information, and therefore traditionally in August, September and through the autumn there is a lot more work as you are going through those renewals of people's tax claims.



But let me repeat: it is perfectly possible to model, and we have to do this all the time in relation to customer services. If you push something out to customers, they will respond to that, and it is perfectly possible to model that. We had a plan that said they would put a certain number of people on the phones, and they didn't do it.

- Q25 **Bridget Phillipson:** Did the information underpinning those new statements about renewal drive a volume of people to the helplines because it was problematic? Is it just a question of having enough people on the phones? It might be that the model was incorrect, but the issue was what underpinned the statements about renewals that people were receiving. So even if they had people on the phones, was the problem generated by the work that had gone on around fraud and error that was meant to be addressing the problem but created a problem?

**Chair:** The undeclared partners.

**Bridget Phillipson:** Yes, the undeclared partners. We have all had cases that are absolutely outrageous.

**Jon Thompson:** Yes, and there are clearly some cases that are total nonsense—people being accused of being married to someone who is dead or Joseph Rowntree is clearly about people not engaging their brains.

**Chair:** So to answer Ms Phillipson's question—

**Jon Thompson:** The answer is that it is theoretically possible. That is not what I believe to be the main driver of this particular problem, but you will get a very specific answer to that question, I guess, from an NAO review.

- Q26 **Bridget Phillipson:** But what I am asking is this. Is it too easy an answer to say that the problem was that they didn't have enough people on the phones, when the problems were much wider? Were more people getting in touch because they were getting these crazy letters saying things like, "You are living with a tenant who was there three years ago"?

**Jon Thompson:** It is possible that that is a reason; I would not rule it out.

- Q27 **Chair:** Can I then ask who set out the type of information that Concentrix should receive from other people? Was that HMRC or did they decide? Presumably you set that out in the contract.

**Jon Thompson:** The kind of information that they would receive—

**Chair:** From third-party providers. The data of anything related to their national insurance number, their tenancy: the sort of data that they put together in this way to suggest that people were living with partners who were in fact ex-tenants and things like that.

**Jon Thompson:** My understanding of what was originally tendered to the market in 2014—remember that this is a three-year contract from '14 to '17—was to receive proposals of how people would address your question. What would they bring in terms of third-party information and analytical



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resource in order for them to generate inquiries? That was what was originally put to the market.

Q28 **Chair:** So it wasn't that you set it. You asked for the outcome and they told you how they would do that.

**Jon Thompson:** That is my understanding of the original competition, yes.

Q29 **Chair:** Did HMRC do any checking of Concentrix's decisions to terminate claims? Or was that done with no checks?

**Jon Thompson:** There is a quality-control process.

Q30 **Chair:** What percentage do you sample?

**Jon Thompson:** It is not a percentage, but I can give you a number. We would sample-check 500 cases a month.

Q31 **Chair:** Okay. Was that throwing up anything before you decided to terminate the contract?

**Jon Thompson:** I probably do have that data with me. The checks we made on the financial accuracy of decisions varied between 85% correct and 95%, depending on the relevant month. We have got that data. We did quality-control checks on Concentrix's work and then there is a basket of various performance indicators and quality controls.

Q32 **Chair:** As Ms Phillipson rightly pointed out, one of the big areas was this undeclared partners element. As I understand it, in Concentrix's letters they do not name the undeclared partners. They say they believe the person lives with an undeclared partner. But HMRC's policy was to name the alleged undeclared partner. Is that correct?

**Jon Thompson:** I couldn't be definitive on that; I would have to have Mr Lodge with me. That was put to us in the course of the Work and Pensions Committee hearing. It is correct that the Concentrix letter does not name the undeclared partner, but that information would be given to someone on the telephone, if they could get through.

Q33 **Chair:** If they could get through. Did they know, if they rang up, that they could ask that question? It is very alarming. If you are on the receiving end of one of these letters saying that you are living with an undeclared partner, you think, "What the hell is going on?" If you knew, in that letter, that a quick phone call might resolve it, if you could get through, then there is a different tone to the letter than if you are just being told you are a fraudster when you are not.

**Jon Thompson:** Correct. We undertook to give the Work and Pensions Committee a clearer answer to that.

Q34 **Chair:** Perhaps you could copy us into that. As I have said, and I don't want to labour this any longer, the NAO is doing an investigation which we are expecting early in the new year. I think you know to expect an invitation from us shortly after that is published.



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**Jon Thompson:** May I conclude by saying that I believe this is a fundamental breakdown of customer services? Customers are at the heart of this issue and I believe I have taken action to resolve that as fast as possible. That is where the Work and Pensions Committee landed. But clearly there are significant lessons for us to learn, and possibly the civil service, and I have tried to set some of those out. It would be good to get some assurance about whether that is where the NAO are.

Q35 **Chair:** I will bring in Karin Smyth in a minute, but will you be offering any compensation to the people who have been affected? Some people are still without money.

**Jon Thompson:** There is a process for providing small amounts of compensation for those—

Q36 **Chair:** Things like bank charges and overdraft fees.

**Jon Thompson:** I regularly write letters to people offering them £100 or—

Q37 **Chair:** “£100 or”?

**Jon Thompson:** It varies. Up to £100.

Q38 **Chair:** If you have had bank charges, have defaulted on payments and had fines as a result, those are very clear cash figures, let alone any compensation for the hassle. Is HMRC looking at that and at doing it in a streamlined way, so that someone does not have to go through all of these hoops?

**Jon Thompson:** The Work and Pensions Committee also asked us that, and Mr Lodge gave an undertaking that we would look at that, because there are also issues about the fact that, if you go through the mandatory reconsideration process and come back into payment, you have a gap where you did not receive any money. How do you get that money back? What actually happens is that it is spread over the remainder of the year, and that bumps into other benefits in the benefits process. We have given an undertaking to the Committee that we will look at whether that is something that we could fix with lump-sum payments, as opposed to spreading the payment over the remainder of the award. Whether that is possible or not—

**Chair:** I have to say that it seems logical to look at lump-sum payments. The idea that HMRC does not understand, or had a system set up that did not understand, the interaction of income with other benefits is extraordinary, but I will leave that there, because we will come back to this.

Q39 **Karin Smyth:** May I clarify my understanding of what the National Audit Office review covers? I think that we have heard some concerns around the establishment of the contract, and the price that was paid for the service that was delivered. Is that what you are talking about, Mr Thompson, in terms of the lessons to be learned for the wider civil service? Will that be part of the review by the National Audit Office?



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**Jon Thompson:** I am afraid that I cannot answer the question about the scope of the National Audit Office review, but I can tell you what I think the five lessons are that are to be learned from this process, if you would like me to.

**Karin Smyth:** You said that you were going to say something in the next few days, but if you can tell us that, that would be helpful.

**Jon Thompson:** First of all, there needs to be a lesson about the sensitivity and prioritisation of customers in what is clearly the delivery of public services. Secondly, there needs to be more thorough assurance about contingency planning. Thirdly, there is definitely a question about the speed of escalation, so that people know how quickly issues get to decision makers who can resolve them. Fourthly, there is this question about whether third parties can fully understand the subtleties of delivering a public service. My experience is that the best of the private sector absolutely does get it, but this isn't one of those cases. Fifthly, there is this question about whether an incentive contract was the right kind of mechanism in this case. Essentially, the financial incentive here was to drive towards reducing fraud and error, receiving a percentage of that as the fee. The question is whether that is the right mechanism for this public service.

Q40 **Chair:** Mr Thompson, we were raising those sorts of questions in July 2015. This Committee is very keen to do what we call pre-scrutiny. If you are looking to set up a new contract for this, we, with our sister Committee—the Work and Pensions Committee—would be very happy to consider looking at that before you implement it, if you think that would be of any help.

**Jon Thompson:** Sure, I am happy to do that. I need to be really clear: I am trying to explain partly some history, and partly some reality of me being the chief executive, and I am trying to sort this situation out.

Q41 **Chair:** We will obviously wait and see what the NAO Report says. Before I pass on to Caroline Flint to take up the questioning, I will mention the Aspire contract, though we will come back to it in more detail later. Of course, we lost Mark Dearnley. We were with you only in June; you were very new in your role. He indicated: "As Jon has just arrived"—this was about his contract, which was finishing at the end of September—"it is a conversation we have just begun." Mr Bacon highlighted that we thought he was rather good at his job, and you said: "We all share the same aspiration. We are in negotiations." He has gone since then—to Premium Credit Ltd, I understand. Can you shed any light on why he chose to leave the largest public sector IT project in Europe to go somewhere else?

**Jon Thompson:** I think, putting it fairly bluntly, that the market has spoken.

Q42 **Chair:** Money?



**Jon Thompson:** It is a risk-reward conversation. We made Mr Dearnley a very attractive offer that would have made him one of the highest-paid director generals in the civil service, earning significantly more than me as the chief executive officer. He decided, at the end of the three-year term, that he had made a significant contribution, and that he would take another role in financial services.

Q43 **Chair:** We look at this a lot across Government, as you know—at bringing expertise from the private sector and other sectors into Government. Do you think that you have got the balance right? You have now gone back, temporarily at least, to someone doing it in-house. By bringing in the big hitters from outside, are you denuding your experience in-house, or do you think that we have to change the balance and build up more expertise in-house? There is probably not a simple answer to this; I appreciate that.

**Jon Thompson:** You are asking me two questions, I think. One is about whether you grow your own talent, and what the right mixture is between growing your own people and buying people from the outside; that is a question, but there is also the more fundamental question of what is the reward in the civil service. You previously had a review from the NAO about some functional specialists and how much the civil service pays for those against what the market can pay. We should be transparent and up front with you: there are a series of disciplines—finance, project management, IT, digital and so on—where the private sector is able to pay significant multiples of the maximum that the civil service can pay. If your driver is reward, you probably are going to turn down some of the most fantastic jobs that you can get in the economy, because you could be paid something else somewhere else. You had a Report, I think, in 2014—

**Chair:** I just wanted to get a feel for where things were at. We figured it might be about the money, and it is helpful to hear that. We recognise that this is a knotty issue. You know our views. I know that Mr Evans will be coming back to the Aspire contract a little later.

Q44 **Caroline Flint:** Good afternoon. I will be covering the tax gap, compliance revenues and compliance yield. I will start with the tax gap. On page 18 of HMRC's report for 2015-16, published in July this year, there is a useful graph showing that for 2013-14, the tax gap is £34 billion, or 6.4% of total tax liabilities. Underneath that graph, it says: "As our performance in tackling tax evasion, avoidance and non-compliance improves we should see a trend of tax gap reduction."

In the latest report, "Measuring tax gaps 2016 edition", published on 20 October this year, there is a similar graph that is updated. Not all my colleagues on the Committee may have this, but the graph is on page 4 of that document. Whereas the report published in July 2016 shows the tax gap as 6.4% for 2013-14, the updated assessment shows it as 6.9%. In fact, the July report shows the tax gap for the previous year, 2012-13, as 6.6%, but the updated version shows it as 6.9%. Having looked at those two graphs, I am interested in your explanation of what is going on here. From 2005 up until 2011-12, the tax gap went down every year,



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and in two years it was on the nail, but for 2012-13 and 2013-14, the latest information shows that actually the tax gap is going up. What is going on here? How can you be confident that the trend is going down in the future?

**Jon Thompson:** It is to do largely with the way that this is measured by various statistical data. When we publish a tax gap, we make a series of assumptions on the basis of various statistical estimates and sampling. As time progresses, you get better data. You see that in various national statistics, with the revision of the GDP numbers and so on. The same applies here. That is why, methodologically, you get a revision of previous years every time new information is published—and that ever was the case, as you would see if you repeated what you just did going back a number of different years.

If our statistical colleagues were sitting here, they would say, “You have to think about this in the long term.” Looking at it over the decade, it is clearly going down, but you cannot really do it year on year. That is not a sound method. We will try to draw a conclusion year on year on year. There are also some significant issues—I guess you will want to get on to this—about how this maps across to compliance yield, where you are with time lags and all that.

**Chair:** You anticipate Ms Flint.

Q45 **Caroline Flint:** I absolutely accept all that. I was just interested to see, comparing the two graphs, that for a number of years you underestimated how far the tax gap would fall, and in recent years you seem to have overestimated how far it would fall. I totally understand what you said about how these things are not all in real time and are estimates, but it is interesting that we have moved from an underestimation to a little overestimation. I was a bit concerned about that, given that in the latest estimate, produced in October, for 2014-15 we are looking at a projected 6.5%. Obviously, we would not want to come back next year and see that that had gone the way of the other previous two years, when it went up rather than down. Could you explain that a bit? You can understand where I am going.

