Public Accounts Committee - Minutes of Evidence
HC 716

Oral Evidence
Taken before the Committee of Public Accounts
on Monday 5 November 2012

Members present:
Margaret Hodge (Chair)
Mr Richard Bacon
Meg Hillier
Mr Stewart Jackson
Fiona Mactaggart
Austin Mitchell
Nick Smith

Amyas Morse, Comptroller and Auditor General, National Audit Office, **Paul Keane**, Director, NAO, **Marcia Lant**, Financial Audit Director for Department for Work and Pensions, NAO, and **Paula Diggle**, Treasury Officer of Accounts, were in attendance.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL

HM Revenue & Customs 2011-12 Accounts

Examination of Witnesses

Witnesses: **Lin Homer**, Chief Executive and Permanent Secretary, HM Revenue and Customs, **Nick Lodge**, Director General, Benefits and Credits, HMRC, **Simon Bowles**, Chief Finance Officer, HMRC, and **Edward Troup**, Tax Assurance Commissioner, HMRC, gave evidence.

Q1 **Chair:** Welcome. We have a huge amount to get through this afternoon. Apologies if we repeat some of the issues that were raised last week at the Treasury Select Committee, but we have not been able to see the transcript of that hearing yet, so inevitably there will be some overlap. I will be grateful for answers that are really succinct and to the point. If I interrupt, it will be because I think it is not answering the question or I want to move us on. Is that all right?

Lin Homer: That's fine.

Q2 **Chair:** Good. It might be helpful if I tell you what we are going to cover. We will start with tax avoidance and the tax gap, then move on to RTI, error and fraud, and then PAYE, and I will want to raise bits and bobs with you at the end. Is that all right?

Lin Homer: Yes.

Q3 **Chair:** That gives you the structure. I will start with the tax gap, Lin. It is £32 billion. Do you include in that the potential income from tax avoidance?

Lin Homer: What we include in our version of the tax gap is money that we have not collected. We do not include the compliance yield that we gain by the work we undertake.

Q4 **Chair:** On tax avoidance, or evasion. I have not mentioned evasion in that.

Lin Homer: It is the money we think we should have collected, but have not.

Q5 **Chair:** Money that you know is owing. I know it is a contentious sum. In fact, if you added in the potential tax take from avoidance and evasion, it would be higher.

Lin Homer: Oh no. There have been some very interesting articles about what we think, what Richard Murphy thinks and a very interesting summary of the two. What we do not include are some of the areas that others include, where they think things should be taxed but they are not under the current law. We do not include money that is not currently collectable-

Q6 **Chair:** No. I understand that. Tax avoidance is where there is a dispute as to whether it should be collected or should not be collected. But that is not in there?

Lin Homer: If we think it is money we could legally collect, it is in the tax gap.

Q7 **Chair:** It is in there.

You have written off £5.2 billion in 2011-12, and that is what you call remissions and write-offs. In that, is there any money that you believe you should get from companies that are trading in the UK?

Lin Homer: The £5.2 billion that we have written off is actually made up of £4.2 billion of write-offs and about £1 billion of remissions. Those are sums that we regarded as owing. In the case of the write-offs, where we believe that we are no longer legally able to collect, over 90% of those are insolvencies.

Q8 **Chair:** Would it include some of these contentious figures around what you think might be collected if the tax avoidance scheme was not there?

Lin Homer: It is very dependent on what you regard in there. What it would include is money that we have said to a business is owing, but the business has gone into administration.

Q9 **Chair:** So it is a bit unclear.

Lin Homer: It would not include the general sums of money that might be talked about that big business should pay more of.

Q10 **Mr Bacon:** It wouldn't?

Lin Homer: Would not.

Q11 **Mr Bacon:** No, I would not expect it to.

Can I be clear about one thing? It is interesting that you said-actually, in a way it is obvious-that 90% of it is insolvency, but where you believe you are legally entitled to the money, it remains an account receivable year after year and does not get written off. Is that correct?

Lin Homer: No, we remit some, and the sums we remit are amounts that we think are unenforceable. Effectively, when we remit, we put those to one side and say that, for value-for-money purposes or the scale of return, we are not going to pursue this.

Q12 **Chair:** Let me get this clear in my brain-I know it is very complicated this stuff. In a deal you do with the Starbucks, the Googles, the Amazons-I am not expecting you to comment on them individually-would there be anything in your write-offs that reflected the fact that you have not got as much money as you might have thought you would get in the beginning?

Lin Homer: No.

Q13 **Chair:** No, right.

Can I just say another thing about the tax gap? The tax gap in 2004-05 was £33.3 billion; in 2011-12, according to your annual report, it is £32.2 billion, so that progress is extremely disappointing. Would you agree, and would you like to say why, given that the policy to close the tax gap has been in place since 2006?

Lin Homer: I think the place to start is by saying that the tax gap is a relatively new mechanism for HMRC. Personally I think we are still looking broadly at the trend we are following, and there is a degree of risk in absolutely judging year on year. Overall, we believe the tax gap in the UK is very competitive compared with most countries. It is below that in Sweden and the US, so I would be surprised-

Q14 **Chair:** But it has not moved.

Lin Homer: It is trending very slowly downwards.

Q15 **Chair:** I asked for the figures in the NAO, and I got them for 2004-05. We know that in 2006 it became a Government priority to close that tax gap, and one assumes therefore that resources have been, over time, focused on working towards that. Therefore, to see that there is hardly any progress is deeply disappointing.

Lin Homer: I would not agree that it is disappointing, but I think we still have a lot to learn-

Q16 **Chair:** Why? Why wouldn't you agree?

Lin Homer: Because we have maintained a level of tax gap in this country which is, as I say, among the best in the world. I think that that is down to two things.

Q17 **Chair:** But you have not reduced it, which was your aim.

Lin Homer: I think it is down to two things. One is that we are maintaining a general level of compliance in the system which is better than almost anywhere else. The fact that 92% of tax is paid in this country is largely due to the fact that people understand that they should pay and they pay it. The compliance activity that you undertake underpins that voluntary compliance, as well as bringing in the extra.

Q18 **Chair:** So compliance will never do more than keep you standing still.

Lin Homer: Not never, but some of it is absolutely designed for you not to lose ground, particularly in difficult times-

Chair: I have to say that if we are putting a load of money into compliance, I would expect that gap to come down.

Let me raise another issue with you. In 2004-05 corporation tax was 18% of tax revenue; today it is only 13%. Doesn't that demonstrate your failure to get to grips with tax avoidance in the corporate sector?

Lin Homer: I don't think so. Corporation tax represents about 25% of the tax gap, which is less than-sorry: large businesses account for around 25% of the tax gap, and that includes the sums they owe-

Q19 **Chair:** Large businesses are 25% of it?

Lin Homer: All taxes paid by large business, so more than their corporation tax-

Q20 **Chair:** This is your 770 large businesses?

Lin Homer: No-and the 8,000 or so that sit below that. That is less than their share of the tax gap, so they are a smaller proportion. It has been a policy of successive Governments to make the UK an attractive place for business, so there are policy choices that have led to the reduction.

Q21 **Chair:** You say it is UK Government policy. The figure I was using was that in 2004-05 18% of tax revenue-I am off the tax gap in a way; I am looking at the tax revenue, at the money we get-was from corporation tax, but now, it is only 13%. That suggests to me that we are failing to get to grips with tax avoidance and we are settling for less tax from the corporate sector. The corporate sector has grown since 2004-05, even despite the events of 2008-09 and a double-dip recession. It has grown, yet you are taking more from-dare I say it?-hard-working individuals paying their PAYE than you are from corporations as a proportion of your total tax take. That leaves you needing to answer this question. In a way, you may have answered it. You are saying you are doing that deliberately because Government want to make this an easy place to be.

Lin Homer: I think successive Governments have wanted the UK to be competitive in the global tax system. I think they do want us to strictly enforce the tax laws, and I think we are all recognising that that needs to be underpinned by strong international standards, but you would have to look at the element to which that is policy shift. Corporation tax has been coming down-

Q22 **Chair:** I have to say to you that that rings with KPMG's advice to its corporate clients that from 2014 they will have an effective tax rate of 5.5% in the UK. Is that to encourage them to come?

Lin Homer: That's not corporation tax-

Amyas Morse: I am sorry to interrupt you, but if you look at the bottom deck of the table there, it is telling you what the share of corporation tax as a proportion of total tax take is. The percentage you were talking about is the percentage of the tax gap, but these percentages at the bottom line are percentages of tax revenue. Do you see, at the bottom line? You'll need to go over them. I don't think you have this table-

Lin Homer: I don't think we have that.

Amyas Morse: But can you go and do that?

Paul Keane: It is pretty stable for corporation tax. It is 9% in 2004-05.

Lin Homer: I was going to say I think the proportion of the entire tax take is between 8% and 9%, so if the figures you quoted are the proportion of the tax gap, that shows it reducing, which overall shows corporates-

Q23 **Chair:** Okay, I take that point, but it strikes me that KPMG is saying that the effective tax rate is 5.5%. What have you got to say to that? That is what it is telling its clients: from 2014, come to the UK because your tax rate will be 5.5%.

Lin Homer: I think the Government's position on multinationals is that we do want them to see the UK as competitive. We do expect everybody to pay their fair share. Corporation tax has been coming down, but not to those levels. There are other elements that are properly allowed to be taken into account to reduce the tax yield; that will include losses, but it will also include some investments in certain assets or research.

Q24 **Chair:** Undoubtedly you have looked at what has been rumbling around the media for weeks-I do not think a day goes by when they do not ring me up about yet another tax avoidance scam that they have uncovered. Do you agree that tax avoidance, particularly by global corporations-if we can look at them a bit-although it may be legal, is wrong?

Lin Homer: Probably most countries are trying to collect their share of the tax that is due to them, and I think it would be fair to say that the Chancellor thinks it is important that he and his colleagues in the OECD environment do what they can together to ensure that big companies are not, in a sense, gaming the system, and so the OECD laws are there to underpin the relationship between countries. What I think is important is that we have very strong rules about transfer pricing; we have put in place very strong rules around CFC; and we believe that we collect the tax owing to us under both our national system and the international system.

Q25 **Chair:** You are giving a mixed message, Lin. You have to understand that there is a mood of anger and huge frustration out there. Ordinary people and small businesses in all our constituencies feel hassled by you. They feel that if they do not pay their tax, somebody comes very quickly-indeed, you may get an agency to come and get the money from them-whereas big corporations might be invited in to HMRC for a cup of coffee, or your officials might go have a cup of coffee in the UK head office of the global corporations, but no similar stringent, fair and equal effort is put into ensuring that they pay their fair rate of tax. In your answer, you are saying, "Well, we want them here." Will you tolerate their paying less tax because you want them here, or will you pursue them equally and fairly as you do other taxpayers, be they individuals or SMEs?