**Jon Thompson:** I can totally understand where you are going.

**Caroline Flint:** What is your thinking about how much more accurate—in a difficult area, I accept—you can make these forecasts, so that they are a reality, rather than an overestimation?

**Jon Thompson:** First of all, to give you some reassurance, we need to be clear that these statistics need to meet the standards in the statistics Act, and they are carried out by the rather fantastic statisticians of HMRC. They have to meet certain standards, which are assured, and indeed the Statistics Authority could look at those, if you really wanted some sort of independent assessment of them.

On the second part of your question—is there more that we could do?—the answer to that, frankly, is yes, because some of these depend on



estimates taken from samples. What you could do to increase the veracity of some of these numbers is increase those sample sizes. Jim and I were looking at a particular aspect of the gap the other day, on a sample of 800 cases. Therefore, there is an error bar around that. One of the options we could implement on this graph is to put an error bar around it, so that rather than being definitive and saying, "It is 6.5%", we could say, "The best estimate is 6.5% in the range plus or minus n," and then you would get some sense of that trend over time, too. Those are both options that we are having a look at.

**Q46 Caroline Flint:** That is helpful. How much further do you think the gap should close, Mr Troup?

**Edward Troup:** Can I just pick up on the last question? Your first question was exactly the question that I asked when I saw this year's figures, which was, "We have revised this up. Do we always revise it up?". The analysts Jon referred to produced one of those things showing our estimates year on year, and it goes up as often as it goes down. We have had a couple of years when we have revised it up, but if you look at the components, there is a mixture, so it is absolutely about statistics. I am glad that you have read the tax gap document. I do not know whether you have read the methodological annex, which isn't as bad as it sounds. It explains the methods that go into the different elements of the tax gap and also how we have improved this. We continue to improve them, year on year.

**Chair:** We recognise that it is a bit clearer than it was, but Ms Flint's job is to push for more.

**Q47 Caroline Flint:** So in terms of how much further it should close—

**Edward Troup:** We are the only country in the world that publishes a completely comprehensive tax gap, although others have their tax gap estimated. We do think—I think we have even claimed—that we certainly have one of the lowest in the world. It is also clear that you can never have a zero tax gap, because although components of the tax gap are things that we can influence and have been very successful in influencing—around avoidance—there are elements of the tax gap around businesses going bankrupt before we collect the tax, and elements around the hidden economy that we can never hope to eliminate. It would be foolish of us to say, "We are going to target this particular number." Partly for the reasons Jon has given, we do not regard the tax gap as something we target; it is a backward-looking measure, subject to revision, of how we have performed. We can check it for broad consistency with our own compliance yield and over a period of time, it is consistent, but because of the different ways and different time lags, you cannot say, "Actually, if we improve compliance yield to this, then the tax gap will go down by y." But it does need to be lower.

**Sir Amyas Morse:** From your expert position, I think it would be helpful to hear—I am assuming that there is a limit to how far it can come down—what you would say a realistic range of ambition is. That is not a target or



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anything specific you could be held against, but it is not unreasonable to ask what you think is feasible.

**Edward Troup:** It needs to be lower. Jon, do you want to have an ambition set for you?

**Jon Thompson:** We have been having this debate. I appreciate that you are trying to be helpful, and we had exactly the same conversation in this room about the fraud and error gap and theoretically how low you could go with that.

To be clear about where we are with this, we need to strive to make it lower but we would need to do some fairly serious work about, "How low could you go?", given some of the factors that are inherent in the economy. I am prepared to give you a commitment that we will look at that and see how far it might be possible to go. There are a number of factors that would play out in that conversation, which I am happy to look at.

Q48 **Caroline Flint:** That would be very helpful. While you are on that, which groups do you think require more attention from HMRC in terms of this tax gap? Page R13 of the NAO Report says that HMRC "losses to tax fraud amount to £16 billion each year," and that is "nearly half its estimate of the overall tax gap", as far as I understand. Where do you think your priorities or focus may need to be directed?

**Jon Thompson:** The tax gap clearly sets it out by who. Half of the tax gap is down to small and medium-sized enterprises.

Q49 **Caroline Flint:** It is something like 51%, isn't it?

**Jon Thompson:** Yes, 51%—£18.3 billion is down to SMEs, £9.5 billion to large businesses, £4.8 billion to criminals, and £3.4 billion to individuals. Those are the four main groups.

On that basis, you would logically target small and medium-sized enterprises because that is where the biggest risk is, but you have to put that alongside which tax products. That analysis is also in there. We know that income tax and national insurance is top of that list, but VAT is close to it. So you need to think about a strategy that combines both the customer group and the tax product.

On that basis, that logically leads you to say that you need to tackle small and medium-sized enterprises in the VAT system, for example. That is the sort of logic we follow through a process called the strategic picture of risk, which then follows through into what sort of compliance work would be done.

Q50 **Caroline Flint:** So if we go on to the compliance side of the work and the revenues, I think you have exceeded your target of £26.6 billion. Do you think that that target is stretching enough? It is two years in a row that you have hit your target; do you think it should be more challenging?



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**Jon Thompson:** To manage your expectations, it is highly likely that the number in the current year will also be £26 billion or thereabouts. Just so you are clear, so that when we are sitting here next year—

Q51 **Chair:** Getting your excuses in early, Mr Thompson.

**Jon Thompson:** I totally am.

Q52 **Caroline Flint:** Is that, “Yes, it should be more challenging,” or, “We are happy to plateau”?

**Jon Thompson:** The three of us have been debating this in anticipation that you might ask us. You might want two other answers to this question. There is both a theory that the compliance yield ought to be higher, and a theory that it ought to be lower, depending on what happens with the tax gap. If you could reduce the tax gap, the amount you would be shooting for, in relation to the compliance work, might get smaller.

Then you get into the question about the relationship between the two. We have not settled with the Treasury on a five-year string of numbers, so this is done annually in terms of a negotiation. You may want the two tax experts to give you their view about that, because I am not really clear about whether it would go up or down depending on what the other counterfactuals are.

**Edward Troup:** Some 90%-plus of tax comes in without us having to intervene, and an intervention, in a sense, is a failure. That is because we are running a system where people have not paid the tax, and so the whole thrust of our overall strategy is to encourage, cajole and persuade people to comply voluntarily.

What we do not have is a clear way of measuring how the many things that we do, through improving systems and improving customer service, actually help people to pay more tax. If we could get to a world where we could be measured on how we actually encourage people to pay voluntarily—if that is what you were quizzing us on, and hence on the tax gap—that would be a good place to get to.

Q53 **Caroline Flint:** Part of where I want to go next, which arises out of what you just said, Mr Troup, is about your staff, and about how proactive, as opposed to reactive, they are. Also, I think that the data and analysing the data was important in your last point. I think you are doing quite a lot of work across the service on that, to make better use of the different streams of data that you have got.

To start with the staff, on page 19 of the July Report, in the penultimate paragraph on that page, it makes the point that, “As well as our on-going compliance work, our priority this year has been to increase our capacity to tackle avoidance and evasion, as well as to improve the skills and capabilities of our people.”

May I have a little more information about what was missing, if you like, in the skills and capability of people for which training needed to be provided?



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**Jon Thompson:** We are trying to take HMRC from being a largely paper-based transactional business into a sort of digital world where analytics and data drive you towards a risk-based approach to taxpayers. That is quite a different skill set and it depends what sort of language you want to use.

To be able to take multiple sources of information, apply them in a risk matrix and then intervene with taxpayers is a more highly skilled job. We are talking about those kinds of digital skills, analytics, risking and so on and, if we are being frank about it, the number of people in that particular area. In summer Budget 2015, the Chancellor gave us an £800 million investment to recruit 2,300 more people; you need to run both capacity and capability in parallel.

Q54 **Caroline Flint:** That is helpful to know, because part of this is how you develop staff and equip them with the skills to look for potential risky areas that may not have been as obvious in years gone by. For example, these days we have a lot of hobby landlords and there may be some interesting developments in terms of capital gains tax which mean that you are not receiving as much capital gains tax as you might like.

Still on staffing and skills, on page 58 of the Report under the heading, "Reducing costs and providing value for money", the fifth bullet point says, "We will increase the percentage of staff who feel they have the skills required to do their job to 91% in 2015-16". That is a red, isn't it?

**Jon Thompson:** That is a red.

Q55 **Caroline Flint:** Obviously, this is a really important part of the work, so what are you going to do to change that traffic light from red to even amber, let alone green?

**Jon Thompson:** We need to do some further analysis of the skills base of the staff, and one of the conversations that we have had in this Committee has been about digital skills. Do you remember that in the July hearing we had a conversation about doing a survey of digital skills and our having a 29% gap against an industry standard of about 25%? We need to do some more work on that.

Frankly, we need to increase the supply of learning and development available. At the minute, we are averaging seven days of learning and development per person; the civil service goal is to have a five-day average and we are above that. The question is whether seven days is still enough. We have a huge range of processes of joining and being trained all the way up to and through, including tax professionals; we have a dedicated tax academy and so on. There is a range of options, but it still seems to me that we need to do more in learning and development.

Q56 **Caroline Flint:** Obviously, training is important. Through your managers, how much are you able to track the impact that that training is having on outcomes? Do you have a system in place to look at that? Particularly in terms of the product owners—I hope that I have got that term right.

**Jon Thompson:** I don't know if we have a system per se.



**Q57 Caroline Flint:** You can put people on 20 days' training, but it is a question of whether they take that back and it is part of the whole unit's sense of collective responsibility and function, and managers pushing that training ethos.

**Jim Harra:** We have two processes for that. First, there is a requirement on the individual to revisit the learning with their manager and to consider whether that met the learning need that had been identified in the first place, and whether they are getting the relevant on-the-job experience to bring that training to bear. Secondly, periodically we do skills surveys—for example, the statistics which is mentioned in the Annual Report.

**Chair:** Ms Flint had a particular question about productivity.

**Q58 Caroline Flint:** In terms of the relationship between skills training and productivity, is there any system in place—I am not suggesting that you can see this in one year—to track the output of your various teams in terms of training compliance? Are you prepared to look at that?

**Jim Harra:** Yes. It needs to be more sophisticated, because we are moving a lot of people to new roles as part of our transformation, and therefore it is important that we are able to keep a good track on whether we are building the new skills that they need. It is not as sophisticated as it needs to be.

**Q59 Caroline Flint:** I am going to move on, if I can, just to look at some of the details around the compliance yield. I think all of us on the Committee accept, and obviously there have been previous discussions and reports to show, that this is not an exact science.

May I start by welcoming some of the clearer information that is in the Report? I found it quite helpful and I think it does indicate, which I will push you on, that even if on some occasions in front of the Public Accounts Committee the answer has been no, you actually have gone away and done things that you have previously said no to, which is to try to explain some of this information in a clearer way.

**Jon Thompson:** Shocking allegation!

**Q60 Caroline Flint:** But I would like to push you a little bit further on this. On page 20, there is a helpful outline of the different components of the compliance yield. On page 21, we then have figure 3, which shows the breakdown as well.

Let me start with figure 3. Looking at the different components of this chart, we can see that under "accelerated payments" and "product and process yield" there is an upward trend, but in the other areas it's going down. So, for 2014-15 and 2015-16 they both arrive at £26.6 billion, but there seems to be something happening here. I just wonder whether you could explain that a little more to me, to say why that's the case.

**Jon Thompson:** Perhaps I should start; you can correct me, Mr Harra. The first thing worth understanding, and it is worth making this explicit, is that every year we have to start from zero. We can't carry over from one year to the next; because of the dynamic nature of businesses on our



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intervention, you start every year from zero, with a different range of taxpayers who you are potentially targeting than in the previous year. So, given the changing nature of the economy, sometimes it gets more difficult in some areas and then you have to respond to that with different sorts of tactics.

It may be that you have to respond with harder interventions with individual taxpayers, but sometimes you need to respond with different sorts of products, different legislation in the Finance Bill and so on. It is about the dynamic nature of the target you're shooting for, as I understand it, but Jim may want to flesh out a bit further on how he sees it.

**Jim Harra:** It is a combination of, first, the risks that you are trying to manage—they change over time—and also what you think is the best response to those changes over time. Our strategy, which we call "Promote, Prevent, Respond", is, as far as possible, to move our management and compliance risk upstream—in other words, to design it out rather than to let non-compliance happen and then tackle it and correct it.