Lin Homer: There are two questions, if I can answer both briefly. I am absolutely clear and want to say without hesitation that we apply the rules fairly across the piece. We pursue the tax that is owing and use a range of methods to pursue. We can have one-to-one relationships with big business, and we do, but we do that in order to make sure they comply. Large business compliance has brought in an increasing amount of money-£3.6 billion in 2005-06, up to £5 billion last year-and transfer pricing brought in an additional £4.7 billion. There is one system, and it applies to all.

The second question you asked is about the application of the law. All that HMRC can do and all that you would want us to do is apply the laws. I acknowledge that in an international setting, multinational businesses can choose, to some extent, where some parts of their business are based and where some of their profits are based. As I acknowledged in front of the TSC, I think that that is hard for individuals to understand. It is one reason why the Chancellor and his colleagues want to make sure that OECD stays ahead of that game and does not allow an inappropriate amount of moving-around activity that would undermine the good tax systems of most of the countries involved.

Chair: We want to develop that argument.

Q26 **Austin Mitchell:** Is tax avoidance increasing? We are told that corporation tax receipts have decreased by £6.3 billion in the last year. That could be partly because of the recession, but it could also be partly because tax avoidance schemes are more commonly used by an increasing number of corporations. Do you have any way of telling us whether those schemes are being used to an increasing extent?

Lin Homer: We believe that big corporations in the UK are getting better at applying the rules, using our disclosure systems and ensuring that the boardroom takes adequate account of taxation issues. We think it is an improving situation. Of course there will always be some-

Q27 **Chair:** Improving in what sense?

Lin Homer: In the sense that people are complying. They are disclosing their schemes. Indeed, because the tax gap overall is staying stable and reducing slightly, we do not believe that tax avoidance is on the increase. There will always be people offering schemes, and there will always be people using them.

Q28 **Austin Mitchell:** Yes, but more and more corporations are buying schemes from the big four accountancy houses, aren’t they?

Lin Homer: We believe that the big organisations in this country are not utilising what you might regard as the egregious tax systems to a growing extent. We feel that we have made significant progress in ensuring that the most senior people in big businesses take tax very seriously.

Q29 **Austin Mitchell:** But if the Government are saying to big corporations, "Come here, we’ll give you a happy tax regime and possibly dinner with Dave Hartnett," they are also saying to you, "Go easy on the big boys," and, ipso facto, "Be tougher with the ones who can’t leave and have to pay their taxes here." That is the reality, surely. You are handling the big corporations more gently, more delicately, more kindly and more generously than the small and medium-sized enterprises-British companies that cannot shift their affairs through a tax haven.

Lin Homer: No, I do not think we are handling big business gently. I can absolutely refute any suggestion that I have been told to go easy on big business. I have been given £917 million investment to increase yield, and a significant proportion of that comes from big businesses. The figures that I have quoted show the increases we have seen. Our high-risk corporate group has dealt with 1,800 issues and £16 billion since about 2006. We are pursuing all the tax that we think is due. We do it in different ways because it is more effective to persuade people to pay tax when it is due than necessarily to prosecute-I am sure that we will have that debate as well. It goes without saying that you can have a different relationship with 700 big businesses-that can be more one to one-but with big business, small business, big individuals or small individuals, we are making sure that people are paying the taxes that are due.

Q30 **Chair:** Let us unpick this a bit. You have 770 large businesses and the figure that we had from you last year-I accept that it was a potential figure and not the nth number-was £25 billion outstanding. That was the figure that the NAO had in its Report last year. How many of those 770 large businesses had a parent company outside the UK?

Lin Homer: I am not sure that I can tell you that off the top of my head.

Q31 **Chair:** Can Mr Troup, who is in charge of this, tell us?

Edward Troup: I am not in charge of large business tax. That is Mr Harra.

Q32 **Chair:** Well, you have not brought him, so someone must tell me.

Edward Troup: What I can say is that of the £136 billion which those 785 businesses contributed, something like half came from foreign-owned businesses.

Q33 **Chair:** But how many of the large businesses have a head office outside this country?

Edward Troup: I think that it is slightly less than half, but it might be slightly more.

Q34 **Chair:** About half, okay. You treat them all fairly, but is it also true that there has not been one litigation against a large business since 2004? Am I wrong in that? I hope that you are going to tell me that I am.

Lin Homer: When I came to see you before, I gave you a list of some of the firms that we had litigated with. I am very happy to produce that list again.

Q35 **Chair:** Have you litigated with any of the large list since 2004?

Lin Homer: It did include some very big firms.

Q36 **Chair:** Since 2004?

Lin Homer: Yes, I think so.

Edward Troup: Yes, definitely.

Q37 **Chair:** Have you?

Lin Homer: Yes.

Q38 **Chair:** Can you let us know, because if it is litigation, it is in the public domain?

Edward Troup: I do not have a list of actual dates, but these are all quite recent cases and they include a number of very large companies.

Q39 **Chair:** Can you tell us who, because that will be in the public domain?

Edward Troup: Yes, examples of big litigation successes include Glaxo, the Upper Tribunal, AXA, the Court of Appeal, Carlsberg, PA Holdings, Pendragon PLC and a number of other cases.

Q40 **Chair:** Are they in the 770?

Edward Troup: I am pretty sure that most of those will be in the 785, but we can come back to you and give you a detailed list if you want.

Q41 **Chair:** If you look at transfer pricing, which is one of the issues in contention in relation to those global companies, what is the ballpark figure that you are looking at?

Lin Homer: We brought in £4.7 billion under our new transfer pricing arrangements.

Q42 **Chair:** What is that figure-is it what you are hoping to collect?

Lin Homer: No, that is what has already been brought in through transfer pricing.

Q43 **Chair:** How much is outstanding? Did you mean £4.7 billion in one year?

Edward Troup: No, that is a five-year total of cumulative transfer pricing adjustments actually achieved.

Q44 **Chair:** How much is outstanding? In the same way as we had the £25 billion that is outstanding.

Edward Troup: It will be a proportion of that. I do not have the numbers, but I am sure we can find some.

Q45 **Chair:** It might be more than that, might it not? It might be less than the 50% you have in.

Lin Homer: The £25 billion will include the negotiation about the value of transfer pricing, because, as you will understand, the concept of transfer pricing is that we challenge the value attributed to certain transactions within the global arrangement of the business.

Q46 **Austin Mitchell:** Can you tell us how many of the big corporations are handling their tax affairs through offshore tax havens?

Lin Homer: No, I can't off the top of my head.

Q47 **Austin Mitchell:** Why not? If they are handling them through Luxembourg, they will obviously pay a lower rate both of VAT, which is the accusation about Amazon, and of tax. If they handle them through Dublin or through the Cayman Islands, they will pay a lower rate of tax. Why can you not tell us who is handling their tax affairs where?

Lin Homer: There is a definitional issue. We probably could give you broad proportions. Chairman, if I may, I suppose this is the kind of information that we hope we can perhaps start to bring you in our annual report-some generic information-but the description Mr Mitchell just used, in a sense, defines tax havens as places that charge less than the UK. There will be some people who charge more than the UK and they would then include us on that list, so you have to think about what your definition is.

Globally, what Finance Ministers across the OECD would be looking at in the definition of tax haven would be those places with impossibly small amounts. You did not mention it, but Ireland effectively has a lower tax rate than we do. I am not sure that people would regard Ireland as a tax haven or seeking to be competitive, but there are some places around the world where the effective rate of tax is very low, at the bottom end of single figures, and I think the question that Ministers are looking at is what can and should the OECD do about that kind of arrangement. That definition of tax havens is something that Ministers are more focused on.

Q48 **Austin Mitchell:** Why can't you publish information on the cost of transfer pricing, for instance? Another fiddle lurks in intellectual property, where the intellectual property of making coffee-a caramel macchiato or whatever-is so expensive that they have to pay a tribute to Luxembourg for making coffee in that way. These are fiddles that are open. Why can the scale of losses for each not be published?

Lin Homer: Intellectual property is a real thing. It is important to say that it has a market value: if it did not, there would not be many franchises prepared to pay a sum to some of the intellectual property owners in order to have the intellectual property. There are some interesting debates about whether or when we challenge those kinds of sums under transfer pricing, and how easy it is to price those kinds of things-you know, it is quite difficult to get your base market. One of the things the Comptroller and Auditor General suggested to you in his recent discussion with you was that it might be good to have a conversation with you about some of the international benchmarks in this area, what good practice looks like, and what we could do.

It is an area that we are very interested in. We have traditionally played a very big role in pushing for some of the improvements in OECD rules that then benefit all compliant businesses, so it is an area we are interested in, but you have to be a little careful about definitions. Whether Luxembourg would see themselves in the same boat as some other places you described might be a contentious discussion with some of our European colleagues.

Q49 **Fiona Mactaggart:** You started your remarks by mentioning how Britain is, if you like, a country that collects a higher proportion of tax than many similar countries; we have a high level of conformity. I believe that that is partly because we have a sense that paying your tax is a civic duty. That was evidenced by what happened when we had self-assessment and people ended up paying more tax, which was a reflection of the civic duty. I wondered whether you had done any studies into what impact the revelations about companies failing to pay their tax has had on individuals' willingness to pay their tax, and whether you have looked at what the consequences of that are.

Lin Homer: You are absolutely right that you have to maintain broad confidence and credibility in your tax administration to maintain the very high levels of compliance that we have. When we make changes to the law, we challenge ourselves quite a lot on the impact that that will have on behaviours; we have become increasingly thoughtful about impact. I think there is an emerging area about how much the consumer, because of their view as a taxpayer, will change habits. The whole field of corporate social responsibility is itself relatively new, and we are beginning to see some evidence that the opinion of taxpayers is altering the behaviours of firms and individuals, which I think is a helpful thing for HMRC.

That is one of the reasons why we have pushed the debate with big business on having tax in the boardroom. Tax is not something you can just push off to your finance people to do in a corner; the main board needs to think about where a company is positioning itself. As part of that debate, we have very clear discussions with companies about where we see them on our risk profile. When they are complying well with the rules and have good systems, they get less investigative time and attention from us than when they are more risky. We think that is a perfectly proper conversation for us to have with big business. The ones that are at the wrong end of our scale know that very clearly.

It is for Parliament, if I might say so, to determine whether this country wants more of that information to be in the public domain. I know that is a debate we have had over and over, but until the rules are changed, it is not for me-I do not think I have the freedom-to rebalance that myself. The pressure of public opinion may well cause some companies to be more explicit than their annual accounts require them to be about their tax strategy. That is certainly a debate we have with them: what is your tax strategy? Do the people who invest in you and buy from you know what your strategy is?

Q50 **Fiona Mactaggart:** One thing that I know the Treasury Select Committee regularly raises with you, and I am sure it did last week, is the morale in your Department. On this shift to the taxpayer saying, "You guys should be paying your tax," rather more explicitly than perhaps they previously did, what impact has that had on the people who work in HMRC?