For example, that would be a reason why product and process yield would go up, because that is about us designing out the opportunities to get things wrong in the first place. Therefore, to some extent, that is in line with our strategy; that's what you would expect to see.

I also think that taking just one year in isolation is—I think we have to look for trends over time. However, we certainly monitor, because that is a key way of deciding the best way to deploy our resource.

Q61 **Caroline Flint:** The accelerated payment notices scheme seems to be very successful. It encourages people to make that upfront payment and then sort out any disputes down the way. I think that of the £2.4 billion, only £300 million is attached to behavioural change, so that gives us a sense of what is the money coming in—a sort of estimate.

Is there any learning from that part of compliance yield that you feel you can start thinking about and applying to other components?

**Jim Harra:** Yes. I think accelerated payments are successful in two senses. First, they are bringing in money for the Exchequer, but they are also about changing the economics of avoidance and therefore changing the incentives for people to engage in that.

While we had all of the market avoidance cases working, and while some taxpayers were able to hold on to their money, there was an incentive for them to keep the dispute running. Now that legislation has been put in place that says we keep the money until the dispute is resolved, there is an incentive for people who did not think they would win to close their dispute and walk away, and I think we are seeing that behaviour as well as collecting the advance yield. The broader lesson is that if the Exchequer has the money while you enter into the dispute, you will only enter into a dispute if you seriously think it is something you should do. Of course, that



reflects what happens to the vast majority of people: it is open to taxpayers to dispute things if they think we have got it wrong, but the vast majority of taxpayers—for example, people on pay-as-you-earn—have paid the tax up front and the dispute is about seeing whether they are due anything back. This puts more affluent people involved in an avoidance scheme on the same footing as the vast majority.

- Q62 **Caroline Flint:** That is helpful, but it would be useful to know how much we can push you to think about how lessons can be learned in some of the other areas. The Committee's particular concern—Mr Troup, you have yet to respond to our last Report, published in April, I think—is how better to understand and to align the compliance yield side of things with the tax gap. On page 19, there is a helpful revenue case study of "Sarah", which points out the difficulties in this area—what is actually filling a gap, what should have been paid anyway and what is a projection for the future.

In previous hearings, representatives of HMRC have pushed back at the Committee and the NAO on having a better sense of where the estimates meet reality. We have asked whether you are prepared to think about, not in one year but over a number of years, analysing where the estimates meet reality as the data come through, both so that we can see better whether you are over or underestimating, and as a learning point for staff and the organisation to improve. Are you prepared to do that?

**Jim Harra:** Absolutely. We are committed to doing that. We recognise that some of the compliance yield we report is an estimate, and we are committed to going back afterwards to evaluate the estimate based on outcomes. We are also in our transformation programme building better systems, which will enable us to link much more closely to individual cases the extent to which we are recovering tax, which should also reduce the need for estimates in the future.

**Caroline Flint:** That will be very helpful.

**Edward Troup:** Let me tie your question about where we go next on compliance to your earlier question about the tax gap trends, because if you look at the tax gap document, you will see that over the last four or five years, we have roughly halved the amount of avoidance contribution to the tax gap from 0.7% to 0.4%. That is a reflection of what we have done, and as Jim said, accelerated payments add to that. To pick up Jon's point about the size of the tax gap, half of the tax gap is with small business. Although we have a reasonably light touch with small business intervention, there clearly is a big gap there. You may want to come on to *Making tax digital*, but we see that as part of the way to promote and enable better compliance. I hope that in future years you will see that, while our compliance yield may not have gone up, the performance and the tax gap around small businesses will have gone down as we making this work. These are long-term, big projects for us, though.

- Q63 **Chair:** What would you say is a reasonable time period in which to see the trend?

**Edward Troup:** With small businesses, you have to pick it up around the introduction of *Making tax digital*.

Q64 **Chair:** So you are expecting a jump at that point.

**Edward Troup:** Well, the Revenue have scored.

**Jim Harra:** We expect when we implement *Making tax digital* for businesses from 2018, that by 2021 we will have reduced the small business tax gap by just shy of £1 billion as a result. We feel that that is a platform on which we can build for the future and take more of that error gap out. That is about making it easier for small businesses to get it right.

Q65 **Chair:** Remind me what £1 billion is in proportion to the tax gap with small businesses now.

**Jim Harra:** The small business error gap is between £6 billion and £7 billion<sup>1</sup>. That £1 billion is cumulative from 2018-21. On an annual basis, we think we are going to take about 10% out of that error gap.

Q66 **Caroline Flint:** It is very helpful to have you acknowledge that HMRC could have a better look at what the estimates were, against what actually happens. We could have a mid-term, longer view and analyse that. That would be very helpful.

I want to touch on two other points before I pass on to my colleague. One is the diverted profits tax. Obviously, that is not included this year in the compliance yield, but it will be in the future. Is that correct?

**Jim Harra:** Yes. The diverted profits tax is expected to raise £1.35 billion up to 2021. In 2015-16, the first year of the diverted profit tax, we expect that we will be able to show that it brought in about an extra £25 million. We have already identified part of that from cases that we have worked. In addition, in some other cases, companies notified us that they were changing their structures in response to the legislation. We are currently going through the process of looking at what the impact of that was. Obviously, it was not as a result of our intervention; it was spontaneous as a result of the legislation. We expect that will deliver on the yield.

Q67 **Caroline Flint:** That is actually stated on page 27 of the Report. Could you say a little bit more, Mr Harra, about how these businesses are restructuring their affairs? Is that what Facebook did?

**Jim Harra:** The aim behind the diverted profits tax is to create an incentive on businesses to restructure their corporation tax affairs and pay more corporation tax because of the risk that, if they don't, they will have to pay a higher rate of diverted profits tax. Therefore, we expect that the bulk of that £1.35 billion will be additional corporation tax, rather than formally the DPT.

Yes, what we are seeing is large businesses tacking away from that most aggressive end of tax planning. Previously, their advice would have been

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<sup>1</sup> Clarification from witness: The error and failure to take reasonable care tax gap totals £8.7bn, the majority of which comes from small and medium sized enterprises



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that it would succeed, but now their advice would be that there is a risk of being caught by the diverted profits tax. We have been risk assessing all of those large businesses that we think are within the ambit of the diverted profits tax, and so far we have identified about 100 high-risk cases.

Probably, when we have completed our risk assessment, there will be about another 70 or so of those that we will want to look at in depth, because we will either be concerned that they have not changed, as we think they should, or they will say that they have changed, but the risk is so significant that we will really want to get underneath that and ensure that they have done everything that we can expect.

**Q68 Caroline Flint:** On page 17 of the Report, it highlights that corporation tax is 8% of the total revenue, and that it has increased by 9.9%. That seems quite a healthy increase. Where do you see that percentage going?

**Jim Harra:** Corporation tax receipts are pretty volatile, based on the economy. They took a big hit because of the financial crisis in 2008. What you are seeing now is a recovery back to pre-crisis levels, as profitability returns and the losses that were incurred in the financial service start to wash out, because obviously companies are entitled to claim relief for those losses.

**Q69 Caroline Flint:** Earlier this year, the process of multinational companies reporting on their country-by-country arrangements came into play. That information is obviously not public. I would like it public, and we have now got it in law that in principle the Government support that. What difference has that made, in terms of reporting to HMRC, having a better understanding of what these companies are doing, and ensuring that you get a better feel for what they should or should not be paying?

**Jim Harra:** First of all, on the private country-by-country reporting to tax authorities, it is very early days yet, in terms of having received any of that. We have been putting the arrangements in place with our partner tax authorities around the world to ensure that we are able to receive and share that data effectively.

**Q70 Chair:** You say it is early days. When will we in Committee be able to see the difference?

**Jim Harra:** It came into force at the beginning of the year, but it applies to accounting periods after that, so you will have to wait until the companies have had the end of that accounting period and then are due to report, so it will take some time before the first ones come through.

**Q71 Chair:** Towards the end of next year, then, really?

**Jim Harra:** We do believe that it will give us better data about where multinationals are raising their revenues, and will also reduce the burden on us. We have previously had to chase them for that information—dig and dig for it—so it will free up our resource. We will no longer have to spend our time digging for that information; we can use it.



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Q72 **Chair:** If there is a big difference at the end of next year from what you were getting from them before, are you going to do an investigation? Do you reserve the right to do an investigation into a large multinational?

**Jim Harra:** Absolutely. I think country-by-country reports will support our risk assessment, and selecting the cases—

Q73 **Chair:** How many years can you go back?

**Jim Harra:** Depending on the nature of the behaviour, we can go back up to 20 years. That is not usual; four, five or six years is more usual.

Q74 **Chair:** So you might go back? If you get results that show that more yield should be coming to the Exchequer here in a year's time, say, you might go back?

**Jim Harra:** I think the estimate is that that will produce about £45 million of additional yield<sup>2</sup>. Obviously, it is just a piece of information to help risk assessment; the underlying rules about what is taxable and what is not have not changed as a result of country-by-country reporting. It is only a piece of information to help with risk assessment and investigation; it should improve our targeting and performance.

On public transparency of country-by-country reporting, the Government shares the view that it should be public, but believes that it should be done ideally on an international basis and, failing that, on a multilateral basis. It wants to work to achieve that, and is happy that it has the power to publish country-by-country reports, but it wants to work with international partners to get it on a multilateral basis. There are two reasons for that. First, if it is just done unilaterally by one country, there is quite a limit to what that can show, not least because multinationals can arrange for the top company in the jurisdiction not to have under its power the data that would feed the reports. That can limit the information that it gives its subsidiaries. Secondly, if you can leverage other countries to come along with this, you will get a far better outcome from it.

Q75 **Caroline Flint:** On that point—the case that it should be done multilaterally—what is the minimum cluster that could make a difference? Are there particular countries that we hope will side with us on this—America, Germany or whoever? Otherwise, we could be here forever and a day waiting for the perfect multinational support for this. Given that we are coming out of the EU, who do we want to be friends with on this? Who is the most important partner?

**Jim Harra:** If we could get America, that would be absolutely wonderful.

**Chair:** We are going to lobby the Americans in May, so we will bear that in mind.

**Jim Harra:** What you would be looking for is at least a set of like-minded major economies. Ideally, you would get this agreed internationally at the OECD as a global standard, and in particular you would get it to apply to

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<sup>2</sup> Figure clarified by witness in written note to Committee



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the USA. We went through that in the BEPS project at OECD, and the best we could achieve in global agreement was private country-by-country reporting, and some countries were pretty firm that that was the only basis on which they would agree.

The European Commission has suggested action at a European level, for example. The Government has been supportive of that and, indeed, has asked the Commission to go further than its initial proposals.

**Chair:** We are in danger of going through some of the debates we had over the Finance Bill—which is great, because we are enthusiastic about them, but perhaps Caroline Flint can move on.

Q76 **Caroline Flint:** My final question comes back to data. Page 88 of the annual report refers to data exploitation, as part of the risk overview. You are obviously identifying that—you have these multiple streams of information—but you need to make much more use of cross referencing to know what is really going on, and presumably also to enable your staff to manage data effectively for their own day-to-day work: what they do, how they do it, how they assess risk and who they go for. Could you tell me a little more about where you are on this? Is it working? Is it coming together in a coherent way? Are there any particular problems that you have identified, in building the data engineering centre or in commencing phase 2, that we should know about?

**Jon Thompson:** First of all, let me extend you an invitation: if you want to see the system for real—how it works, and how it connects information together around taxpayers—you can see it at Custom House in the City. I absolutely invite you to do that; I went myself a couple of weeks ago. There is a fantastically powerful system now called Connect. It is surprising what we can put together about individuals and businesses.

We will always face the fact, though, that although we are exploiting all the information we are collecting, and we are collecting more as we go along, you have to wonder whether it is as effective as it could be. We currently collect 22 billion pieces of data that are mashed together in a single system. If you go there, they have a scorecard about the number of pieces of data they are mashing together in the system—it is fantastically powerful. But we also believe that there is a second version of that, which takes live data streams as opposed to historic data, so we are working on how you plug the RTI system directly into that analysis.

**Chair:** Real-time information.

**Jon Thompson:** Yes, real-time information, which is the PAYE system. How do you plug live data into that so you get much more up-to-date intervention? We sit and worry about this risk because there is such a wealth of information, but are we really exploiting it to the maximum? We are yet to be satisfied that we are. There is a fantastic team that does this work and they are doing really well, but there is so much further that we probably could go. Does that answer your question?