Lin Homer: I think my staff and colleagues welcome the greater interest in tax. It is good, particularly for my front-liners-people who investigate and work with people-to know that it matters to the general public that we have a good and fair system that is complied with. The idea that tax is a topic that is more frequently talked about in the pages of the newspaper, in the pub and around the dinner table is welcomed by staff, and I am encouraging them to continue that debate. One of the things you suggested to us on previous occasions is that perhaps more education early on for young people about paying tax would be good, and certainly our experience is that small businesses that get into good habits with us early on stay in those good habits throughout the longevity of their time as a business. Generally, I think people feel good about the fact that the importance of paying tax is now more recognised and more talked about.

Meg Hillier: I wanted to move on to tax credits.

Chair: Can we come on to tax credits later? I just want to finish this stuff, but I promise we will come to tax credits.

Q51 **Austin Mitchell:** Is it possible to ban the sale of tax avoidance schemes by the big four accountancy houses? For years, I have urged that auditors be banned from selling other services, such as tax avoidance, to audit clients because I think that weakens the audit. They tried that in the States and a big propaganda campaign by the accountancy houses defeated it, but, theoretically, would it be possible?

Lin Homer: That might be a question I throw to Edward, but I would start by saying that the requirement to disclose is quite punishing. Of course, you will remember in the last year that we have seen the Chancellor move to use retrospective action in the case of a disclosure.

I am sorry to say this again, but one of the challenges for us is definitional. Tax planning is a good thing that we encourage people to do, and egregious tax avoidance is something that we know we do not want. The gap between the two is the area where disclosure is important.

What we are doing now is very rapidly moving to make public our view about emerging schemes. You will remember that on the last occasion I was here, we shared with you what I think we call "Spotlights", which is our list of tax schemes that we say we do not think will necessarily work. Of course, one of the best ways of stopping this kind of behaviour is for people to stop buying them. There is a basic rule: if it looks too good to be true, it probably is. It is important for customers to exercise some discretion, as well as the promulgators of the schemes.

Q52 **Chair:** I think we are going to have a whole sitting on this before Christmas.

Lin Homer: We had a sitting on the 6th, when we were expecting to bring Jim Harra, as well as Edward. We were rather thinking that we would spend quite a long time on this topic.

Amyas Morse: We have a Report coming out.

Q53 **Austin Mitchell:** I think Ernst and Young has been prosecuted for selling schemes in the States. My other question was: why can we not have-or would it be effective to have, as the Australians do-a general avoidance rule, so that any scheme that is meant to avoid taxes can be struck down?

Edward Troup: We are in the process of introducing a general anti-abuse rule, which will be published in draft on 11 December and be up for consideration in the Finance Bill in four or five months' time. So the answer is yes.

Austin Mitchell: Thank you.

Q54 **Chair:** I want to ask a few more questions, then we will move to Meg and the tax credits. Let me ask this general question first. In your initial answer, Lin, you talked about the balance between encouraging companies to come here and pursuing them for tax. Where is your priority? I want to get a sense of where the priority lies. You cannot do both, so what is the priority?

Lin Homer: For HMRC, the priority is to collect the taxes due. So we have a role in making sure that the tax system is as clear and understandable as possible, so that people will comply with it; in making sure that the system of collecting tax works-and we have seen the challenges, such as the introduction of NPS, when we do not always get that right first time; and in pursuing through compliance those people who, through error, fraud or criminal activity, try to stay out of the system. Our priority is to get in the tax due. For the Government, there is a balance to be struck between having a competitive tax system-

Q55 **Chair:** So you do you get told, "Don't pursue too hard"?

Lin Homer: No, we do not get told, "Don't pursue"; we get told, "Pursue rigorously, to the laws".

Q56 **Chair:** Okay. If you are told to pursue rigorously, let me do some examples. If you take the Lagarde list that has been in the press recently, HMRC said, as quoted in *The Times*-no doubt, you will tell me, in error-"The courts would not thank HMRC for taking zillions of prosecutions into them, so we have a selective prosecution policy".

All I would say to you is that this is tax evasion, but there would be a public outcry if it was someone selling cars or something, or fiddling car sales, and you decided to have a selective prosecution system. Why have a selective prosecution system on tax? If you have a car theft cartel, you would prosecute. Why, if you have got a tax avoidance or evasion cartel, are you selective in who you prosecute?

Lin Homer: I think it was the occasion I attended with Mike Eland. We talked at length about the need to have a complete range of approaches-

Q57 **Chair:** But why "selective"? Is it true? You are quoted-you have a selective prosecution policy.

Lin Homer: I will ask Edward to update you on progress with that project overall, but we have always taken the view that the important thing is to get the money in and to persuade people to pay the tax due. We have well published approaches that say that we will tend not to penalise even, let alone prosecute, people who come to us and voluntarily disclose; people we have to work harder with, we will penalise, and we will take that all the way through to prosecution. So we have always taken a view that we have to have the whole toolkit, but on these particular cases we think we are having some success.

Q58 **Chair:** You have one prosecution.

Edward Troup: Yes. May I put some of the facts on the record? The figure of 6,000 has been bandied around as the total number of names, but that is the total number of entities, which is quite important because it includes companies, trusts and other entities; it is five-year-old data so it has taken a bit of time to work out who are the individuals in the UK whose names are on the list.

It is only a list-it is intelligence, not evidence. We have had to turn that into evidence that the individuals-some of whom have quite legitimately got the money there-have actually underpaid tax. Having said that, we are making very good progress. Criminal prosecutions always take longer, because of the additional burden of proof.

Q59 **Chair:** You have got one at the moment.

Edward Troup: We have had one so far. We have got another dozen criminal ones in train.

Q60 **Chair:** Another dozen?

Edward Troup: Another dozen criminal ones in train, which is roughly equivalent to the proportion of criminal to civil that we generally find, using the criminal investigations policy, which is published, which explains how we will always use civil fraud measures before we come to criminal prosecution. We have got 500 who actually we have settled with, and got money; we have got another 200 who have voluntarily fessed up; and we have got another 400 who have used the Liechtenstein disclosure facility. So we have already got 1,000.

We have got over £120 million of cash in, which I think is more, actually, than we had anticipated. The number is still rising, and we do expect to get out quite soon-to initiate, and engage with the remaining individuals who are represented in this list. So actually we have got a very good story to tell on this, and the selective choice of one prosecution out of 6,000 is, indeed, selective. We are actually quite proud of what we have done on this, and it is part of the wider offshore evasion strategy, which is bringing in, as you know, very considerable amounts of money.

Q61 **Chair:** Can I ask you about another one? I know you won't want to talk about Starbucks individually, but one of the interesting things with Starbucks is they appear to have structured-we will find out next week-their business in such a way that there is no profit here, both in terms of what they pay for loans and in terms of the royalties. Now, do your investigations go into trying to understand the profit structure of a company, or do they just stop at the border?

Lin Homer: No, no. With our multinationals we have a range of opportunities not only to see the detail of their arrangements but to challenge it, so transfer pricing-

Q62 **Chair:** So you look beyond what they say they do in the UK? You look to the States-you look at all their other businesses, do you?

Lin Homer: Yes.

Q63 **Chair:** So how many of your staff are currently doing Starbucks, for example-or any of them?

Lin Homer: Well, you know we won't talk about that.

Q64 **Chair:** I know, I know. So you have got 770 big businesses. Tell me how many staff you have got looking after the 770 big businesses.

Lin Homer: Well, we have a range of people.

Q65 **Chair:** How many staff?

Lin Homer: Large business, which is part of business tax-

Edward Troup: The large business service has 1,200; large and complex, who deal with the other large ones, have got 1,700; and that nearly 3,000 draws on experts across the department. So for instance we have 65 transfer pricing experts. So this is a well resourced unit, which is bringing in very significant amounts of money.

Lin Homer: And we do work very closely with colleagues. You have mentioned the US, but this is not an approach which is done in isolation. As I say, we know and understand that the Chancellor is very keen to continue that co-operation and to continue to work with other countries to ensure that we do stay on top of these approaches and get the best-

Q66 **Chair:** I am not sure we would say you are on top of them; that is the problem. If you look at all of them-don't only take one, but look at all of them in there-and look at their turnover and profits, as reported quite often in the States, on their UK business, their tax in relation to either the turnover or the profits reported in the stock exchange commission in the United States does not bear any relationship whatever to the corporation tax they pay here. So I don't feel you are on top of it, Lin.

Lin Homer: We are applying the rules of the game as they are at the moment.

Q67 **Chair:** Are you?

Lin Homer: Yes, we are.

Q68 **Chair:** It is very difficult, because I am trying not to take individual circumstances, but if you take a company that claims it has to pay 6% in royalties, that doesn't even look competitive, because at the end of the day it then puts into UK Companies House that it is making a loss. It does not seem to me that you are getting underneath that at all, and this is a company giving another wholly-owned subsidiary the entire 6%-plus, then, the loans and everything else. You are not getting underneath it, and it doesn't reflect their business or the cups of coffee they sell in the UK.

Lin Homer: We won't talk about individual companies. It may be that you will invite them before you, and some of them will be more willing to talk about their strategy. What I can assure you is that we are confident that we are getting what we should out of the current system and that we, and Ministers, will continue to be alert to the possibilities to improve the system. Really, as I answered to Mr Mitchell, I think a number of us would accept that in a system where there is some choice about where you base yourself, and some of those choices are very, very small tax rates-

Q69 **Chair:** But you are not getting anything. You look at these big businesses doing big business in the UK and your corporation tax take varies from zero, 2%, 3% or 4%. It's all down in the nothings. You can't say, "We're doing it properly." Without taking any individual case, you can look across the whole range of them and you cannot then tell us that that reflects a fair corporation tax credit to the UK Treasury from the business they transact here and the profits they make, as shown in their American accounts. You can't say that.

Lin Homer: Multinationals are subject to global tax rules. We are part of the process which can develop and challenge those rules, and I think it's right that we should be. I am confident that we ensure the application of those rules, to ensure that the UK is not disbenefited by the proper application of the rules. Whether those rules should be changed is-

Q70 **Chair:** What is wrong with the transfer pricing rule at the moment? What's wrong?

Lin Homer: I think the transfer pricing rules work well.

Q71 **Chair:** They can't do.

Lin Homer: I think they do, and I think-

Q72 **Chair:** So you think it's fair that all these companies can take so much of their profits out and put them into jurisdictions where they pay no tax by using transfer pricing?

Lin Homer: That is not the question you asked me. I think that the transfer pricing rules work well within the framework that they're based in. And I think that you have to remember that intellectual property has a real value, and there will be British firms that will benefit from this kind of approach themselves. So the basic rule-

Q73 **Chair:** They put it in another tax haven somewhere else, do they?

Lin Homer: No, but they will charge people for their intellectual property. And so you just have to-

Q74 **Chair:** But they won't pay tax here.

Lin Homer: Well, this was a point I made to Mr Mitchell-that I think many people, including probably quite a lot of Finance Ministers throughout the world, would think that a situation where some countries offer very, very low tax rates is a challenge for all of us. That is different than saying that I have reservations about how we apply our expertise to the rules as they are currently drawn, and I am confident that we do that well. I think we're regarded as leading in this field, and I believe it's one of the reasons why the work of the business tax directorate does bear scrutiny and does work well for the country. It doesn't mean that we wouldn't want to see some of those rules changed.

Q75 **Chair:** So Charles Elphicke's work, which showed a corporation tax rate of 3% on the 19 global companies that he looked at-was that a load of rubbish?

Lin Homer: All I would say is that you can't always tell as much as you think from the published accounts. It's something that a number of my people have said here and in front of the Treasury Committee-that the information that organisations are obliged to put in their published accounts is not always-

Q76 **Chair:** We ought to know what tax they've paid. We may not know about the negotiation, but the tax they pay is eventually shown in their published accounts. So I assume that his figure of a 3% corporation tax rate is correct. I wouldn't think he's made that up; he is a tax lawyer by background.

Lin Homer: I think he's drawing on what he knows. My point is that not everyone-

Q77 **Chair:** You can't get away with that, you know. Either-

Q78 **Mr Bacon:** Can I come in here? People understand-at least, they'll understand if they think about it-that if you run a shop in the Dubai airport called Laura Ashley and it's a franchise, you will have to pay a fee, an intellectual property fee, to the owners of the Laura Ashley company, in order to do that, and you will have to abide by certain standards and rules, and design guides and the products you sell, and all the rest of it. There is a huge advantage in being Laura Ashley, because when people go through the airport they recognise it instantly. One understands that; the name obviously has some value.

What people don't understand is this. You can have a large business-let us say a coffee chain, for the sake of argument-and it sells coffee. People understand, roughly, what it costs to make a cup of coffee, and the more they study it the more they would understand. And they understand what sandwiches cost, they understand what it costs to rent premises and they understand what it costs to hire people. And you have a set of underlying activity going along, across hundreds of branches. At the end of all that underlying activity, somehow-apart from the income tax and the national insurance that the employees pay-through a set of what are apparently tricks, the corporation tax from that vast array of underlying activity is miraculously reduced to nearly zero. The best that you can say is, "Well, our transfer pricing works pretty well."

It just smells, and not of coffee. It smells bad. You keep on saying, "Well, the rules are the way they are", but you know perfectly well that you and other similar tax authorities essentially determine what the rules are and that when you don't like them, you change them. In this country, you put them through Parliament-I have sat on a Finance Bill-and they come out, largely, exactly the way you want them to, and you have been at it for years.

Why is there still this enormous artificial construction that bears hardly any relation to what most people would understand as a sensible set of economic arrangements, with some relationship between the underlying economic activity of the company and the amount of corporation tax paid? There is this enormous gap, and the biggest gap is in your credibility. That is why it is a huge public issue. People do not understand it.

Lin Homer: I am trying to answer.

Q79 **Mr Bacon:** I'm sorry that I'm not letting you answer, but you must understand that the reason why people don't understand is that for years you have done a really bad job of explaining.

Lin Homer: Well, I disagree with that comment.

Q80 **Mr Bacon:** Then why don't they understand?

Lin Homer: If you will let me just have a quick go at answering the question-I said to the Treasury Select Committee that I can understand people's reaction to some of the descriptions of behaviours that they will see as smelly-not a nice smell-as you just described. You don't necessarily know all of the ins and outs of the business from the published information. Let me give you an example that is not in the coffee arena, but then I will return to that. We have, for a number of years, heavily encouraged scientific entrepreneurs. We have tax approaches that are designed to allow quite significant recognition of the investment costs up front for stonkingly good new developments. We then developed some very successful businesses that make a global impact, because of the quality of their-

Mr Jackson: I'm going to stop you there. I may not be the brightest sparkler in the fireworks box, but I think it is incumbent upon you to distinguish the intellectual property rights of picking a coffee bean and roasting it from Pfizer developing a world-beating drug in Sandwich or the US.

Q81 **Mr Bacon:** If I may agree with Mr Jackson's interruption, my point to you was that you had done a really bad job of explaining and you said, "No, I disagree" and started talking about something completely different, which is high-end science. We are talking about coffee and sandwiches. That is not high-end. My whole point was that it is simple: you rent premises, you hire some people, you make some coffee and sandwiches, and you sell them. It is not that difficult. If you are trying to explain that by reference to high-end science and the tax breaks available for high-end science, I will make my point, which I know you disagreed with, again: you are not doing a very good job of explaining it. Explain it in terms that people understand-coffee and sandwiches and the things that people can understand.

Lin Homer: I will have another go. I apologise-I did not hear you say "explain". I thought that you were talking about our activity over the past few years. I am perfectly prepared to accept that I did not persuade you with that explanation.

Q82 **Mr Bacon:** I don't just mean me; the public out there don't understand it.

Lin Homer: I understand. I was trying to give an example to the broader question that had been put to me that you-

Chair: Just focus on that.

Mr Bacon: Not by me. My question was not a broader question.

Lin Homer: One of the interesting challenges, which I think it is reasonable to ask yourself, is that if the intellectual property we are talking about in the kind of areas we are talking about-sandwiches, coffee and produce of that sort-were worthless, people would not pay for it. It is a market-led value that is attributed to this area.

Q83 **Chair:** This is nothing to do with tax.

Lin Homer: It is.

Chair: What we see is turnover, profits and then tax. They bear no relation to coffee and sandwiches.

Lin Homer: To finish, many of the examples of the businesses that you are looking at have a fairly high proportion of franchises. In those cases, the franchise is paying an amount to the owner of the intellectual property. They are choosing to do that. They clearly think that that is commercially worth while. That is my point about-

Q84 **Chair:** You cannot say that.

Lin Homer: Yes, I can.

Mr Bacon: She can and she just did, but what you are saying is that they are choosing to hold a Starbucks-

Q85 **Chair:** Richard, it is different because KFC and McDonalds are similar businesses to the one that we are not allowed to talk about. KFC and McDonalds all pay a little bit of tax in the UK. The one we are not allowed to talk about does not. You have told me the transfer pricing stuff is quite fine, but what none of us can get is why UK tax authorities cannot get underneath the business that is being done, so that the cups of coffee and the sandwiches that are bought in the UK have proper taxes paid on them.

Lin Homer: I was explaining intellectual property. There can be other reasons why one organisation makes more money than another. That can be because of how they choose to run their business, how much they invest in property or how much they invest in training. So, my point is that you cannot tell, in one fell swoop, that intellectual property is-

Q86 **Chair:** But do you look, for example, with the company we are not allowed to mention, at what they have been telling their shareholders about the profit rate in the UK? I think one of the things they told their shareholders about was the 15% profit rate in the UK, yet they pay no tax.

Lin Homer: One of the values of having customer relationship managers is we get to know these businesses quite well.

Q87 **Chair:** Well then, either the skills of your individuals are not good enough or you are not getting underneath things.

Lin Homer: I don't think that is necessarily the only outcome.

Q88 **Mr Jackson:** But surely there is a difference-again, I come back to my original point-between brand value, which we are talking about with this company, and intellectual property, which involves masses of research and investment over many years, and which is a different issue. My point, building on what Mr Bacon says, is that, surely, the tax authorities can distinguish between the two, because they are not the same. You use this caveat of intellectual property as a catch-all term to give carte blanche, it seems, to admittedly legal and, for the moment, legitimate tax avoidance. But surely it must have crossed your mind that we need to establish some kind of legal precedent to distinguish between brand value and intellectual property.

Lin Homer: The second thing Mr Bacon said in what was quite a long question, which I have not done justice to, was that it is quite easy: you just make a national law. That is also not true because-

Q89 **Mr Bacon:** Actually, if I did, I didn't mean to, because it needs to be done internationally. The Committee met some Harvard tax experts recently-

Lin Homer: It does have to be done internationally, and intellectual property is defined internationally. This is not something in which we can, if we want our own companies to benefit from consistent laws, just make up our own versions. Intellectual property covers quite a wide range of things.

Q90 **Mr Bacon:** When you have a business model that is so relatively simple in terms of what it does and the service it provides that it is easy for most people to understand, and which operates on a large scale and at a high level of economic activity, and yet pays no corporation tax, the only conclusion people can really come to, whether the situation has arisen because of payments for a franchise or payments to service debt, or because interest rates are very low, is that the business pays no corporation tax because it has-people are going to hate this verb-architected things that way so that it ends up paying no corporation tax. The Chair talked about other companies, and perhaps they just have poorer tax advisers. It beggars belief that such a large entity, with so much underlying activity here, can pay so little corporation tax. That goes back to the question of your transfer pricing and-Mr Troup said you have plenty of experts-whether you are really getting underneath things. These things do not seem credible to the vast majority of the public, which takes me back to where I started: this has not been explained satisfactorily.

Lin Homer: I hesitate to go back, but we are in a position where, by law, we are not able to put an individual example on the table and unpack it for you. As I said earlier, it is open to individual companies to say more about their own affairs. Their decision about how much they speak or don't speak is a matter for them and for corporate policy. As you said earlier, we have seen some individuals prepared to go on record and make statements.

Q91 **Chair:** We are delighted they are giving evidence to us, but before this becomes about individuals, what has been in the papers? I probably haven't picked it all up. Amazon, Starbucks, Google, Apple, Asda, Facebook, eBay, IKEA, Intel, Kraft, Coca-Cola-this is not an individual company; this is a generic problem.

Lin Homer: And multinationals have choices. Multinational companies are companies which can choose where to put their headquarters and where to put their outlets, and they are taxed in the country where they carry on economic activity, not where their customers are. That is an international arrangement.

Q92 **Chair:** Hang on. They are taxed in the country where they carry on economic activity.

Lin Homer: It generates their profits.

Q93 **Chair:** So we have Kraft, Coca-Cola, Amazon, Starbucks, IKEA and Asda. All their economic activity is clearly in the UK.

Mr Bacon: You make it sound like customers are not part of economic activity. In fact you did; you just said that.

Austin Mitchell: They have their biggest sales in the Channel Islands, presumably.

Lin Homer: Not all economic activity is related to the final element of the sale and transfer. I would simply make the statement that all the companies that benefit from this, benefit from it. In a sense, we are complying with international approaches, which apply to our companies as well, and we think we apply those rules well.

Q94 **Austin Mitchell:** Talking about transfer pricing, I am just reminded of a thing I unearthed with Prem Sikka in one of the pamphlets we were writing. I wish I had swotted it up before I came. On transfer pricing, one firm was charging its subsidiaries in, I think, this country, $3,000 for plastic lavatory seats, and it got away with it. We drew this to the attention of HMRC and nothing happened. But that's just a thought.

How much of this problem is down to the fact that you are not well resourced enough, or smart enough, to deal with it? I remember what Bob Sheldon said to me when I was appointed-early days; a long time ago-to the Finance Bill Committee and had the pleasure of sitting up all night. He was introducing legislation to stop a certain tax avoidance scheme and he said wearily, in the late hours of the night, that it was all very well, that this would stop it, but that "these big accountancy houses employ some of the best brains on the highest pay in the country and we can't keep up with them. They'll be back with another, even better scheme within weeks."