Q77 **Caroline Flint:** Yes, that is very helpful. It would be good to come and



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have a look—that would be really helpful—and also to know that within management teams the managers are working with staff to better understand the data that passes across their computer screens every day so that they can use it in a constructive way. Yes, it's about the collection of the data and having very bright people to organise it in a way that you can read it, but we are also interested in the hands-on responsibility of managers to enable their staff to do it.

**Chair:** We have seen from the opening discussion about Concentrix that data alone and a clever computer system do not necessarily deliver good results for the customer, so Ms Flint's point is well made.

**Caroline Flint:** In terms of applying the data, it would be interesting to know—perhaps you could write to us—about how, perhaps through training or what have you, you might be looking at certain units to see whether you could take them through any exemplars of how other units could pursue using data more effectively in their day-to-day work.

**Jon Thompson:** I will happily write, but I reiterate that if you want to see it for real, I am very happy to show you the system working. We can put in whatever you want to put in and you can see what happens.

**Chair:** You will find out all about our tax affairs, Mr Thompson. They are very boring, I have to say.

Q78 **Mrs Trevelyan:** You made an interesting point just now about the new diverted profits tax. You said that although you do not expect to be collecting much of it, the nudge effect is that you will be collecting a lot more corporation tax. That is kind of the point of the taxation system, as Mr Troup said: to encourage. The whole world of tax reliefs is used, often politically or for social benefit, to encourage or alter behaviour. I have found it quite disappointing that you do not seem to be monitoring the—according to the Office of Tax Simplification—more than 1,156 active tax reliefs that are currently in the system. My first question, then, is why are you not monitoring them comprehensively?

**Jim Harra:** First of all, we have to do two things in relation to tax reliefs. One is that we have to manage their administration so that the people who are entitled to receive them get them and the people who are not entitled to receive them do not. We have a set of services and a method for managing compliance risk that I believe does that. The second task is to monitor and report as much information as we can about what is going on with those tax reliefs—what cost is involved.

Taking the first point on administering them, as a general rule we do not organise ourselves around specific tax reliefs. Our approach is to organise ourselves around customer groups—small businesses, large businesses, the wealthy and organised criminals—and around behaviours such as avoidance and evasion, rather than around reliefs. We have made some exceptions to that when we think a relief needs to be administered more centrally. We have created some units, particularly for investment incentives, to make sure that they reach the people they are intended to reach and that we can understand the impacts they are having.



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**Q79 Mrs Trevelyan:** May I stop you there for a second? Do you not manage each tax—income tax, corporation tax, VAT—within a team group that would therefore have direct relationships with those tax reliefs?

**Jim Harra:** Each area of tax has a product owner whose job it is to make sure that they have the expertise in that tax so that they can give policy advice on what needs to change. They are monitoring and evaluating what is happening so that they are sure the Department is administering it. In terms of how the Department as a whole is organised, we do not have a VAT section, a corporation tax section and an income tax section; we manage small businesses and large businesses by customer group. That is how we try to do that.

**Q80 Mrs Trevelyan:** You talk about product owners for, say, VAT policy. By definition, VAT reliefs would surely come under their remit. Therefore they ought to be able to very transparently explain the impact that those reliefs are having on behaviour or tax revenue.

**Jim Harra:** We expect them to have a good knowledge of all aspects of their tax, including how much the tax reliefs are costing. Are they costing more or less than we expected them to cost? Are they being used in ways that we did or did not anticipate? We have a set of guidance for our product owners on what we expect.

**Q81 Mrs Trevelyan:** Are they using that guidance and reporting it through? There is no transparency in terms of the date of publication.

**Jim Harra:** We have had some dialogue with the National Audit Office, and we have put best practice guidance out. The National Audit Office has come and looked at it as part of their standard Report about the extent to which they can see people abiding by that guidance. Our view, which the NAO acknowledged in their standard Report, is that it is a bit early to be doing that because product owners have not had time to adjust their product plans in response to that guidance. It is an ongoing task to make sure that we are following the best practice that we possibly can.

I will distinguish between different types of relief. If you take the long list that the OTS has published, which shows what the reliefs are, some of them are just the method that the draftsman has used to define the base of the tax—they are very long standing and they will always be part of the tax system. He or she has called it a relief, but it is simply a way of defining the base.

By way of example, air passenger duty is obviously a duty on passengers carried by airlines, but the draftsman said, "Well, we are defining everyone aboard the plane, and then we give a relief for the crew." In theory there is a relief for air crew—it is on the list of OTS reliefs—but in practice it is not really a relief. What we are interested in is counting the passengers on the planes. It is just a way of defining it.

**Q82 Mrs Trevelyan:** That suggests that tax law is badly drafted.

**Jim Harra:** It was the method of drafting. For some reason the choice was taken to define the base widely and then to carve out exceptions.



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What it means is that the product owner does not have a huge interest in evaluating the impact of the relief year on year.

- Q83 **Mrs Trevelyan:** For instance, if you are flying from the Scottish highlands and islands, you don't pay APD—presumably an amendment was put in, and well done to whomever was fighting that cause at the time politically—and that is monitored, so do we know what it costs the Treasury? If the Chancellor is looking at APD, a big area of central policy change at the moment, particularly with Scotland, how might he say, "Do you know what, that has actually cost us £1 billion over the last 10 years and we want to question whether that is the right way to hand out tax relief"?

**Jim Harra:** Routinely, we monitor costs wherever we can, but there is a trade-off between getting the data that enables us to do that monitoring and making sure that we are not putting undue burdens on, for example, small businesses in the highlands.

- Q84 **Mrs Trevelyan:** Mr Thompson has just said that, with your data systems, this is something that you ought to be able to do very easily because that is something that is put into a system, be it small business or large business, and therefore with a little intelligent algorithm planning one can start to monitor that gap in tax claims.

**Chair:** You have a suggestion there, Mr Harra. What do you say?

**Jim Harra:** On that particular example, I will pick it up and see whether we do it. The broader point is that we do monitor and report costs wherever we have the data. We will sometimes decide that it is so important for us to have the data that we will put the burden on the economy to collect it; other times, we will decide that it is not necessary to do that. It also depends on whether we need the data to administer the compliance risks. However, in addition to that routine monitoring, we will do periodic monitoring. Particularly if Ministers are interested in reforming a particular area, we might do a research project, for example, to get that richer data to support it.

- Q85 **Mrs Trevelyan:** That information isn't really available, either to politicians or to analysts, to assess it. It was only because the NAO highlighted that the entrepreneur's relief was costing the taxpayer three times more than it had been intended to cost that you guys and then the Treasury looked into it, and then made progress on changing how those reliefs worked.

It strikes me that you are holding the data; you see the corporation tax returns. You are the ones who see who is putting in and saying, "And we're claiming for this, and we're claiming for this, and we're claiming for this," as opposed to an income tax allowance, whereby everyone gets ten grand before they have to start paying tax.

Within the broad spectrum of weird and wonderful ideas that Chancellors of all colours have come up with over the years—some quite extraordinary—is it not HMRC's role really to be on hand for that, so that



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you know where your potential tax gap is, and the information can be used effectively by any Chancellor to drive policy accordingly?

**Jim Harra:** First of all, to take up the example of entrepreneur's relief, we publish every December the costs of about 180 tax reliefs, including entrepreneur's relief. It is part of our guidance for product owners that they must monitor variances in the costs and understand the reasons for those variances, and if necessary give advice to Ministers. We can point to lots of examples where we've done so, including monitoring on an ongoing basis and on a periodic basis, where we decide to do some deep research.

Q86 **Mrs Trevelyan:** Is it your view that that 180 are real reliefs, as it were, as opposed to some of the structural frameworks that we have for tax?

**Jim Harra:** No. We have identified about 400 reliefs—structural and tax expenditures—but we don't have data for all of them, so the 180 are the subset for which we have data that we believe we can publish a cost.

Q87 **Mrs Trevelyan:** If you don't have the data, who does? They are our country's tax reliefs. Why aren't we able to assess what the data on them is?

**Jim Harra:** As I said before, it is the nature of some of them that they are structural; they are built into the tax. They are basically given at source. It is difficult to collect data on them and therefore we don't have enough to publish.

Actually, 180 is, by international standards, a very high number to be able to report costs on. Just in terms of benchmarking, that is a pretty creditable performance, but we constantly look for new data sources, whether we collect data from taxpayers or, if we don't, whether we can get it from a third party.

Q88 **Mrs Trevelyan:** In terms of reporting, even on those 180 reliefs, is that something you would consider putting into the annual report, to help the wider public to understand that bigger picture of that part of the tax framework?

**Jim Harra:** We already publish that data once a year, in December. We have taken an action from the NAO to look at improving the accessibility of that information. Some of it is scattered over a number of different publications and there is an onus on us to pull that together, or link it for people so that they can access it.

That information is not published at the same time of the year as our annual report; it's usually published December time.

Q89 **Mrs Trevelyan:** Is that something you would consider including in the annual report?

**Jim Harra:** We can certainly take it away and look at that.

Q90 **Mrs Trevelyan:** As I said, it's the bit that's not collected.



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**Jim Harra:** There is some information in the annual report. For example, there is a table of corporation tax reliefs. That is already published in there, but we can consider whether there's more we can do to link it.

Q91 **Mrs Trevelyan:** I think an understanding of where it is chosen that tax will not be collected is a very important part of the bigger picture.

A particular area is customs duties. Obviously, with Brexit coming up, is there a piece of work going on to look at all of those and to question how we might want to amend our tax law in the future?

**Jim Harra:** Absolutely. I suspect—I hope—that like all Government Departments, we are thoroughly reviewing what the impacts of leaving the EU might be on the Department. Clearly, the key area for HMRC is customs because we are a member of the customs union, which means that at the moment we don't have our own tariffs or customs controls on intra-EU trade, so that is a major area for us to look at.

We have been doing two things, really. First of all, we have been making sure that Ministers have got as full an analysis as we can give them of the different options and the impacts of different options. Also, we are looking at what kind of infrastructure and organisation we would need to have coming out of the EU, based on different operating scenarios.

Obviously, we don't have any decisions yet to work on, but we can plan for different scenarios, to make sure that we know that we can be ready and that we understand what would be involved in trade being ready as well.

Q92 **Chair:** You talk about being ready, but we have already heard about the complications of dealing with tax reliefs—we may beg to differ on some of those—so how long is it going to take to adjust the tax system to take account of Brexit? A long time?

**Jim Harra:** It depends on the nature of the way we exit the EU and the choices that Ministers make. For much of the tax system there may be relatively minor impacts. We may have more choices in future. I think the area of our operation in which there will clearly be the biggest impact is customs. While we are trying to make sure we cover all the impacts, customs is the biggest.

Q93 **Chair:** While you are dealing with the Aspire contract, which is one of the biggest public sector IT projects in Europe, with reworking your office structure, with the spending review cuts and with the challenges of the Public Accounts Committee and the Treasury Select Committee, that is lot to take on, isn't it? Have you got the capacity?

**Jon Thompson:** It is an enormous challenge—I guess you may at some point want to turn to the transformational agenda—but all the targets we have got for running and delivering the business, plus changing it, plus Brexit, do add up to a very significant agenda, yes. You are, by the way, talking about one of the Brexit questions for us, but we think there are broadly eight. We can run you down the list fairly quickly if you want.

**Chair:** Yes, feel free.



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**Jon Thompson:** You started with customs. Secondly, there are various questions about social security, because we run £40 billion-worth of the benefits system in tax credits and child benefit. Thirdly, there is excise and the decisions to be made there. Fourthly, there is VAT, where there is an EU framework but essentially we are responsible for it. Fifthly, there is the question of what difference this would make to direct taxes and state aid. Sixthly, there is the question of information exchange with other EU countries that help us to drive our compliance work. Seventhly, there is what happens to litigation that is in train when you leave—there is a significant amount of litigation, which, again, you might want to get on to. Last but by absolutely no means last, what happens to all of our various customers, in relation to their business, and what impact does that have on their relationship with us?

Those are broadly the eight areas where we are focusing our work. We appointed a director for leaving the European Union the week after the vote. We have added a significant amount of people into this area; they all work for Jim. They are doing a great job, but it is a significantly additional challenge for us.

Q94 **Chair:** I am going to bring in the Comptroller and Auditor General and then Anne-Marie Trevelyan.

**Sir Amyas Morse:** I would like to make a couple of quick points. First, your last point—"not least"—could obviously be translated as meaning "estimation of the effect on tax yield". Is that what you mean? In other words, if, when you say "the effect of leaving the EU" on your customers, the effect is that their profits go down, then you are presumably having to think about the implications for the overall tax yield.