Lin Homer: I think we are smart enough. If you would like us to, Edward could talk you through some of the work we are undertaking through our tax academy to make sure that we not only recruit the best but train them well and keep them well.

Chair: We welcome that.

Lin Homer: Fortunately for us, not everyone is turned on by high salaries-

Q95 **Austin Mitchell:** But have you got the staff and the quality, ability and brains to cope?

Lin Homer: We keep many people for the whole of their career and we keep another significant proportion for a large part of their career, and what I will say is that they are often made offers by firms, which they resist. I think that some people are still very motivated by the public service ethos.

We are part way through the reinvestment programme, and a proportion of that has gone into business tax. Again, when Jim is with us at the next hearing, we can talk about what we are doing with that. I personally feel that if I got to the point where I felt we could do more in business tax with more people, I could go back and ask for more.

My view is that we have the right talent. It is helpful to us to have an increasingly large public interest in this, as I said earlier. People should feel that paying tax is something that is expected in this country. Overall we have a good story to tell.

Q96 **Austin Mitchell:** It would be interesting to know how many gamekeepers turned poachers over the years. I have one other question. How is it that the big four accountancy houses, which are devising all these clever schemes and flogging them on to firms to avoid tax obligations, are also advising the Treasury and HMRC on bringing in more taxes and improving the tax system? How can they do that job at two ends?

Lin Homer: I think that all Governments have tended to ensure that they consult. We do not listen to experts from other fields with an entirely disingenuous view. We challenge other people's views.

Q97 **Austin Mitchell:** But you trust them.

Lin Homer: I think that the tax sector is populated, in the main, by very professional, very able people. The Treasury Committee had some of the tax agents in the week before we appeared, and I think that if you asked the Committee it would say that some of those people are helping us to make the tax system better.

Yes, I do trust them. That is not to say that there aren't some charlatans in the world selling schemes that are designed to part people from the money or part the country from the tax it is due, but I believe that we are good at finding them and good at closing them down, and when the Government need to they are prepared to legislate retrospectively.

Q98 **Fiona Mactaggart:** One of the things that you have been saying is that you target your activity according to the behaviour of the company. Yet the NAO Report, at paragraph 3.18 and 3.19, implies that the analytics approach and taxpayer profiling that this Committee demanded in its last two Reports, in 2004 and 2009, is only just coming into force. I am wondering when we can expect you fully to implement that plan of approach?

Lin Homer: That was such a short question, I was not expecting the end of it.

Q99 **Fiona Mactaggart:** I don't want to deliver an essay; I want you to deliver it.

Lin Homer: I think the references in paragraphs 3.18 and 3.19 are particularly about some of our work on debt. We have talked to you before about some of our new investment in technology that gives us much more powerful data analytical tools. We have also talked to you about the fact that we know we are not getting full power out of those. I suspect the reality is that, by the time we have got full value out of Connect, which is one of our most powerful recent introductions, there will be another powerful system just round the corner that will take us even further. We are now doing things that we would not have been able to do even five years ago, and the cleaning up of our systems and getting them to talk to each other is allowing us to make greater use of them.

Only a few years ago, HMRC had more than 3,000 systems, so with the best will in the world, even if you had data analytics, it couldn't hoover up from all the systems. Now, we are increasingly moving towards having a "big 13" systems, through which you can put your analytics and get much more comparison. I think it will enable us to chase debt, to challenge people and to target resources, but I am pretty sure that once we make the best use of those, someone will have an even more powerful machine for us to think about investing in.

Q100 **Fiona Mactaggart:** Will it enable you to challenge people doing similar kinds of business but-this is the point that Mr Bacon was making-treating their payments back to head office in a quite different way?

Edward Troup: We've started the customer segmentation model with the large businesses, because the large business working-with-business programme was about putting them into high, medium and low risk on a number of different factors, and in a sense the numbers are in front of you. Giving a low-risk rating to businesses that we can see are compliant and are not using aggressive schemes, and putting more resources into businesses that are high risk and are more aggressive, for whatever reason, such as their location, or the nature of the schemes, has produced the sort of results that you have seen. The high-risk corporate programme since 2006 has dealt with 1,800 issues, and collected £16 billion in extra revenue. That is customer segmentation. It was right to start at the largest end with large businesses: they pay the vast proportion-60% of overall revenue comes through them. Rolling that out across the whole customer base and trying to adopt the same approach is work in progress.

Q101 **Fiona Mactaggart:** So you don't know when you will have it rolled out.

Lin Homer: I think we are already getting incredibly good value out of the system.

Q102 **Chair:** Right. I want to ask you three quick questions, and then we will go on to RTI. First, you say in your report that you use debt collection agencies.

Lin Homer: Yes, we do.

Q103 **Chair:** Do they pursue large businesses as well? Have you got a debt collection agency pursuing large businesses?

Lin Homer: The debt collection agencies have so far been used to pursue the small debts that we would otherwise not have pursued ourselves.

Q104 **Chair:** Why? Is it a matter of a cosy chat over a cup of coffee, or you have the bailiffs in?

Lin Homer: No. We have skilful internal debt collection approaches. We found, as we discussed with you at earlier hearings, that because we always tend to put the investment where the returns are higher-in the top-end debts-we were not pursuing some of the smaller debts at all, and we were beginning to see small debts where people were clearly working out what they thought was the level below which we wouldn't go. The debt collection agencies are very much at the bottom end.

Q105 **Chair:** Okay. I get that, but can you tell us, or will you write to us, about how many cases you do not pursue through debt collection agencies, but you may pursue through the courts? You do not know how many cases you have against the top businesses at the moment, do you? You talked about some of your successes, but you have not got a list.

Lin Homer: The 1,800 cases that Edward referred to were all cases where-

Q106 **Chair:** No, in litigation-in courts.

Edward Troup: Litigation with large businesses is not about collecting tax that is due; it is about settling the question of whether they owe us the tax. That is why we take-

Q107 **Chair:** How many of those are in the courts at the moment?

Edward Troup: I can come back to you. There are about 8,000 items of civil litigation being processed within HMRC at the moment, across the whole range of tax-

Q108 **Chair:** I am trying to get on to the other thing, but the other thing was the story in the BBC over the weekend about umbrella companies who pay their temporary workers' salaries offshore to avoid NICs and PAYE. Is that legal?

Lin Homer: This is an aspect of the discussion we had with you when you had Nick Macpherson, myself and William Hague here. As we discussed then, there can be legal reasons why you have service companies. They are not necessarily designed to avoid tax, but we will always tend to review and check as to whether what is being put in place is right.

Q109 **Chair:** How can it be legal? The example was given-I have no idea what the company was-of a company dealing with teachers. I have also been told that construction, engineering and IT tend to use these umbrella companies to avoid NICs and PAYE.

Lin Homer: This is fairly similar to the personal service company. If it is a genuine arrangement and it is offshore and-

Q110 **Chair:** What would be genuine? If you are working here in the UK, what would be genuine about not paying NICs and PAYE here in the UK?

Lin Homer: It is exactly the same approach that we told you we would use with personal service companies: we would investigate if it is an artificial manipulation of the rule. Whether or not it is set up in that way, we would pursue-

Q111 **Chair:** If you are working here in the UK as a teacher, IT specialist or engineer-as whatever-or in the construction industry, is it ever genuine not to pay PAYE and NICs?

Lin Homer: It can be in certain circumstances.

Q112 **Chair:** Like? Give me an example.

Edward Troup: If a French company which specialised in providing specialist engineers made an engineer available to a UK business, and the French company had no place of business in the UK, it would not have to operate PAYE and NICs and the engineer would be responsible for his or her own-

Q113 **Chair:** But a teacher in a classroom?

Edward Troup: It seems unlikely that the same situation would arise with a teacher, but it is perfectly possible in a specialised teaching area. But we are looking closely at the arrangements and we think that the majority of these arrangements do not work.

Q114 **Chair:** Don't comply.

Edward Troup: Don't comply. That is what we believe and we will pursue them.

Lin Homer: We will pursue them.

Q115 **Chair:** Who do you pursue in that instance?

Lin Homer: We may pursue the individual for tax owing, or we may pursue the company that has hired. Again, as we discussed with you when we sat here, I think I committed fairly rashly to a ten-fold increase in the number of interventions, and we are on target to do that. So we will make a judgment about where we pursue.

Chair: Okay. The very final thing is this. The Chancellor has said, "We will be as tough on the richest who evade tax as those who cheat on benefits." Do you think you are?

Lin Homer: I think we are applying our rules across the piece. One thing that I was going to say when we talked earlier about how we apply penalties, we have sheets that tell people how we will respond. They are not just aimed at big or small; they are for everyone, and they clearly set out, with a classic RAG rating, that if you come and tell us you have forgotten to pay some tax, we will genuinely be quite supportive and help you get on your feet; and if we have to work really hard, we will pursue with ever-increasing penalties. So our message is that we except people to pay their tax and we will be even-handed about pursuing those that do not.

Q116 **Chair:** Thank you. Let us move on to RTI. We are all worried about this, and no doubt you are too. What is the rating that you have got from the Major Projects Authority on your part of this project? What is your rating: red, amber or green?

Lin Homer: I think we were amber.

Q117 **Chair:** You are amber.

Lin Homer: We are being looked at, I think quarterly, by both the NAO and the MPA, and I think that is helpful1. It is a big, important project and it is very useful to us. The most recent one was amber, which is sort of where we would expect to be at the moment, with-

Q118 **Chair:** Six months before.

Lin Homer: But a lot of work to do still. The project has learned something from previous projects. We have approached this by building up from small pilots, but we are trying to stay open-minded to the views of committees, agents, employers about the things that we still need to think about before next year.

Q119 **Chair:** Okay. We had Nick Macpherson in front of us the week before last, and when we asked him about whether the Treasury wanted to drop the whole thing, there was a very long pause.

Lin Homer: There is often a very long pause before Nick replies though, isn't there?

Mr Bacon: Not that long.

Q120 **Chair:** He then went on about the chaos, which I recall, with the introduction of tax credits.

Lin Homer: Did he?

Q121 **Chair:** How do you respond to that-your preparedness on this in comparison with that?

Lin Homer: As I said, one of the important things for HMRC is to learn from its experiences. If you are going to do lots of big projects, at least you can make sure you learn from them.

It is important to remember that we are going through a fairly major transformation of PAYE, and that it needed it. It was a system brought in in the 1940s, and it had had very little done to it. I know that the introduction of NPS brought all sorts of challenges and problems for people, but something needed to happen. A system designed when most people had a job for life was not keeping pace. For HMRC-put to one side what the DWP wants-increasingly to have information come through regularly in real time, will really allow us to run, we believe, a very effective tax system.

It will be useful to us. A lot of the employers who have been pilots with us in this first stage have been really pleased and surprised by how reasonable it has been to enter the scheme and how well the scheme has worked. Of course, though, the real test is as we stand up from a few thousand employers to many thousands. We are not at all complacent, but the reaction from employers has given us heart. Most of them are finding it is helping them put better data into the system.

There are big challenges. I think we had at least 40 people in the old PAYE system who were supposedly 200 years old-the date of birth they were registered with was that silly. One of the big changes for us is that this is requiring employers to give us better data and then for tax judgments to be made on better, clean data. That will be painful as we go through it, but I think it will give us a very good system in due course.

Q122 **Mr Jackson:** This is about big projects. I heard you waxing lyrical on Radio 4 about the child benefit changes and the millions of letters you are sending out to higher rate taxpayers. I asked a question of the permanent secretary at the Treasury a couple of weeks ago. Do you repudiate the report in *The Daily Telegraph* about 10 days ago-it prayed in aid the Institute of Chartered Accountants in England and Wales-that you are not ready in terms of your infrastructure to bring in that very significant change? That is the first, quite simple question. The other is: how are you going to cope with some of the very large number of exceptions that you are going to have in dealing with that change? Essentially, are you confident that you can carry through that very major change in tax policy within the time scale without an enormous cock-up?

Lin Homer: The most dramatic descriptions of failure that I have seen in the media, I would repudiate. I think we are exactly where we expected to be in terms of the development of the scheme. We actually have more employers already in the scheme than we expected at this stage, and that has largely been because they have come and asked us to join the pilot, rather than we had gone out looking for them.

ICAEW have raised some important issues that we need to discuss with them. In fact, I was meeting them this morning and was absolutely assuring them that we want to continue working on the things that they are worried about. One of the things they are very worried about is small and micro-businesses, and it is essential that we spend enough time looking at those.

A comment I made to one of your colleagues on the Treasury Select Committee was that, to some extent, the challenge for us is that if a small business is running in a fairly chaotic way, it is not the introduction of RTI that is a problem for them; it is that they are running in a chaotic way. None the less, we still have to help them bridge into somewhere where their arrangements can more easily lock into a more regular system. We are providing some free software for small employers; we are looking at what kind of exceptions you need to make-agricultural businesses, pubs and things like that-

Q123 **Mr Jackson:** Are you on RTI? I am talking about child benefit.

Lin Homer: Sorry, I do apologise. On child benefit, yes, I am reasonably comfortable that quite a lot of the issues that have been written in the paper about that are being over-dramatised. It is a big change for people, and I do not make any comment about that, but if people go on to our website, look at the drop-down questions and put in their own facts, it is designed to help them decide whether they want to keep claiming child benefit. If they do not, it is a relatively easy decision to opt out; if they do, they do nothing for now and keep receiving child benefit, but if one parent earns more than £50,000, they have to ensure before next October that they are in the self-assessment system-half of them already are-and they have to fill in the self-assessment. I think it is old-fashioned to suggest that our self-assessment system is beyond the wit of most people.

Q124 **Mr Jackson:** No, but whether I agree with it or not-I think it is a crazy policy that I disagree with, and I voted against it-you did have a fairly simple system, enunciated by the Chancellor in October 2010 at the Tory party conference, and then, last year, you were told, "Forget all that. Because of the fuss, we have to get rid of the cliff edge, so we'll do the tapering." Therefore, in terms of your planning, I imagine the time scale has been quite difficult. That is my concern, and I guess the ICAEW is also concerned about it.

Lin Homer: It has been an important and challenging piece of work, of course, but I think the most important thing for individual families is to go on the website and make a choice about whether they will keep having child benefit. If they will, they have months and months to get into the SA system. Last year we had 800,000 more people do SA than the year before, so the possibility that another 200,000 to 300,000 will have to do so because of child benefit will not overwhelm our system. I am confident of that.

I think the biggest challenge is those people in the £50,000 to £60,000 range, where the taper has been provided, because it is really important that they go on and use our calculator to work out whether they will be better off. For most people in that group, if they get their income right, it would be better to take the child benefit and repay some of it, because they will always get more benefit than they give back. One of my concerns is to ensure that people are using the website and the calculator to make a good choice, but I am confident that our website is easy to use-it had had 70,000 hits by Saturday, and people probably had not received their letters by then-and the call centres are ready and waiting for those pople who find that they need extra advice after they have used the website. We would really like people to try the drop-down questions first, obviously.

Q125 **Mr Bacon:** May I return to the question about real-time? When you misunderstood Mr Jackson, you were in the middle of saying-I am interested in this-that there will be exemptions for agricultural businesses and small businesses. Will you repeat what you were saying?

Lin Homer: I think we call them easements, which is a beautifully old-fashioned word, isn't it?

Mr Bacon: Positively Anglo-Saxon.

Lin Homer: What we are trying to recognise is that there is a very limited number of cases where the nature of the business is such that we really wouldn't expect people to literally hand over the cash and then type something into the machine straight away.

Q126 **Mr Bacon:** Because they are too small?

Lin Homer: No, because the nature of the business is day-by-day. For example, your asparagus is growing, it is growing faster than you thought and you need another group of people to come to cut it; so you have twice as many workers today as you had yesterday. We do not expect you to go on; we expect you to file every seven days, rather than literally every time you are potentially handing over, because it might be the last day of picking and you increase the numbers, and they won't be there tomorrow. Similarly, in those trades where, if circumstances get very busy in an unplanned way, you bring in additional labour unexpectedly and then pay because they are not regulars, we are allowing people to catch up and pay within their normal rhythms.

What ICAEW believe is that there is a wider range of small businesses that need consideration. Ruth Owen and I are very keen that we understand their reservations. As I say, I was talking to ICAEW this morning, and I think it is important that we try to distinguish between organisations that are not very well organised, where we and the agents may need to help, particularly as there are some free offers that would be very easy to use and might sort out their problems, and those organisations where there is a real business dynamic that makes it hard to do what we are asking. We are determined to keep looking at that, rather than assume that we know the answers.

Q127 **Mr Bacon:** Yes, I hope so. I do not find it very reassuring that people running small agricultural businesses, whether they are growing asparagus or anything else, will only have to file every seven days. You are suggesting that every seven days, they will have nothing better to do than pump more information into HMRC. Frankly, it does not surprise me that the ICAEW is worried about that.

Lin Homer: We had this discussion at the Treasury Select Committee. The point that I made to Teresa Pearce, I think, was that if you are a smallish business paying cash out day after day and you are not keeping some record of that, you are going to get in a muddle yourself quite quickly. For most of what we require, if you have a system into which you are inputting what you are doing as a small business, that will be adequate for you to give us what we need.

Q128 **Mr Bacon:** By the way-this is slightly tangential, but in a way it is not-am I right in thinking that petrol stations selling petrol or diesel have to pay the customs or excise duty due on their sales daily? Is that correct? I was once told that.

Lin Homer: I do not know, I am afraid.

Edward Troup: Fuel duty is collected at the point at which the fuel leaves the refinery. I have seen it happen. There are tax points there.

Q129 **Mr Bacon:** But is it daily?

Edward Troup: It is whenever it leaves: literally as the lorries go through, all day and all night.

Q130 **Mr Bacon:** Pretty regularly, in other words. That was an aside. In other words, if you are a large business, you can.

Paragraph 15 of the Report says that "At 31 May, 209 PAYE schemes covering 1.5 million individual records were using RTI" and that "By October 2013, all employers and pension providers will be required to use it." If you were at 1.5 million individual records by the end of May, where are you now?

Lin Homer: If you look at figure 6 of the Report, we are just entering stage 3, where we are moving from about 1,300-although we have been running slightly ahead of that-to building up to having 250,000 employers on. Now that is not-

Q131 **Mr Bacon:** Sorry, that was not my question. My question is about individual records. It says 1.5 million individual records; my question is how many individual records you have got now, if it was 1.5 million at the end of May?

Lin Homer: I am sorry, I am not sure I can instantly give you that answer. I am sure I have it somewhere.

Q132 **Mr Bacon:** It is easy to talk about employers-there is a smaller number of employers, by definition-but individual records, you are talking about individual taxpayers, aren't you?

Lin Homer: Can I give you a note? I know that within the pilots we have got, we have the full range from very small to very big, so I know that we now have a large number-

Q133 **Chair:** So you have got some SMEs in there?

Lin Homer: Absolutely. I apologise; I am afraid that I have got the number of employers, but I have not-

Q134 **Chair:** Do any of your colleagues know the answer?

Nick Lodge: I think the figure is 2 million individual records, but we will confirm or correct that.

Q135 **Mr Bacon:** So it is going to go from 1.5 million to 2 million?

Nick Lodge: I think it is 2 million now.

Q136 **Mr Bacon:** I see. Where will it be by October 2013, when all employers and pension providers will be required to use it? How many individual records will be there?

Lin Homer: It will be close to 39 million, because that is how many-

Q137 **Mr Bacon:** Right. And you are on track to do that by October 2013?

Lin Homer: Yes, we are.

Q138 **Mr Bacon:** You are confident about that, are you?

Lin Homer: Yes, I am. As I said earlier, we are actually slightly-

Q139 **Chair:** I want to ask you a question about your confidence. You must have seen the FSB survey.

Lin Homer: Yes, I did.

Q140 **Chair:** The survey suggested that a quarter did not know anything, only 16% were fully aware and only 60% had heard from you.

Lin Homer: Yes. First of all, it is partly a question of what question you ask them. We are not particularly trying to get the general public familiar-

Q141 **Chair:** No, these are businesses, aren't they?

Lin Homer: Small businesses, particularly with FSB. We are not trying to get RTI as a brand, if I can put it that way. In the conversations that we have had with businesses, we have talked about changes to PAYE. Our own polling suggests that 89% of tax agents know, which is very reassuring; many small businesses will have an agent. I think nearly 50% of businesses know, which is higher than FSB thinks.

The other thing is that we had discussions with small businesses and FSB further back, at the beginning of RTI. What the small businesses said to us at the time was, "It's very difficult if you tell us a lot about this in advance and then expect us to retain it all. Will you come back and tell us about six months before we have to do something?" We are working with the small businesses when they said it is best to do so. We have recently written to all those small businesses, and we will focus on helping them to understand and get ready in this next period.

Q142 **Mr Bacon:** What I want to ask you about is the stuff that will still go on at the other end. In paragraph 17, it says that the Department will still have to undertake an end-of-year reconciliation of each taxpayer's record, as employers will not report all data monthly under RTI. "The Department needs to decide, taking account of emerging findings from the RTI pilot, on which changes notified under RTI it should update on taxpayer records in real time and whether it can carry out any of the work currently performed at the reconciliation stage earlier." Are you clear about any of that yet?

Lin Homer: We are still looking at that.

Q143 **Mr Bacon:** Do you know what changes cannot be made during the year?

Lin Homer: It is not particularly "cannot". I am sure it is value for money that the NAO is interested in. There are some changes that will become evident to us by more regular reporting that we do not need to do anything with until the end of the year. The NAO also did some work with us on the number of work management items that we can and cannot manage to do. Those that will automatically sort themselves we will not lift out and work at the first point that they become noticeable to us, so we will make judgments.

Q144 **Mr Bacon:** That will be your decision criteria-if it will sort itself out anyway, we will not do it. That is how you decide, is it?