**Jon Thompson:** Amongst other things, yes. But the very nature of how they do business outside the European Union, and therefore their relationship with us, may change. After you've made a series of policy decisions about the tax system, it changes both sides of the equation.

**Sir Amyas Morse:** To continue very quickly on this, you no doubt have efficiency pressures on your budget, so is this something that means you are going to need to negotiate more budget capacity with the Treasury? Do you anticipate that?

**Jon Thompson:** Well, it depends. It sort of depends on what the decisions are, but it is highly likely that what this would mean is that we would need to think about the structure of the organisation and how many people we have, which would then logically lead to a conversation with the Treasury about more people, yes.

Q95 **Mrs Trevelyan:** I would like to come back to VAT, which you mentioned and which is a critical part of this area. You have touched on it, but businesses are coming to me already with those questions. There are presently thresholds—below £40,000 in certain areas—where there is no declaration and stuff just carries on easily. How are you working with businesses to understand the impacts for them, not with EU trade but



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elsewhere in terms of VAT issues?

**Jim Harra:** We try to stick really closely to customers or their representative groups to make sure we are getting as good intelligence as we can. We have got lots of standing consultative committees, including one on VAT, where we get feeds in, because a key role of HMRC in the policy-making process is to be able to give Ministers a good insight into what customers are up against.

Currently we operate VAT in accordance with an EU framework, and therefore if we want to make changes to that framework we have to negotiate them in the European Union. After we leave the EU, it will be up to the UK to decide what kind of VAT system, if any, it wants to have. It is difficult to prepare for that, because until people start making decisions about what kind of VAT system they are going to have, there is only so far you can go. The key thing we have done at this stage is to identify the kinds of issues that will have to be resolved as part of a negotiation or part of an exit. We will have to, for example, fill gaps that will be created by leaving the EU. Beyond that, there are a load of policy and political choices to be made.

Q96 **Caroline Flint:** Obviously Norway is not part of the European Union. Does it have to comply with the EU framework on VAT?

**Jim Harra:** You are really testing my knowledge.

**Chair:** If you don't know, you can write to us.

**Jim Harra:** I think members of the EEA that are not in the EU but are in the single market agree to comply with some of those rules.

Q97 **Caroline Flint:** Okay. It is just useful to know, because obviously everyone is looking for different examples of people who are not in the EU but trade in the EU, and what it will mean in terms of discussions.

**Jim Harra:** There are a number of existing examples in both customs and tax—you have Norway, Switzerland and Turkey, for example—but the Government has said that it is not necessarily going to go with one of those templates. The UK will decide to—

**Chair:** We are drifting into policy.

Q98 **Mrs Trevelyan:** Coming back to one thing within the tax relief area, my concern—the entrepreneurs' relief highlighted this very well—is that on the big areas, such as principal private residence relief, how can we and the taxpayer be assured that you guys are monitoring that? How do we know that you are keeping a handle on what the policy was intended for, whether as a relief or an allowance—call it what you like—in the structural framework of taxation, and how that might be altering, because behaviour and markets change, so we are on top of whether we are suddenly losing a lot more tax take than we ever intended?



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**Jim Harra:** Principal private residence relief, which is the relief from capital gains tax if you sell your own home, has been there since the start of capital gains.

**Chair:** About 1965.

**Jim Harra:** About 1965, yes. A policy objective of that, which is identified in the standard report, is to support homeowners. Clearly, if you don't have to pay tax, it does support you, but there is a question mark over the extent to which it is a really deep policy objective, as opposed to a political decision not to apply capital gains to the sale of people's homes.

The value of that went up in 2015-16 by about 10%. That was simply a product of the increase in house prices and the number of house sale transactions during that year. We do not require everyone who sells their home to calculate their gain, report it to us and claim that relief, because we think that we do not need to put that burden on people to administer it. The vast majority of home sales qualify for it.

However, we do a number of compliance checks to make sure we get to the people we believe are risky, and who should have declared a capital gain but have not. For example, once a year we run a check against some third-party information about house sales to identify high-risk cases, both within self-assessment and outside it. Also between 2013 and 2016, we ran a formal property campaign both to encourage people to come forward and declare if they had not done so and to find those who hadn't. The results of all those exercises indicate to us that the level of compliance risk in relation to this is fairly low.

We have a tick-box on self-assessment for people to say whether they have used the relief, but our view is that we don't need to place the burden on people to gather all that data to administer the relief. We have got an alternative way of monitoring its cost, which is the top-down use of third-party data.

Q99 **Mrs Trevelyan:** Thank you. Going forward, even if you have got this backlog of reliefs—this historic mass that may or may not be classified as such—in the last five years 56 have been taken out of the system, but 171 have been created. That is not your fault; that is politicians coming up with bright ideas to support, encourage or whatever. They are new, and you have data systems that are very sophisticated now. Are you able to monitor those? Is that a plan of action so that going forward, knowing the digital world we are living in, you can relatively easily follow that and therefore monitor the loss of revenue?

**Jim Harra:** Yes. First I have to own up. I do help politicians with their bright ideas.

**Mrs Trevelyan:** It's your fault, then! You can take responsibility if you want to.

**Jim Harra:** I would be the first to say that I also support simplifying the tax system. Particularly for new reliefs, our practice is to actively monitor



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them in their early days to make sure they are performing in the way that we expect them to.

**Q100 Chair:** Going back to principal primary residence relief, 1965 is before I was born, believe it or not. It is worth highlighting that the £18 billion per annum, if you did not have it, would not go to the Exchequer. Compare that with capital gains tax. It is roughly three times capital gains tax, or two and a bit times capital gains receipts. Where do you fit into discussions with Ministers? You say you think you have enough to know it is not a risk, but how do you collect the data and then provide it to politicians who are making the decisions? It could just be something that we think is a bit difficult to deal with. It could be that no one has thought to look at it for a while.

**Jim Harra:** First of all, to clarify, our costing of that relief and other reliefs does not take account of behavioural effects, so abolishing the relief would not necessarily mean we get an additional £18 billion worth of tax, because people have got choices whether to sell their house or not, and they may choose not to do so if they think you are going to tax it. So it does not follow that you will get £18 billion. But you are right. It is in the nature of capital gains tax that some of the exclusions are worth more or as much as the tax that we collect.

Clearly, you do have discussions with Ministers throughout the year, but particularly in the run-up to fiscal events about what it is they want to achieve in their fiscal events: if they want to raise revenues, or what the different choices are for where they might go in the economy to raise that. Very valuable reliefs as well as rates and other things are what Ministers will always want to look at. No Government, I think since 1965, has suggested that it wants to erase this relief.

**Q101 Chair:** Do you have any way of ranking—I think from Anne-Marie's questions I have elicited that you don't—tax reliefs in the amount of money forgone to the Exchequer?

**Jim Harra:** Yes. Of the 180 that we have costings for, we can absolutely rank them, and even ones that we do not have costings for we can take an intelligent view about where we think they are in the rankings in terms of what the scope is.

**Q102 Chair:** So is it the case that you will just not look at some of them? What was the black beer tax, Anne-Marie?

**Mrs Trevelyan:** Small beer.

**Chair:** Can you explain the small beer relief?

**Mrs Trevelyan:** There is a variety in the alcohol department for quantities produced, different levels of strengths produced and so on that go back a long way. They do not have much tax loss value. They may be encouraging business development. They may be irrelevant.

We understand you have a Brexit challenge and various other pressures on you, but would you look at what exists in the system to give it a



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proper full review and say, “This is irrelevant but still useful for whatever reason”? I am thinking of what the ONS has done, but not with the financial data that you have behind you to be able to properly assess what the impact is on the tax take for the nation, so that we are coming from a useful standing start at a point where we are becoming digital and we can monitor things going forward.

**Jim Harra:** It would be for Ministers to decide whether they want a wholesale review of tax reliefs. What we commit to doing is to publishing cost data. If we have cost data, we publish it and we are as comprehensive as we possibly can be. We have also committed to making sure that our product owners follow the best practice, make sure that they understand all the reliefs in their system and are ready to advise Ministers either proactively or in response to queries.

Q103 **Chair:** I think we are approaching the Exchequer Secretary and we will know where the suggestion came from.

**Sir Amyas Morse:** To be clear, at the moment what you have information on and what you don’t sounds pretty arbitrary. It would be good to know what you ought to have information on, not what you happen to have information on. We would really like you to go through an exercise—I am not asking you to have the same information on all the reliefs. That is not appropriate. But I think it is fair to have reasons why you should or should not have information and how far up the list of reliefs you need to go in order to have meaningful current information, and I think it should be possible to share that.

**Jim Harra:** I think that is fair, and I know, first of all, it is part of your recommendations. It is part of your findings that particularly for some of the historical reliefs, like some of the ones we have talked about, you cannot find an audit trail for how we have decided that we do not need data for that relief. I think it is fair that we should be able to articulate the reasons why we have decided to get data or not get data.

**Chair:** I have to profess a certain professional interest in the small beer tax relief as I have, in one ward in my constituency, five micro-breweries, so I am interested in why this has been abolished. I think maybe I might start a campaign to re-establish it. That is the problem, I guess, politically, with tax relief. Anyway, we have got a task in hand that I am sure we will take on.

Q104 **Chris Evans:** Thank you for coming to the Committee today. Mr Thompson, could you provide an estimate of the cost to customers as individuals of interacting with the tax system?

**Jon Thompson:** We have an estimate of the impact on businesses—

Q105 **Chris Evans:** But not individuals.

**Jon Thompson:** But not individuals. So on businesses: the current estimate is £11.5 billion a year, and we have been set a target to reduce that by £400 million a year by the end of this Parliament.



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Q106 **Chris Evans:** You have to see that as concerning—that most of the complaints come from individuals rather than businesses. You are not estimating—before you started talking about reducing your running costs, you do not know what the estimate is for the cost to the taxpayer to interact with the tax system. That has got to be a concern.

**Jon Thompson:** We have historically not collected that information. I question what the value of the data would be.

Q107 **Chris Evans:** Historically, you have had a serious problem in the past with customer service. Paragraph 2.19 of the NAO's Report mentions "over-optimistic assumptions about how much change it could make" which resulted in a complete collapse of personal taxpayers' contact by phone. Do you think you are being over-optimistic once again, and that you have not got the evidence before you push on with the changes?

**Jon Thompson:** I'm sorry—forgive me; I cannot remember whether you were a member of the Committee when we gave extended evidence about that particular element of our history. Forgive me for not remembering whether you were.

**Chair:** That's fine.

**Jon Thompson:** But we have significantly recovered customer services since then; so since last December every month we have been under six minutes.

Q108 **Chair:** I think, Mr Thompson, to be fair, we did acknowledge that in our last Report. Mr Evans's point is that it is a bit up and down.

**Jon Thompson:** It is not a bit up and down. Sorry; it has consistently gone—

**Chair:** Well, it has been. If you tell us it is going up now, that is great.

Q109 **Chris Evans:** My point is that you have in the past, according to the National Audit Office Report, been over-optimistic. You have made plans without any evidence base. That is what it looks like to me when you are not collecting information about the individual customers. What I am concerned about is that it is going to go wrong again, because you haven't got this information at hand. You have to see that point, surely.

**Jon Thompson:** You will have to forgive me for not quite understanding what you mean; but let me try and interpret your question.

Q110 **Chris Evans:** What I am saying to you, to clarify the issue, is you have given very distinct figures about business customers but you have no figures about individuals. You don't know what the cost is to the individual taxpayer. Is that correct?

**Jon Thompson:** Correct. I think I have given you that answer twice now, yes.

Q111 **Chris Evans:** So you think that is a very good basis to move on with your changes.



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**Jon Thompson:** We need to be clear. You don't necessarily need that information in order to be able to move forward with what is a transformational agenda about giving customers alternative ways of interacting with HMRC. If your question is actually about, in the future, you will give customers more choice and you have made some assumptions about them choosing that alternative, that is a risk, yes. That is a genuine risk that I share.

Q112 **Chris Evans:** The question I am asking, Mr Thompson, is do you care about the cost to people who are using the service, in terms of the amount of time and money it is costing them to interact with the tax system?

**Jon Thompson:** I care about giving people a good—

**Chris Evans:** Yes or no.

**Jon Thompson:** I care about giving people a good customer service. We have fixed the fundamentals, we think, of customer services since last December. We have consistently been given under five minutes average speed of answering.

As you go forward, we have introduced a range of alternatives for that—interacting digitally, opening a personal tax account, doing self-assessment online, telling us about tax credit changes online. Those are all services that didn't exist before. The risk for us is that, as you go further into that transformational agenda, we have made some assumptions that that will deliver us a cost reduction of £98 million a year, in terms of running the system. That is the risk.

Will customers choose an alternative means of interacting with HMRC, because it is more convenient for them, in such volumes that frankly the number of telephone calls we receive will reduce? I think that is a question you have put to me before. That remains a risk and we monitor that very carefully every month. We are looking at what are the volumes, the patterns of those volumes and whether they are reducing as we introduce online services. That is a risk going forward, yes.

Q113 **Chris Evans:** Surely it would just be easier if you just collected the cost to customers, wouldn't it? You would not have to assume so much and would reduce the element of risk.

**Jon Thompson:** What do you think would be the benefit of getting that number?

**Chris Evans:** What do I think the benefit would be?

Q114 **Chair:** What we should perhaps focus on is that you have a reduction of 30% of staff in customer service coming up as part of the spending review settlement. Have I got the figure right there?

**Jon Thompson:** I have got it estimated in cash terms, so it is £98 million—

**Chair:** Yes, so quite a significant chunk of your telephone-based



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customer service staff. You have obviously got the office reorganisation and you're going to be shedding people with that. You've got all of that going on and there is this risk of pain to customers that Mr Evans has highlighted. It is a fair point to ask how much you are considering the cost. We did highlight last time. I think Ms Flint had—how many?—hours on the phone listening to your muzak as a result of this.

**Caroline Flint:** It was "Uptown Funk".

Q115 **Chair:** That is all very amusing but it is very serious for people who are ringing. How can you be sure? You say you are monitoring very closely this channel shift. But if you are going to be losing these staff, what has happened before is that the staff have gone before you have realised that you still wanted to use the phones. That's when the service has gone down and that is the pattern, certainly before your arrival, that we saw repeatedly on this Committee.

**Jon Thompson:** We went through this in some considerable depth in the run-up to the summer. I cannot be sure. Various assumptions have been made.

Q116 **Chair:** You are trying to make a good fist of it here.

**Jon Thompson:** We have got all the data about what we have assumed about reductions in telephony. You anticipate as you bring online service. Let's use a very specific example. We launched the personal tax account in January of this year. So far, 6.2 million fellow citizens have opened a personal tax account, so they can interact to some degree online with us.

We will continue to build a range of services in that personal tax account and we will also aspire to more people using it. What we have then done is to say that as a result of that you can reasonably anticipate that you will get fewer telephone calls. But that is absolutely a risk of this process. I can't say that it is sure. We know it is a risk.

Q117 **Chair:** Do you have any way of monitoring how many of those people with personal tax accounts are using the phone, and whether that group of people use the phone less? You can see as that increases, the channel shift, you must have some data. What we are trying to get hold of is what data you are analysing so that you can answer Mr Evans's question about how you are analysing the impact on customers. We just need a bit more of a handle on it.

**Jon Thompson:** We have a significant amount of data about how people interact with us. Frankly, one reason why I am saying that I cannot be sure is actually when you give people more information you may well stimulate the group which is the so-called worried well.

One of the services that you can get on your personal tax account is that you can see your national insurance history and, therefore, you can get an estimate of your pension and when you get it. That may stimulate, "Oh, I didn't realise that I had that gap in my national insurance history. I will ring up now." Whereas they might not have done that before.



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It is actually possible that, by being much more transparent and putting more information and interacting with the customer in a digital way, you may stimulate more demand. But we can and do analyse this. It is a monthly conversation with us. It is one of the eight significant risks of the transformation programme: will customers' behaviour change?

Q118 **Chair:** I will bring in the Comptroller General and then go back to Mr Evans.

**Sir Amyas Morse:** Just looking at this, all you say is perfectly fair. You think how long it will take and it may be more or less. In that resource equation is also customers' time.

One of the things being consumed in the various options is different amounts of customers' time. That is equally true if you are filling out an online return and it happens that there is a certain rate at which the system goes down and people lose all the data and have to re-enter the whole thing all over again. Things of that sort are inevitably part of developing the model, but understanding the acceptable amount of taxpayer time you are prepared to consume in making something work is one of the parameters.

The tolerable amount of taxpayer time you are prepared to consume in doing something is a parameter that will affect the way you plan. It will affect the amount of resource you put on and the amount of contingency you provide. It is one of the factors. The question is whether you regard that as a free good or need to attribute some sort of opportunity cost to it. I don't think that is an unreasonable question to ask because, after all, large amounts of taxpayer time are being consumed.

**Jon Thompson:** The Comptroller and Auditor General is making a statement that he does not have any evidence to back up, isn't he? He doesn't actually have any, which is why Mr Evans was asking me the question. With the greatest respect, that is what Mr Evans was asking me—whether we are going to do it—and the answer is that we have not historically done it and, at this point, I do not anticipate doing it.

To concede a bit of ground, I will think about it, but at this point it seems to me that the way forward is to provide customers with a good basic level of service and then provide them with further options for how to interact with us, in a simple and transparent way.

Q119 **Chair:** But you must acknowledge that when people were waiting half an hour or an hour on the phone and not getting through, that was a considerable cost—not only reputationally for you and in the cost to the taxpayer, but in the costs of the calls.

**Jon Thompson:** And I conceded that point when we discussed it at some length in July.

**Edward Troup:** Just to push back on what the Comptroller and Auditor General said, we definitely do not regard customers' time as a free good that we can use in endless quantities. The question is how much costing,



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in a formal way, we should do over that time. We have a very real cost because we know that if the waiting time goes up to a certain amount, customers will complain to Ministers and to MPs, and we will get grief, so we have a very clear sense that we need to keep that cost down.

**Chair:** You've almost advertised that it is working.

**Edward Troup:** The question that Jon said we will look at is whether there is some way we could cost that time financially that would help our decision making. I think you are picking up a degree of scepticism because it is hard to see how we could cost the differing times that people spend on the phone to us in a way that would actually help our decision making, which is driving towards a channel shift.

Q120 **Chair:** Sir Amyas Morse, very briefly if you can.

**Sir Amyas Morse:** I am used to picking up a degree of scepticism, but what I would say is that when you are planning an action and you know there are contingent risks that things may go differently, one of the things you must think about is what is an acceptable level at which it could go out. So you are actually arriving at what you are prepared to see as an acceptable amount of taxpayer time being used in that way. That is not a theoretical, unevidenced remark at all.

**Jim Harra:** Can I just pick up on that? Every Friday I lead a channel strategy shift meeting that reviews the levels of customer satisfaction with the services, which is, I think, the key indicator we would follow here, rather than financial costs. Obviously, if it is taking them too long or the system is not working for them, they would record that in their experience.

We can now monitor satisfaction levels in real time with our digital accounts because there is an exit survey as you leave. That weekly meeting also reviews the extent to which our customers are moving into our new channels and are staying in or falling out of those channels, so that we can take weekly actions to try to address that. I think that reflects the world we are now moving into, which is about real-time iteration and management of the circumstances.

Q121 **Chair:** A positive that I can take out of this exchange is that Mr Thompson said he wants everyone to be waiting—well, you're saying it has been less than five minutes since January and you want to maintain that level of service at least. I paraphrase a bit, but is that right?

**Jon Thompson:** That is reasonable, apart from the fact that I would like to go lower.

**Chair:** Right. Well, we will take that positive. Chris Evans will now move on to the next set of questions.

Q122 **Chris Evans:** One last question on this before I move on. Whether under you, Mr Thompson, or somebody else, has there in the past been a drive to meet budget targets and, because of that, customer service has been



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pushed to the side somewhat?

**Jon Thompson:** I think it would be reasonable to infer from the NAO Report on this subject that came here in July that it was about resources. Yes, that would be a reasonable inference.

Q123 **Chris Evans:** Because, as we know as politicians, it is perception or reality. On perception, according to the last NAO Report on the quality of the service for personal taxpayers in May 2016, 58% of people said that they found it easy to get in touch with the Department, which means 42% said they found it difficult. How do you feel about those figures?

**Jon Thompson:** That report was based on a survey from before, and I don't think it is any great surprise that if you go through a period, as was reported in the National Audit Office Report, of basic customer service failure, people do not feel very happy about that. We are looking forward to the next survey of customers when we have had a consistent period of delivering at lower levels.

**Chair:** We all want to see that.

Q124 **Chris Evans:** Why have customer complaints gone up? You received 80,391 complaints in 2015-16, which is an increase from 74,427 received in 2014-15. The DWP, who I know have half the customers that you have—you have 45 million and they have 22 million—have seen a decrease from 54,005 down to 47,458. Perhaps it is unfair to compare you with the DWP, but I would say that you are both telephony based and people have more interaction with the DWP—most people ring HMRC once or twice a year. Why do you still not have a grip on customer complaints?

**Jon Thompson:** I honestly couldn't answer that question off the top of my head, but I discussed it this morning with Sir Robert Devereux knowing that he had halved the number, which is clearly something that DWP has achieved. There may well be some lessons that we can learn from that. We do pattern analysis of what the complaints are about, but I couldn't honestly answer your question right here and now.

Q125 **Chris Evans:** What concerns me, looking at the figures and the adjudicator's report on pages 40 and 41 of the annual report, is that in 2014-15 the amount of cases that were upheld in full was 37.7%, with 47.6% upheld in part and 12.8% not upheld. That is an improvement on the year before, but don't you think that that is still quite a high figure for the number of people who have gone through the complaints systems and have had to go to the adjudicator? It is basically saying that over 80% of cases are being upheld in part or in full. Do you think that is too much?

**Jon Thompson:** Yes, and I think that is what it says in the narrative. We recognise that this isn't good enough.

Q126 **Chris Evans:** Is something going wrong in the system? Try to help me here. If something is going wrong with the system and people complain to HMRC, why are they going to the adjudicator? Obviously it has reached



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gridlock or something. Why are they going to the adjudicator, who is then mainly ruling in favour of the complainants?

**Jon Thompson:** I think there is something wrong with the complaints system where you can go through two different processes in HMRC and still end up with the adjudicator and it being overturned. That rather indicates that there is a problem with the first and second processes within HMRC before you get to the adjudicator.

Q127 **Chair:** Can you tell us about this i-form and how it will help?

**Edward Troup:** Shall I come in, because I act as the Department's champion on complaints? Indeed, I act across Government. First, the figures for this year are looking very significantly better.

Q128 **Chair:** By what order?

**Edward Troup:** In the last month's figures that I saw, the not-upheld rate had gone from the 12% here to around 54%<sup>3</sup>.

Q129 **Chair:** Can you provide those figures?

**Edward Troup:** I can provide the adjudicator's figures. I have to say that a significant proportion have come out of tax credits, and you are familiar with those issues. Nick Lodge's team in tax credits has made a real push on this to improve the figures. We have a departmental ambition that by 2019 we will get the not-upheld rate right up and the upheld rate right down because, as Jon and you have both said, by the time you get to the third tier of complaints you really should not be ending up with "upheld."

As it happens, tomorrow we are having our six-monthly "don't waste complaints" meeting with all the senior complaints managers from around the Department in London. I will be there, as will Helen Megarry, the adjudicator. I am happy to give the Committee an update following that meeting on where we are and what the progress has been.

Q130 **Chair:** You mentioned the i-form. It sounds like you're looking at streamlining the complaints process. Is that what is being planned? Can you just give us a taster of what it would achieve?

**Edward Troup:** One of the things that we've found is that the complaints process of having to write in was quite intimidating, and the i-form is much more interactive. It starts off with the question, "What would you like to see done as a result of this complaint? What would have been better?" That in itself has made a difference. Being able to use the i-form for those people who are online, which is a significant number of people—as you've seen, a very significant proportion of our tax credits are now online, so the tax credit claimants, who are one of the main populations, will use it. That has helped to get more people interacting.

Actually, the feedback from the use of the i-form and the handling of the complaints from the i-form has been extremely positive.

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<sup>3</sup> Figure clarified by witness in written note to Committee.



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Q131 **Chair:** Because it basically structures the complaint. Is that how it is?

**Edward Troup:** It structures the complaint, particularly with tax credits, where we have the different remedies of how you can come back if you had a tax credit award. And it was quite hard sometimes to see whether what you got was a complaint, a request for reconsideration, or something else. This form actually structures the complaint in a way that allows us both to see what the issue is and—

Q132 **Chair:** And nice rich data for us to hold you to account on in future.