Lin Homer: That is one. There is a second issue that we are looking at. Happily, it is something that we work very openly with NAO on, and there are other areas where we think there are probably system fixes where we can get some more of these in-year changes that effectively automate themselves. Again, if that avoids them being manually worked for relatively small sums of investment, we think that will be worth doing. We are just going through some further work to take some decisions about which of the work management items generated by RTI and NPS should be "worked immediately" or "held". In the "worked immediately", it is either worked automatically or worked manually, and that is work in progress.

Q145 **Mr Bacon:** What contingency plans are you putting in place in case RTI is delayed?

Lin Homer: We do not think that RTI will be delayed. People will keep paying us the money they owe us, so the transfer from one system to another is not a cliff edge where everything stops. On current track, we think that with the agreements we already have in place for some employers to join before and after the due date, we are confident that we can hit the deadlines for next year.

Q146 **Mr Bacon:** Are you saying that you don't have a contingency plan and that you don't need one?

Lin Homer: I tried that on the Treasury Committee, and it, like you, accused me of not explaining myself very well. What I am saying is that our contingency is, to some degree, to get ahead of ourselves and have less to do at the turn-on point, so that, for those people who are challenged at that moment, we have more resources to throw at them.

Mr Bacon: That is what the Olympics did and it worked for them.

Q147 **Mr Jackson:** For the sake of good order, can I ask you a question that I have asked the permanent secretary? I want your viewpoint, but I am mindful of the fact that you don't want to veer over into political issues. The coalition agreement contains a pledge for a transferable tax allowance for marriage support that is backed by both parties in Government. There are rumours that the complexity of that in terms of tax infrastructure is such that if it is not announced in the forthcoming Budget, it just cannot happen before the general election. How difficult would it be to bring forward a change of that magnitude to enable the Government to deliver on the coalition agreement?

Lin Homer: Rather than talk particularly on that one-as you say, it is not for me to decide whether it is done-let me say that what we are trying to do, and part of the reason why I was so keen that Edward joined us, is to ensure that we are discussing with our Treasury colleagues, from the earliest moment, not just what the Treasury wants to happen but what that will entail. We are getting involved as early as we can, looking at options for the way you do things as well as what you do. We have, do we not, an open seat at the table?

Edward Troup: And I think that what we have done on child benefit is a good example of where we work with the Treasury. I was actually at the Treasury at the time to make sure that what was announced and the timing of it was deliverable operationally, as it has been.

Q148 **Mr Jackson:** But we don't know that yet.

Edward Troup: No. If Ministers and the Treasury develop a new tax proposal, whether it is on transferable allowances or something else, they will work with us to ensure that the announcement is effectively deliverable.

Q149 **Mr Jackson:** So you modelled the scenario of, say, an announcement in March in the Budget, and you have worked back on how that would impact in terms of your practices and the architecture of delivering it?

Edward Troup: That is a question about policy that Ministers haven't made any announcement on. They may do, or may not.

Q150 **Mr Jackson:** They have, actually. You are not quite correct; they have said they support the policy. The Chancellor of the Exchequer, the Prime Minister and the Exchequer Secretary have all committed to enacting the policy before the end of this Parliament.

Edward Troup: But there has been no Budget announcement, as you say. All I can say is, generically, with all Budget announcements-whether or not they actually happen-in the course of working them up, there is close working and partnership between HMRC and the Treasury to make sure that it is not just, "Yes, we are going to do this", but "Yes, we know how we are going to do it and HMRC can deliver it." I am not going to talk about the development of policies that have not yet got to the point of announcement.

Q151 **Chair:** I am going to do some more work around that. What I don't understand in all this is that when I looked at paragraph 14 on R7-this goes back to the RTI point-20.5 million work items arise annually from changes that people currently tell you, but you can only take action on 13.5 million. If that is your performance at the moment in relation to existing systems, when you get to RTI, unless I am completely misunderstanding it, I do not understand how on earth you are going to be able to cope with all the changes that you are told all the time. RTI will inevitably add to that number, and I just don't get it. I don't know whether I am missing something and I need educating in the way you work.

Lin Homer: That was really the point I was trying to make about our continued work into what work items are generated, why, and whether we can do anything to automate them or get rid of them. Sometimes that will be policy changes-

Q152 **Chair:** But you won't do that in time for next October, because that requires new computer programs.

Lin Homer: We are constantly making some changes. As NPS settles in and as RTI is developed, we are automating more and more of our system. I should perhaps say that the open cases, which I know you took a great interest in and which are reported on, were the consequences of a system that was generating more items than could be worked on. The first thing I would like to say is that, due to some incredibly hard work by everyone involved, we have now concluded the working of those cases.

Q153 **Chair:** So, before 12 December.

Lin Homer: Yes.

Chair: That's good.

Lin Homer: The people involved really deserve acknowledgement for that, but we also learnt the importance, therefore, of thinking about why this work item is being generated, and what you can do. I am not going to sit here and say that we have answers to all of that, but we are determined to go through it. At the end of the day, if there are no solutions to those, we are going to have to look at the resourcing level, because after all the hard work to clear that 17.9 million, one thing that I do not think I could accept as chief executive is if we then allowed more to develop. So, we are going to look at those-I am very happy that the NAO is involved in that-and then, I and my colleagues will have some tough decisions to make if we still find that the number running that we cannot resolve automatically runs ahead of our current resourcing level.

Q154 **Chair:** I think I am going to have to come to understand it better, because I don't really, at the moment.

Can we move on to tax credits? From R38, figure 11 in the NAO Report, it looks like you are doing worse on fraud and error, which seems depressing, because not only did you not meet the objective set long ago on reducing that, but fraud and error are up-particularly fraud, more than error-and, of course, that means your accounts get qualified. It is a bit depressing.

Lin Homer: The accounts being qualified is really a transfer of tax credits from one of our accounts to the other. It is more material in the resource accounts, and therefore, it leads to us being qualified. I suspect that even as we improve this, we will probably remain qualified for quite a long time. Nick Lodge has recently taken over the tax credits area and has been able to have a good look at that. We have not concluded the work, but I thought it might be sensible to let him tell you his initial thoughts about what we have learnt from this and what we think we should do next.

Nick Lodge: It is clearly disappointing that the percentage of fraud and error has not reduced to 5%, as we expected it would. We measure that percentage figure by reference to an annual sample exercise, so the percentage figure-the 5% figure we were targeting-is measuring the extent of fraud and error in 2010-11, because there is a long lag. We cannot do the sample until tax credits awards are finalised for a particular year.

We have been doing some analysis. There are ever-increasing losses prevented in-year. You will notice from the NAO's Report that the losses we are preventing, the interventions that we are carrying out to identify and prevent error and fraud, are actually increasing year on year. They amounted to £1.4 billion for 2010-11, the figure for 2011-12 was £1.93 billion and the figures were much lower in the years before that. What we found is that some of the assumptions underpinning our calculation of that in-year measure-and we have calculated the in-year figures that we have been producing as being the right level of interventions to actually reduce error and fraud to the 5% target-just have not been quite borne out in practice.

Q155 **Chair:** Do you mean it was bigger than you thought?

Nick Lodge: We make an assumption in those figures as the NAO Report describes for an amount of deterrence; so we assume that the effect of our interventions-and there are well over 1 million a year-will be some deterrent effect. We cannot see that yet coming through in the sample. We make some assumptions for the impact of our interventions in one year carrying forward into a future year; by that I mean with an award that we put right, because we identify incorrectness, we assume that the claimants will keep that award right into a future year, in some circumstances. We made some assumptions around that. We are not seeing that to the extent that we expected.

That, together with some of our other assumptions, means that actually the impact of our interventions has not had an effect as big as we would have expected, and, indeed, would have liked, on the overall levels of error and fraud.

Q156 **Chair:** But you don't know why.

Nick Lodge: Well, we do know why, because we know that the deterrence that we had expected to happen-in other words, deterring other claimants because they know we are intervening in these cases: we cannot see that deterrence effect coming through. We can also see that the length of time that an award stays correct is smaller than we had expected. In other words, people are making the same mistakes in the future, more quickly than we had assumed. So the summary of all that is that we have to revisit our strategy in the light of that greater understanding, and we have to work out, now, how best to target our efforts, and redouble our efforts, to reduce the overall extent of error and fraud in the system.

Q157 **Chair:** Just give us an idea of the time frame around all that. When are you going to have your new strategy in place, and when can we expect to start seeing that yielding some results, and what will the results be? Or is it too early to say?

Nick Lodge: It's a little early. The full sample results that are national statistics were published in June this year for the 2010-11 year. We have been analysing those and understanding the reasons for the disparity in our losses prevented figure, and our percentage of error and fraud figure, as I just described-the deterrence and the carry-forward. Having understood that, we now have to look at whether we can retarget our interventions-whether we can improve our strike rates, whether we can improve our use of data, both internally and using third-party data, and whether we can apply greater capacity to the work. So it's a little early, but that's the work we are doing now.

Q158 **Chair:** What time frame? A little early to tell us the number, but presumably not too early to tell us when you are going to have thought through what you are going to do.

Nick Lodge: No, I think our strategy will be clear within the next couple of months.

Q159 **Mr Bacon:** What is the total value of incorrect payments made since tax credits started?

Nick Lodge: I can tell you the total amount of overpayments since tax credits started. It amounts, to the end of March 2012, to about £14 billion, of which £4 billion was the tax credits overpayments total left at March 2012.

Q160 **Chair:** I don't understand that. Say that again.

Nick Lodge: Fourteen billion is the total cumulative amount of overpayments since it first started.

Mr Bacon: That is what I was asking, really.

Q161 **Chair:** What is the £4 billion?

Nick Lodge: Sorry, the £14 billion is the total cumulative amount of tax credit overpayments to March 2012; £4 billion is the amount of that £14 billion that remains. Of the gap-the £10 billion-we have collected £6 billion and £4 billion has been written off or remitted.

Q162 **Chair:** And underpayments?

Lin Homer: A smaller amount.

Nick Lodge: A very small amount. We put those right as soon as they become apparent.

Q163 **Austin Mitchell:** The tax credit debt-you are falling behind a bit here. Personally, I would not want you to be tougher; I would want you to extend the same generous regime you give to the big corporations to people who have been overpaid through mistakes by HMRC.

But there is a contrast between your estimate, which says that you want to get it down to £3.7 billion by March 2015-the total personal debt-but the Report says, at paragraph 4.28, based on an estimate of yours, that the Department is likely to generate £1.6 billion in new personal tax credit debt in 2012-13, so that the total could increase to £6.5 billion by 2014-15. So there is a wide gap between this estimate and your hopes of getting it down.

Lin Homer: First of all, we do have very clear rules about how rapidly we reclaim repayments, because we are aware that that can cause hardship. There are well developed rules, and I have sat and listened into some of the conversations with people-

Q164 **Austin Mitchell:** To achieve that total, you are going to have a big write-off, sending people rejoicing into the May 2015 election.

Lin Homer: What the paragraph does say, and they are important words, is "without any further intervention". What we are increasingly trying to do-this is true not only of personal tax credit debt, but of debt generally-is to intervene earlier and to come to arrangements to pay.

We find in the vast majority of cases that, if we settle sensible arrangements to pay with people, they then comply with them. So I expect some further write-offs and remissions around tax credit debt-just as with all debt, some will prove to be irrecoverable-but we also expect to get some of that repaid, sometimes out of ongoing benefit payments and sometimes after benefits have stopped.

But we are getting better, we think, at spotting debt early, acting on it early and coming to sensible arrangements that do not overwhelm people and that they can then keep to. We are finding that with the "Time to Pay" arrangements as well.

Q165 **Austin Mitchell:** You have to have a substantial write-off before the universal credit system comes in, because it will be difficult for people to pay back these kinds of debts at the same time as seeing their benefits probably cut under the universal credit. It will be difficult to marry up the systems, won't it?

Lin Homer: We have come to an agreement with DWP that, where benefits are ongoing, some of our debt will be able to be paid back out of ongoing payments, just as it has been for tax credits. So that deal has already been done. To some extent, we are already seeing people moving out of benefit, so the changes in threshold for tax credit itself have already taken 1 million out of the eligible population-

Q166 **Chair:** Out of the population that goes for tax credit-so 1 million are no longer eligible for tax credit.

Lin Homer: Over the past few years because of the changes that have been made.

Q167 **Chair:** Okay. So how many are?

Nick Lodge: Perhaps I can help. We have about 5.5 million households in the tax credits system-

Q168 **Chair:** One million less than there were when? What is your 1 million?

Nick Lodge: That figure will reduce further.

Lin Homer: So to some extent we have already been dealing with people who finish up with debt but have no ongoing benefits. That was my reference to some very skilful work by our telephone operators in reaching arrangements that are manageable for the families in their new circumstances. Some of them have arrangements to pay over quite a long time. We are thoughtful about not tipping the repayment to a position where it is just not sustainable.

Q169 **Mr Bacon:** As a result of your own errors in the first place in paying out £2 billion every year that you should not be paying out. That is what it boils down to, isn't it?

Lin Homer: No.

Q170 **Mr Bacon:** Isn't it? The Report says you are paying out between £2.08 billion and £2.46 billion to claimants incorrectly. That is what you pay incorrectly each year, isn't it?

Lin Homer: Yes, but often the errors are due to the family failing to inform us of a change of circumstance.

Q171 **Mr Bacon:** Yes, I understand that there are issues around what the family have to do, but basically your system involves paying out £2 billion a year that you should not be paying out-and then you have to go around and correct the errors in a way that doesn't strike the fear of God into them.

What I would like to know is this. Perhaps you do not have this answer, but lots of work goes on in the DWP-and, I imagine, also in HMRC-that is based on estimates, worked examples and extrapolation. Do you have any figure for the number of people who simply do not claim tax credits at all, because they want to have nothing to do with it, because they are fearful that they will end up in a situation where they are overpaid, even though they are entitled?

The ombudsman said something about this-that the system was fundamentally flawed in such a way that it was trying to target people who probably were not suitable for the kind of arrangements that were in place, where overpayments were inherent. Do you have an estimate for the number of people who are entitled but who do not claim?

Nick Lodge: I am sorry; I do not have that figure. We will have to-

Q172 **Mr Bacon:** Do you not have any idea?

Nick Lodge: Six out of 10 families do get tax credits. Take-up has traditionally been, I understand, quite high, but-

Q173 **Mr Bacon:** Six out of 10 of all families?

Nick Lodge: Yes. But we would need to go away and check the precise figure for the percentage that do not take up tax credits.

Q174 **Mr Bacon:** To your knowledge, if you do not have the figure to hand, is it a figure you are likely to be able to find?

Nick Lodge: We have certainly had that figure in the past, so I think the answer is yes, but I would need to go away and check.

Lin Homer: There is bound to be an estimate.

Q175 **Mr Jackson:** Can I ask you about the specific issue of child tax credits? My constituents get slightly concerned when they hear about the number of child tax credits that are going to EU citizens whose children do not reside in the UK and are likely never to reside in the UK. You will say that is a relatively small amount.

What concerns me slightly is that until recently you have not collected-or rather the Treasury has not been willing to divulge even that it attempts to estimate the number. I just wonder whether you collect data on that. Would you know how many, what countries and on what basis and, more importantly, what is the practicality of checking the veracity of those claims?

Lin Homer: We have some quite complex arrangements for checking their veracity, which do include information from the home country. That is one of the reasons why, when I write to a number of you, it sometimes takes us longer to verify and validate those tax credit claims than normal ones. I am not sure whether our system would differentiate European Union-

Nick Lodge: I have not seen those figures. We obviously carry out checks on right to reside and so on and, as Lin has just said, we check with the home country-

Q176 **Mr Jackson:** Well, until recently the Treasury was telling my colleague Anne Main, the Member for St Albans, that it did not really know what "habitually resident" meant for tax reasons, in terms of disbursing child tax credits, and therefore could not estimate how much money was going into that area and to whom. I just wonder whether, if you tightened up your management data collection and you knew where that money was going-okay, it might only be a few hundred million now, but it is still a cause of concern to a lot of people.

Lin Homer: We do not have it to hand.

Q177 **Mr Jackson:** Will you write to me with that information?

Lin Homer: We will be very happy to let you know whether we do think that can be extracted from the system. I think to a degree our system is required to be blind to European status, so it is just a question-

Q178 **Mr Jackson:** Not necessarily. If you had been listening to the debate on my European Union Free Movement Directive 2004 (Disapplication) Bill last week, you would know that is not necessarily the case.

Lin Homer: Understood.

Mr Jackson: I'll send you a copy.

Q179 **Chair:** I want to ask you three short questions. This one is on PAYE-the reconciliation on PAYE. Your latest figure is £53.7 million for the tax that has been lost through various things-money coming in too late and getting money out of people late. You are also raising the level at which you pursue people. What is the final total? If you have finished all these reconciliations, what is the final total of moneys lost to the Exchequer because of the mess in which this reconciliation occurred over time?

Lin Homer: I believe we have come in within that figure. There are two aspects: one is the resource that it has cost us, and the other is the sums that we have agreed to forgo. The figures in relation to our forgoing are now dropping back down, because we have dropped back down to the £50, rather than the £300.

One of the challenges for us-I have the figures somewhere; I apologise, because I temporarily cannot find them-is that the new system counts the £50. The old system just ignored the amount under £50. It did not count it. In the new system, although we still forgo it, we account for it, so you are going to see slightly bigger sums that are written off going forward, because it is now a more accurate figure. We absolutely do have them-

Chair: Maybe somebody behind you can find them while I ask you the other two questions.

Lin Homer: Yes, or if I get someone to answer the other ones, I am sure I-

Q180 **Chair:** Somebody can pass you a little note.

I notice in the Report that you say that your performance on answering the telephone has improved, but it is pretty shocking that one in four calls does not get answered.

Lin Homer: I did not think it was good enough-you are right-and that is really why I wanted to put extra resources into the contact centres. I have to say that at the last check, we are over 90% now. We are traditionally a bit higher at this time of year, and what happens is that we do not sustain that, so the extra thousand people-

Q181 **Chair:** It should be 100% full stop, or 98% or 99.9%. If you ring about tax, you should be able to get an answer.

Lin Homer: It was 96% last week. You still lose a few, because people drop out themselves-they suddenly realise that they do not have their NI number or whatever, so you always lose some-but we believe that if we can get it to 90% and keep it to 90%, several things happen. One is that the call waiting time for everybody drops enormously, because people are flowing through the system accurately. The second is obviously that people feel a lot less frustrated by the time they get to speak to someone, and hopefully the conversation is easier, sharper and more productive.

What we believe will also happen is that people will have more confidence in the system, and will call when they need to and not worry. At the moment, we find that loads of people worry over a weekend and then try and call on the Monday. Mondays are the worst day of the week to call the call centres-don't call on the Monday, I would say. If people feel more relaxed generally, we think it will spread out. We are open eight to eight five days a week, and eight to four on a Saturday. It is not, "Nobody call on a Monday", but if fewer people called on a Monday, the wait would be smaller.

Amyas Morse: I do not wish to cut across that excellent explanation, but we are publishing a Report on customer service in HMRC very shortly. There are some issues about just what we count as answered calls, as I am sure you know, Ms Homer. The Report sees the situation as a little bit less satisfactory than you have outlined, but let us see how that goes in the Report.

Lin Homer: In the year as a whole, it will still be around 74%.

Q182 **Chair:** My very final question is that I wrote to you on 31 October, reminding you that the Committee expects an answer to the letter we sent to Mr Inglese on 17 October. Can I just know from you when we can expect an answer from Mr Inglese?

Lin Homer: You also wrote to me about another matter very recently, on which I owe you a reply. I have signed that one off today, and I will-

Q183 **Chair:** No, this is about expecting an answer from Mr Inglese.

Lin Homer: I know. I am content that probably both he and I will write to you again, Chair, and I would be very happy, once you have got the letters, if you wanted to talk further with me.

Chair: Say that again.

Lin Homer: I will write to you as well, and I would be very content to talk with you further, if you and the Committee wanted me to.

Q184 **Mr Bacon:** Do you mean as well as Mr Inglese?

Lin Homer: Yes. It remains an issue where the difference between us is something that I would like to resolve and to get clear, so in addition to writing I would be happy to have a meeting with some or all of you, if you felt that that would be useful.

Q185 **Mr Bacon:** Can you name any private sector organisations that pay out £2 billion a year which they should not do, and which answer only three quarters of their telephone calls?

Lin Homer: I would aspire to not be in that position, but there are not any private sector companies that act as the welfare net that we do, through tax credits. One of the points Mr Mitchell made is that we have to pay, even when we think that there may be an error, to ensure that the family is not put at risk, and we then pursue the detail afterwards.

Q186 **Chair:** And the scary thing is tax credit, child benefit and RTI.

Lin Homer: It is a busy department at the moment; I will give you that.

Q187 **Mr Bacon:** Is there any extra complexity you would like the Government to add on? Tell me about the complexity gnome, because the Treasury Committee asked you about that, didn't it?

Lin Homer: We had an interesting discussion about whether tax could be simplified as well, and I was saying that I was not holding my breath waiting for that. I think the new team is in good shape, and that we believe we are improving. I hope you will find that we will be straightforward with you about the concerns we have, as we were on tax credits today. I have no doubt we will continue to be the topic of conversation for you on regular occasions. I am looking forward to seeing you on 6 December.

Q188 **Chair:** You will, and I look forward to seeing you again before us. Thank you very much indeed.

Lin Homer: I will give you a note on those figures I have got, which I could not find. I apologise.

Mr Bacon: Thank you.

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[1] Note by witness: The team meet regularly with the NAO to support their wider audit work on HMRC and the NAO's review on RTI progress will be included on their annual C&AG statement. However, we do not report to the NAO quarterly specifically on RTI. We do make quarterly submissions to MPA to support their roughly 6 monthly Project Assessment Reviews (PAR).