**Edward Troup:** Some very good rich data. I am happy to undertake to give you an update on where we've got, because I think we've got a good story against a quite sorry starting-point—

**Chair:** We will come back to this.

Q133 **Chris Evans:** Just to cover this off before I move on, how many complaints come from Members of Parliament, or come through Members of Parliament? I should say "through" rather than "from".

**Edward Troup:** I don't have that number, because, in a sense, the individual has to complain directly, whether his or her MP is part of that process. I'm not sure how we record that—

Q134 **Chris Evans:** You haven't got that recorded from the dedicated line—?

**Edward Troup:** I certainly don't think it's anything more than a very small proportion of the 79,000.

**Jon Thompson:** I can give you some detail on why MPs write, besides tax credits, if you want. The second highest number of letters is in relation to the refund of national insurance for the widening access scheme for those training to be doctors. So, top is tax credits and, rather surprisingly—

Q135 **Chair:** Quite a big jump, or quite a big distance, between the two.

**Jon Thompson:** There is quite a big distance between them, but given that I sign all of those letters to MPs I can tell you that the widening access scheme is the second most popular—

**Chair:** We do like a permanent secretary who writes to MPs directly—keep it up.

Q136 **Caroline Flint:** Just on MPs' correspondence, I understand that that might not be in the same as the other complaints' parallel procedure that obviously operates within HMRC, but it would be quite interesting to have some sort of breakdown of, first, the subject areas that MPs are writing to you about, and also of how many of the complaints—having gone through the MP process—are upheld.

I've had two cases recently, regarding the tax credits, where one individual got a cheque for £5,000 or £6,000, while another one got just got a little payment for £100, to say "sorry" while they look into the case. So it would be quite interesting to know—it must be able to collect that data through the MP correspondence unit—



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**Chair:** We MPs are a bit like the canary in the mine; once we start writing in in volume, you know there's a problem.

**Caroline Flint:** Not that I'm asking everyone to come to MPs, as opposed to going through your complaints system.

**Jon Thompson:** We should have held the line at not giving you any information.

**Chair:** It's much better if people get a better service from you first.

**Jon Thompson:** If you would find that information helpful, then, look—my general approach to this Committee has been to be as transparent as possible. So, if you want it, then I'm happy to provide it.

**Chair:** All I would say, and I've said this a number of times, is that we get more letters from members of the public about customer service in HMRC than about any other issue. So, as a Committee, we would also love it if you could deal with those quicker and better, as you are promising you'll do. So we'll be holding you to account on that.

Q137 **Chris Evans:** When somebody has failed to respond to you—you can't get them on the phone, and you've written a letter that has gone unanswered—you were in the process of sending tax inspectors out. How much does it cost to send tax inspectors out? The reason I ask is simply that I have got a complaint in my constituency at the moment—the tax inspector's been out four times and still can't resolve their problem. How much does that cost HMRC?

**Jon Thompson:** I couldn't answer that question.

Q138 **Chris Evans:** What I'm asking is this: how many times has a complaint got to a stage where a tax inspector has to go out and investigate? That's what I'm actually asking; I should have been clearer.

**Jim Harra:** I don't have the figures. Any face-to-face service is the most expensive service for us to provide. We have a needs-enhanced support service that tries to target those customers who need that support and tries to ensure that we use more cost-efficient channels for those who do not. It is very unusual for us to have to go out and meet a customer to deal with a complaint. Generally speaking, despite the poor results shown in the table, we can resolve complaints over the phone or in writing.

Q139 **Chris Evans:** When it gets to the stage where you are in complete breakdown with the customer, how often do you use bankruptcy proceedings? Are they used as a regular tool? That would seem quite pointless. If someone owes you a lot of money and you have to go through the stage where you make them bankrupt, you do not get your money back—you are writing off the debt. How often do you use bankruptcy as a tool, and what parameters do you use before making that decision?

**Jim Harra:** In the case of businesses, our approach is that we never want to bankrupt a viable business if it owes us money. We have a very

successful “time to pay” arrangement in place, and it has very high compliance rates. Where a business is distressed but has a viable future, we encourage it to get in touch with us to discuss payment by instalments. Our people review those discussions and come to arrangements with hundreds and thousands of businesses, and as a result they have been saved. Unfortunately, if someone will not pay or, frankly, their business is unviable and they cannot pay, someone has to start insolvency, and sometimes that is HMRC.

Q140 **Chair:** What do you gain from that? You don’t get the money back.

**Jim Harra:** We introduced the “time to pay” arrangement many years ago during the foot and mouth crisis, and I think the Department was slightly surprised by what happened. We thought, “This is something that we are having to do in a crisis, and we will probably end up writing off a bit of tax”, but the opposite happened. We got a very high compliance rate with the instalment arrangements that we put in place, and it is now a regular part of our service. It applies to all taxpayers, but it is particularly used by small businesses.

Q141 **Chair:** What about the individuals? Mr Evans asked about that.

**Jon Thompson:** To be clear, there are two numbers that I think you are looking for. One is the number of complaints that required a personal visit, and the other is the number of bankruptcies that we stimulate.

**Chris Evans:** Yes.

**Jon Thompson:** We will see if we can get you that information.

Q142 **Chris Evans:** That’s fantastic. Thank you. I want to move on to risk. Risk is clearly the problem that we are faced with today. What discussions have you had with Treasury officials over your plans to reduce your personal tax staff by a third by 2021?

**Jon Thompson:** The running of HMRC is completely transparent to Her Majesty’s Treasury. A director general of Her Majesty’s Treasury has a seat on the executive committee. All the papers that are available to the executive committee are available to the Treasury. They will be fully familiar with the risks that we are wrestling with and the potential impact of that and how we are dealing with it. There is total transparency.

Q143 **Chris Evans:** Are they aware of the risks and have they signed them off?

**Jon Thompson:** They are aware of the risks that we are running as a business, yes.

Q144 **Chris Evans:** I’m sorry to bang on about phone lines, but judging by the collapse you had two years ago, are you confident that you have a workable plan to reduce demand for phone lines? We will soon be in 2017. You have a three-year plan to work on the issue. Are you confident that you have got enough of a plan? If so, can you inform the Committee of the steps you have taken to put that plan in place?



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**Jon Thompson:** We do think that we have a workable plan, but the Chair asked me whether I can be sure that it will work, and I cannot give you a definitive answer that it will. We have a plan that we think will work, and it was put to the previous Chancellor of the Exchequer in a 10-point customer improvement plan. We think that plan still stands. That is part of looking at whether we could go lower on the average speed of answering. That plan will see us continue to reduce the average speed of answering to around three minutes—the current average is just under five. We think the plan is deliverable, but it faces a number of risks, particularly around the risk that you have highlighted about whether customers switch to other means of transacting their business with us.

There is also the question of whether all the digital technology works. You alluded to that in relation to an earlier question. There are a number of other risks, too. It is a perfectly plausible plan and it is resourced, but it faces a number of risks as we go forward.

Q145 **Chris Evans:** Say it all goes wrong and you get a repeat of 2014. What contingency plans have you in place? Would you look to retain staff? Would you string out their departure for a bit longer? Say it suddenly all goes wrong through some totally unforeseen circumstances—another Concentrix comes along, or something like that.

**Jon Thompson:** Those are definitely the options, aren't they? If we did not think that demand was reducing in the way that we had planned, we would have to resource it with more people.

Q146 **Chris Evans:** You would definitely resource more people, rather than see it collapse?

**Jon Thompson:** That would be my choice.

Q147 **Chris Evans:** And would you have to sign that off with anybody or is it down to you? Are you the main decision maker? In the words of Harry Truman, does the buck stop with you?

**Jon Thompson:** It seems to.

**Chair:** That's what you're paid for, Mr Thompson.

**Jon Thompson:** The constitution of HMRC is an interesting one, because it's a non-ministerial Department; you have the role of the commissioners and my role as accounting officer. The Chair of the Work and Pensions Committee asked me a couple of weeks ago whether it was my decision to announce what we did about Concentrix, and the answer was yes. There are a series of decisions that I seem to be able to take that in a ministerial Department would require some sign-off from Ministers, but as chief executive of HMRC I have more latitude, to some degree. We make Ministers aware of the kinds of things we are doing—"I am minded to make this decision", but I am making that decision and informing Ministers that I am minded to do so.

Q148 **Chris Evans:** So you are confident that the Treasury will back you on this if it happens.



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**Jon Thompson:** I will call upon your support!

Q149 **Chris Evans:** Or shall we ask you to bring the Chancellor in? Time is running out, so I want to move on now to the Aspire deal, which is the biggest IT project that any Department has put in place. As the Report quite rightly says, unlike a lot of Government Departments, HMRC are very good at IT programmes and are taking more time over this. I want to talk a bit about Mark Dearnley's departure. Has it set your digital transformation plans back in any way, or are things still going as expected?

**Jon Thompson:** The straightforward answer to that is no, it hasn't. We have appointed an acting chief digital and information officer, who was previously the digital director, so one of Mark's team has now taken over the leadership. It hasn't set us back, no.

Q150 **Chris Evans:** What is the right balance between using a long-standing HMRC person such as Nick Lodge to lead and deliver transformation, and hiring experts from the market?

**Chair:** We covered that a bit earlier.

**Jon Thompson:** It constantly changes, depending on the business challenges we have. At the moment, we have a rather excellent HMRC senior team. I am very happy with that team and with Mike Potter, currently acting CDIO, leading the workforce.

Q151 **Chris Evans:** What I am concerned about is that you have already lost Mark Dearnley to market pressures. Are you afraid of losing anybody else? Is there anybody who it could be a real blow to you to lose, especially in a market as competitive as IT? That is what I was looking for with that question, really.

**Jon Thompson:** Yes. You have to be very mindful of the fact that there are a number of key disciplines where the loss of one or two key individuals can make a significant difference to your business, so the straightforward answer to your question is yes.

Q152 **Chris Evans:** For me, the biggest issue with Aspire is cyber-security; I know you covered that on pages 88 and 89 of the annual report. Obviously you are linking all this data together, and HMRC is constantly at risk of being hacked. Are you confident that you have the necessary guards in place so that people's personal data will not be at risk?

**Jon Thompson:** The executive committee of HMRC went through that at some length yesterday afternoon, so at the moment, yes—but you need to bear in mind that there are two significant factors here. One is that this is a constantly evolving threat, and you therefore have to constantly respond to it. The very nature of the problem is always evolving in front of your eyes and you have to be able to respond to it. The second is where HMRC is in the world of serious threat actors.

To try to decode that a little, where does that put us in national security terms? We do not appear to be a threat for various national actors, but



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you have to be mindful of what is going on in the national security space. I am a member of the National Security Council officials group, which considers these kinds of threats. You just constantly have to be on top of the game. It is one of the key organisational risks we face, particularly because we have a huge amount of data and need to make sure we protect that to the maximum that we possibly can.

**Chair:** We are going to be looking at this in a week or so.

Q153 **Chris Evans:** If the Chair will indulge me for a minute, my personal bugbear is fake websites and things like that. What are you doing to shut those down? I've seen hmrc.co.uk and hmrc.com. You know all of the risks with people basically siphoning off money for a European health card. What are you doing to shut those down as quickly as possible once they are identified?

**Jon Thompson:** We have the ability to, and indeed do, identify those kinds of websites and report them to the relevant authority—forgive me for not remembering who that is. Last year I think we closed down more than 16,000 websites that were pretending to be us, but they spring up in all kinds of ways. You constantly have to be on top of that. We've got all of that data and if you wanted it we would happily give you it.

Q154 **Chair:** It would be useful for anyone who is interested in watching this. I don't know about other people, but I am always receiving messages, apparently from HMRC, telling me that they owe me money—lovely. If I believed it I would probably be in the Bahamas right now; I would have that money in my pocket. What should people do if they receive a text message or an email purporting to be you?

**Jon Thompson:** Never, ever click on the link. We will never send you that email. Never click on it. It is relatively straightforward. What exactly is the address? If it is not hmrc.gov.uk and you have not given us permission to email you, which you need to do through your personal tax account, then it is not from us. It is amazing the number of people who click on that and that gets lost. We absolutely have to be on top of that. We have got to close those down, and we close thousands every year.

**Jim Harra:** We have a facility on our website where members of the public can report phishing attacks that they receive and we will act.

**Chair:** I think we have probably got a pile; you will get a flurry from Hackney E8.

**Chris Evans:** That's it from me.

Q155 **John Pugh:** I have a couple of loose ends, both based on constituency matters. One is on a settlement of a very large sum of money. The Inland Revenue came and, although it had not actually won a case, it persuaded a resident of mine that they needed to pay a lot of back tax for some trust—I don't claim to understand. They baulked at the size of the solicitor's expenses, which were actually recorded and therefore reclaimed from them. You employ external solicitors from time to time, do you not? I want to query how competitive a market that is? Clearly, if



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you are bang to rights and the Inland Revenue is demanding money, for the solicitor to add an awful lot to his bill is not going to displease the Inland Revenue, but it may none the less be exorbitant. I understand that there are rates of fees on this, but is it a competitive market?

**Jon Thompson:** That's the first time anyone has ever raised that with me.

**Jim Harra:** I think the tax advisory and tax agent market is and isn't. It is competitive in the sense that there are a very large number of firms out there offering a very wide range of different services for different prices. It is a free, unregulated market and people can enter it and compete. However, we have some insight from our customers and we have done some research. I have actually sat behind a one-way mirror and watched a group of customers talk about how they select a tax agent and tax adviser. They do not find it to be a transparent process. They find it very difficult to judge the level of service they are going to get and the fee that they are going to have to pay. In some ways, it is an open, competitive market, but consumer choice—

Q156 **John Pugh:** So if I write to you on this area it will not come to you as a complete surprise, so I will. The second matter was also raised by a constituent. Are you aware of a glitch with regard to the marriage allowance transfer? A resident of mine reports that you cannot put it on your tax return, and if a claim is being made when the return is submitted HMRC amend the return to include the claim. However, when the allowance is taken off, HMRC software adds it back on, confusing everybody all round. He has taken that up with your Department, and somebody in Inland Revenue has said, "It's a glitch. We are awaiting a fix but there is no timescale available."

**Chair:** Honesty runs through the Department.

Q157 **John Pugh:** They have grassed you up here. Were you aware there was this problem? It will have an effect on whether people wish to claim this allowance. Are you addressing it?

**Jon Thompson:** That is two for two, Mr Pugh. I was not aware of—

**John Pugh:** I will follow this up with correspondence.

**Jon Thompson:** Very happy to receive it.

Q158 **Chair:** I think you have a couple of things to add to your to-do list this week. I want to finish off on a couple of points. One is the national minimum wage. Have you picked up any issues around compliance behaviour, in terms of avoidance? If employers are not paying the national minimum wage, are you picking up in your enforcement activity any other issues around compliance? Is it a flag that businesses or employers may be doing other things?

**Jim Harra:** Yes. First, when anyone makes a complaint that they are worried they are not receiving the national minimum wage or national living wage, we will always look into that. Our aim obviously is to



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investigate employers and make sure they pay the arrears of wages they owe to their staff. It is our experience that if an employer is not complying with that, often they pose other risks to us.

Q159 **Chair:** So the corollary applies. You have not done many actions on minimum wage avoidance, I think it is fair to say.

**Jon Thompson:** What do you mean by actions?

**Chair:** I mean taking enforcement action. It has been quite slow progress. This is not necessarily a criticism of you; it is sometimes about complaints that come in—it is a bit of a circular thing.

**Jon Thompson:** To be clear, we investigate 100% of what is reported to us from any source.

Q160 **Chair:** But is it that you are not getting enough reports? It is difficult to judge, but the corollary would be other issues. If you find that an employer is doing some interesting tax activity, would you also look at the national minimum wage compliance at the same time, to see if there is a connection?

**Jim Harra:** Yes. We have two approaches to tackling national minimum wage risk. First, we always investigate worker complaints, and secondly, we proactively risk-assess and try to identify for ourselves areas that we should be looking into. We have had some campaigns looking at particular sectors such as the care sector, where we found a 37% non-compliance rate among the high-risk employers that we looked at.

**Chair:** That was 37%?

**Jim Harra:** Yes—not across the whole care sector, but in the group of high-risk employers that we looked at.

**Chair:** I am glad we clarified that.

**Jim Harra:** In 2015-16, to cover your question about volume, we identified £10.3 million-worth of arrears due to 58,000 workers, so we made sure that they got those arrears.

Q161 **Caroline Flint:** That is on page 28 of the report. Maybe the reason you discovered that is that you expanded your enforcement team and the tools you had available. It does not mean there were fewer of those people in the previous years in that cohort. How are you going to maintain what you have already started, to ensure that more unscrupulous employers that are not paying the national minimum wage are discovered? As the Chair says, if they are doing that to their employees, they may be also looking to avoid other employer responsibilities elsewhere within their company.

**Jon Thompson:** The first thing to be clear about is that the national minimum wage is not a Treasury or HMRC policy lead. It is for the Department for Business, Energy and Industrial Strategy. They also fund



this work, so it is for their Ministers to make the decisions about the policy.

Q162 **Caroline Flint:** It is just that on page 28, you list “some highlights” of the last year and then crow about having expanded your enforcement team—which is a good thing.

**Jon Thompson:** To be clear, it is not within our gift to think, “Actually, what we’ll do is double it.” It is clearly for Ministers in BEIS to make decisions about how much further they want to go, how much they want to fund us to do that work and—

Q163 **Caroline Flint:** Are they funding you for your enforcement team then?

**Jon Thompson:** They do fund it, yes. They put more money into that, and therefore we increased the level of work. There is a constant dialogue between the two Departments about how much further—

Q164 **Caroline Flint:** Is that funding negotiated on a yearly basis or for a spending review period?

**Jon Thompson:** I can’t remember that, but that is one of the reasons.

Q165 **Chair:** I think the NAO can shed light on this.

**Steven Corbishley:** We reported on the Departments’ progress in terms of taking forward national minimum wage compliance and ensuring employers are compliant in May. It was that difference between what HMRC react to, which Mr Harra talked about, and the more strategic risk assessment that they will have the money or the funding to be able to take forward. It is agreed on an annual basis<sup>4</sup>.

**Jon Thompson:** To broaden the question out just slightly, I think there is more that HMRC could do for a whole range of other Government Departments in terms of working together—this is one of those—such as a closer working relationship with the Home Office and DWP where there are good interests in all sorts of other areas, like illegal working, for example. I think there is more HMRC could do to help other Government Departments in these kinds of areas.

Q166 **Caroline Flint:** Certainly where there is enforcement, analysing sectors and whether there are certain types of sectors—like agencies, for example—that are more likely to be involved in this practice. I also have to say, in terms of Brexit, who are the people who are being underpaid? Are they people who are coming from other parts of the European Union who, for different reasons, maybe do not feel that they can speak up? Also, does that have a depressing effect on wages in a local area that is predominantly reliant on low-skilled, low paid jobs? That sort of analysis would be helpful as well as going after these employers for not paying the minimum wage.

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<sup>4</sup> Clarification from witness: NMW funding is negotiated by BEIS as part of the spending review process. HMRC service level agreement with BEIS on NMW enforcement is agreed annually.



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**Chair:** Is that something you do, Mr Thompson?

**Caroline Flint:** Could you provide more analysis? You have identified 58,000 workers who were not being paid the national minimum wage last year. Can you provide us with some analysis of where they were working and under what circumstances their pay was not being—

**Jon Thompson:** It is highly like that we could do that, yes.

**Caroline Flint:** Good.

Q167 **Mrs Trevelyan:** And you will?

**Jon Thompson:** The semantics of the civil service, eh.

**Caroline Flint:** Just say yes.

**Jon Thompson:** Sure.

Q168 **Chair:** It sounds like we also need to talk to our sister Committee, the Business, Energy and Industrial Strategy Committee.

I need to cover off a couple of other very quick points. We have talked a lot about telephone support and you, Mr Troup, touched a bit on postal support when you were talking about iForms. Are you confident that your postal service for individual taxpayers is good enough?

**Edward Troup:** On turnaround time, we are now at 80% of our 15-working-day turnaround target. In fact, we are above 80% at the moment. So we have got down our backlog of post, which was well over a million items a year or so ago. So I think the answer is yes.

Q169 **Chair:** Are you seeing a big channel shift with iForms yet, or is it too early to say?

**Edward Troup:** That is only about complaints. You know, 79,000<sup>5</sup> is a lot, but it is small compared with the tens of millions—

**Jim Harra:** Certainly in terms of that space we are seeing a diminution in volumes of both post and telephone calls as we put more online, and that is sharper in post.

Q170 **Chair:** When you say post, does that include email? How do you categorise emails?

**Jim Harra:** That covers letters and paper forms, basically, as opposed to people doing things online. So we are seeing customers, of their own volition, moving from that channel to other channels.

Q171 **Chair:** Have you thought of introducing a form for normal correspondence to help with what we heard about earlier: the identification of what the problem is at the beginning?

**Jim Harra:** Yes, we have a whole iForm programme, which covers a vast array of contacts with customers. If we think that that is something that

<sup>5</sup> Clarification from witness: A total of 80,391 complaints were received in 2015-16



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they would traditionally do in writing, we put it on that because it enables us to analyse them much more quickly and get them to the place where they need to be dealt with.

Q172 **Chair:** And when will that be something that we will all be able to enjoy, if that's the right word?

**Jim Harra:** That is on an ongoing basis. We already have loads on and there is an ongoing programme.

**Edward Troup:** And if you get into your personal tax account, there are things that you can already do through that.

Q173 **Chair:** I think that we are all going to be avidly logging on to our personal tax accounts now. It is exciting.

**Jim Harra:** An example of the most recent one that has really big take-up is repayment claims, which previously had to be done on a paper form. Now you can go into your personal tax account and claim your repayment. We have seen big—

Q174 **Chair:** As MPs, we only recently received those so it is an exciting new tool for us. I just want to alert you to another issue that you may, or may not, be aware of. Contracts Finder, as I am sure you are aware, is an important Government database of contracts. The Concentrix contract that we were discussing earlier was available on Contracts Finder at the weekend, but it is not currently available. Is that a deliberate move or just an error?

**Jon Thompson:** It is not a deliberate move because I am completely unaware of it. We did not sit around and Machiavellianly think, "Let's take that down" on the basis that we were coming here.

**Chair:** Well, we might just want to investigate why it has suddenly disappeared and whether it is a coincidence. I should just say that while we have been sitting here, the House of Commons has unanimously—without a Division—agreed a motion on Concentrix that, among other things, urges compensation for people. You might just want to take that away with you at the end of this hearing.

Q175 **Karin Smyth:** Can I clarify one thing that came up earlier about the Review that the NAO is going to do into the Concentrix arrangement?

**Chair:** If it is a question for the NAO, we can leave it until after the hearing.

**Karin Smyth:** Well, it seemed that Mr Thompson was not sure. Is it a review into value for money, or is it a review into the facts of the—

**Sir Amyas Morse:** It is an inquiry. It is an investigation, so we can find the facts.

Q176 **Chair:** We don't need to—this is normal, run-of-the-mill business and we don't need to go into this now. On page 37 you talk about the 3,000 of your new staff recruited on flexible working patterns. Are any of your



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staff on zero-hours contracts?

**Jon Thompson:** Not to my knowledge. There is a—

Q177 **Chair:** Will you write to confirm that? That would be good.

**Jon Thompson:** No, I will stick to my answer and stick to my guns: I would be stunned if we recruited people on zero-hours contracts.

Q178 **Chair:** I am sure that there are people listening, and if there is any difference to that they will write in.

**Jon Thompson:** One of the things I said to Jim was: in this Committee, never be definitive. I just did that, so perhaps I ought to check.

Q179 **Chair:** Is that the Whitehall mantra? That is why we cannot get answers to our questions. What about your contractors? Do you have any arrangements with contractors such as Concentrix and others that do work?

**Jon Thompson:** I couldn't possibly answer that question.

Q180 **Chair:** But could you write to us and say whether there is a protocol?

**Jon Thompson:** I could find out whether there are any.

Q181 **Chair:** Zero-hours contracts have a place in certain sectors. We just need to be clear whether you have them, and if you have, is there a rationale for it, rather than it being a blanket requirement on people.

**Jon Thompson:** Jim says we should be very confident that we have no zero-hours contracts for our employees. That is the nearest thing you will ever get—

**Chair:** That's the nearest thing we'll get. Can I thank you? This has been a long session and sorry it has gone on for just over two and a half hours, which was not my intention. I thank you very much for coming along. We will produce our transcript, as ever, in the next couple of days. Our report will be published before Christmas, we hope; yes, it should be before Christmas. Thank you for your time.